U.S. Fish & Wildlife Service

Shared Commitments to Conservation

2004 Annual Financial Report of the U.S. Fish and Wildlife Service

Front Cover Photo Credit: National Bison Range, USFWS

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Message from the Director of U.S. Fish and Wildlife Service

I am pleased to present the U.S. Fish and Wildlife Service's Annual Financial Report, providing information on our financial, management, and programmatic results for fiscal year 2004.

I am proud to announce that the Service has received an unqualified audit opinion from the independent auditors who concluded that the Service's financial statements are presented fairly in all material respects. This demonstrates our dedication to maintaining sound financial practices and reliable financial information to support our commitment to effectively managing resources to protect and enhance fish, wildlife, and plants and their habitats for the benefit of this and future generations.

We addressed fiscal challenges in fiscal year 2004. The Independent Auditors' Report for fiscal year 2003 identified one reportable condition involving areas relating to general controls over financial management systems where controls need to be improved. Additionally, five reportable conditions related to internal controls over financial reporting and processes, including one material weakness pertaining to processes, controls, and financial reporting related to property, plant, and equipment. With regard to compliance with laws and regulations, the Service was reported not to conform to portions of the Federal Financial Management Improvement Act (FFMIA).

We aggressively implemented actions for all reportable conditions and except for the reportable condition relating to general controls over financial management systems, all were resolved or downgraded in the Independent Auditors' Report for fiscal year 2004. The Service has and will continue to take specific corrective actions to ensure greater security and general controls over sensitive information systems. Therefore, with the exception noted, I conclude that the controls provide reasonable assurance that Service operations are being conducted consistent with the intended objectives of Office of Management and Budget's (OMB) Circular A-130.

Also in fiscal year 2004, we evaluated the Service's management controls as required by the FFMIA. The purpose of this evaluation is to identify any material weakness that places the overall control system at risk and to ensure that intended program results were achieved, resources were used consistent with the Service's mission, resources are protected from waste, fraud, and mismanagement, laws and regulations are followed, and information is reliable and reported timely. Again, I'm pleased to report that the Service is in compliance and no such weakness was identified.

The financial and performance data presented in this report are complete and reliable, according with guidance from OMB. Additionally, we evaluated our financial management system as required by the FFMIA. I conclude that the Service's financial system substantially complies with the U.S. Standard general ledger at the transaction level. However, the system does not substantially comply with federal financial management system requirements regarding information technology security and general controls, and does not substantially comply with Federal accounting standards relating to condition assessments on stewardship land.

The financial information presented in this report provides the means to manage Service goals and objectives. It also illustrates how the Service supports the Department of the Interior's vision for effective stewardship based on communication, consultation, and cooperation, all in the service of conservation.

The Service is entrusted with the protection, conservation, and recovery of threatened and endangered species, migratory birds, some marine mammals, inter-jurisdictional and other fisheries and their habitats, stewardship of the National Wildlife Refuge System, and assists foreign governments with their conservation efforts. Additionally, we oversee federal assistance programs to states for sport fish restoration and wildlife restoration which distribute hundreds of millions of dollars from excise taxes on fishing and hunting equipment to state wildlife agencies. We accept these responsibilities with optimism and resolve. As we meet the inspiring challenges of the future, we pursue our mission in the most efficient and effective manner to meet our responsibilities as stewards of the public trust.

Steve Williams

Steven A. Williams
November 1, 2004

I. The United States Fish and Wildlife Service

Communities and individuals throughout the United States (U.S.) have a strong commitment to fish and wildlife resources. Many communities realize substantial economic benefits from tourism and visitors that come to enjoy fish and wildlife. Hunting and fishing remain strong components of community culture all along the Nation's great river systems. 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. For this reason, the mission of the Service grows continuously more complex and critical.

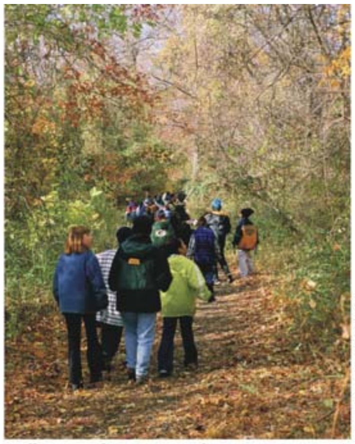
Gary Zahm/USFWS

Mule Deer Herd

A. Mission and Organization

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

Mission


Gene Niemine/USFWS
Walking at Edwin B. Forsythe NWR, New Jersey

The Service is the principal Federal agency responsible for conserving, protecting and enhancing fish, wildlife, plants, and their habitats for the continuing benefit of the American people. The Service manages the 91-million-acre National Wildlife Refuge System (NWRS), which encompasses 544 National Wildlife Refuges (NWR), thousands of small wetlands, and other special management areas. It also operates 69 National Fish Hatcheries, 64 fishery resource offices, and 81 ecological services field stations. The agency enforces Federal wildlife laws, administers the Endangered Species Act, manages migratory bird populations, restores nationally significant fisheries, conserves and restores wildlife habitat such as wetlands, and helps foreign governments with their conservation efforts. It also oversees the Federal Aid program that distributes hundreds of millions of dollars in excise taxes on fishing and hunting equipment to State fish and wildlife agencies.

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

The Service employs approximately 10,000 permanent and temporary staff and is supported by citizens volunteering approximately 1.4 million hours. Although the Service is headquartered in Washington, D.C., over 90% of the workforce is located in communities across the Nation at over 700 field stations supported by seven regional offices. As a result of our involvement at the community level, the Service is continuously focused on building and maintaining relationships with a broad array of stakeholders, including the states, tribes, community groups, and other organizations.

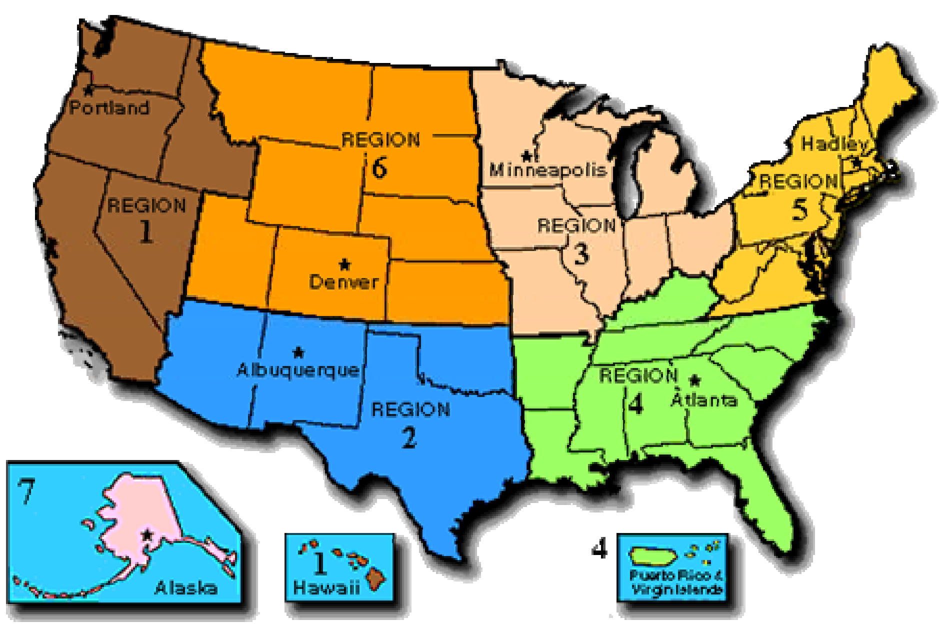

USFWS
Bald Eagles Congregated in Haines, Alaska

Organization

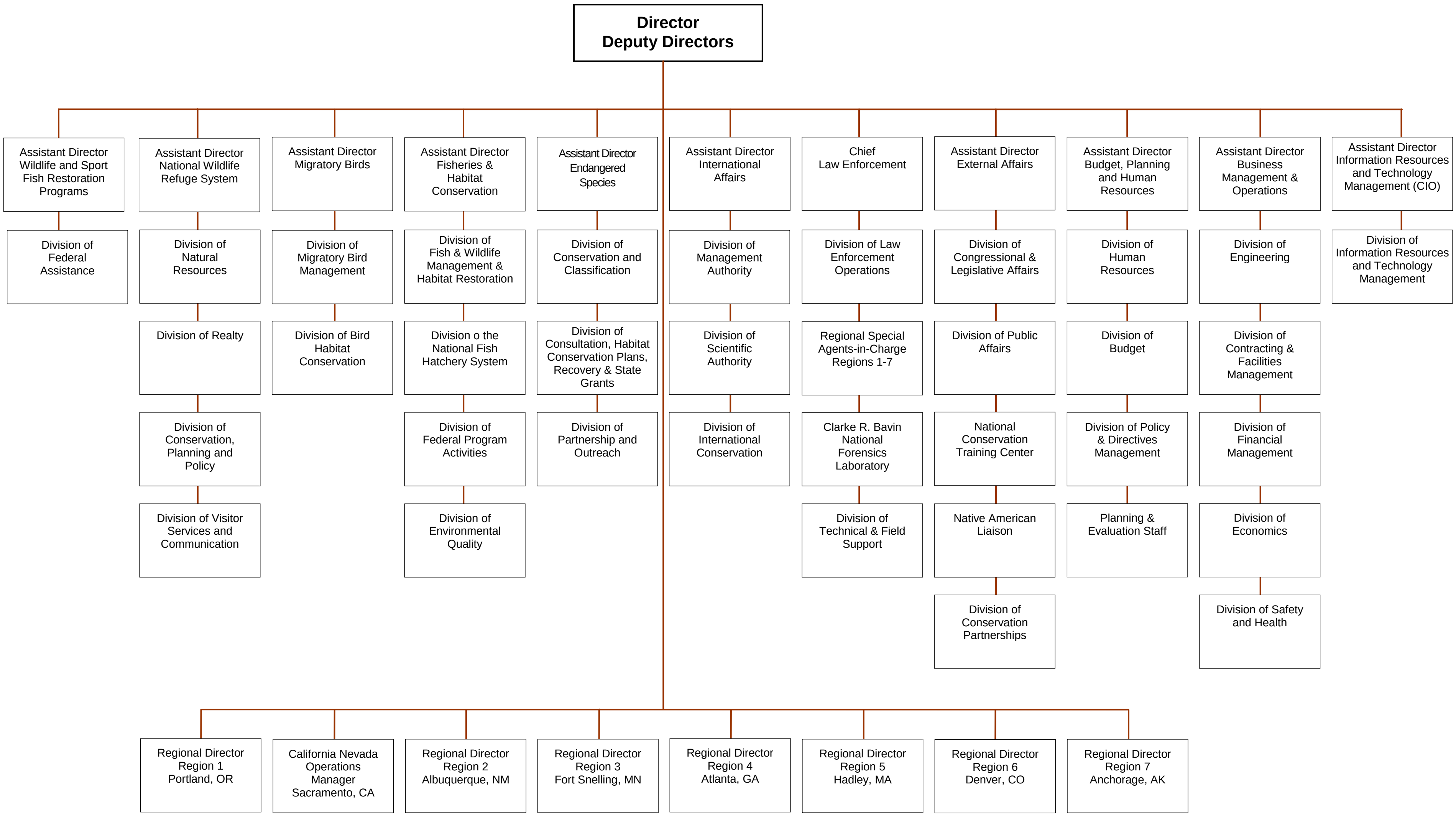
As shown in the accompanying organization chart, the Directorate of the Service is comprised of the Director, two Deputy Directors, ten Assistant Directors, and one Chief of Law Enforcement, all located in Washington, D.C., and seven Regional Directors, located throughout the U.S. Service headquarters offices are located in Washington, D.C. and Arlington, Virginia, with field units in Denver, Colorado, and Shepherdstown, West Virginia.

Regional Offices are located throughout the U.S. Region 1, located in Portland, Oregon, serves California, Hawaii, Idaho, Nevada, Oregon, and Washington, as well as the Trust Territories of the Pacific. (Region 1 also includes the California/Nevada Operations Office.) Region 2, located in Albuquerque, New Mexico, serves Arizona, New Mexico, Oklahoma, and Texas. Region 3, located in Ft. Snelling, 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, 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 (DOI), the Service's Director reports to the Assistant Secretary for Fish and Wildlife and Parks and has direct line authority over Service headquarters and the seven regional offices. Assistant Directors provide policy, program management and administrative support to the Director. Regional Directors guide policy and program implementation through their field structures and coordinate activities with Service partners.



B. Organizational Chart



II. Management's Discussion and Analysis

The following areas are addressed in the Management's Discussion and Analysis:

A. Mission Goals and Performance
B. Management Controls and Legal Compliance
C. Financial Highlights
D. Limitations of Financial Statements
E. Analysis of Financial Statements

Brian West/USFWS

King Salmon River Sunset

A. Mission Goals and Performance

DOI has developed a Strategic Plan for FY 2003 - 2008 that encompasses the missions and goals of its eight bureaus and the DOI Offices (http://www.doi.gov/ppp/stratplanfy2003_2008). The plan is organized around the DOI's principal mission areas:

Hooded Warbler

- Resource Protection
- Resource Use
- Recreation
- Serving Communities
- Management Excellence

The Service is entrusted with the protection, conservation, and recovery of threatened and endangered species, migratory birds, some marine mammals, inter-jurisdictional and other fisheries and their habitats, and stewardship of NWRS. As such, the Service will significantly contribute to the successful achievement of the DOI's mission goals for Resource Protection, Recreation, Serving Communities, and Management Excellence while supporting Resource Use through a collaborative environmental consultation effort.

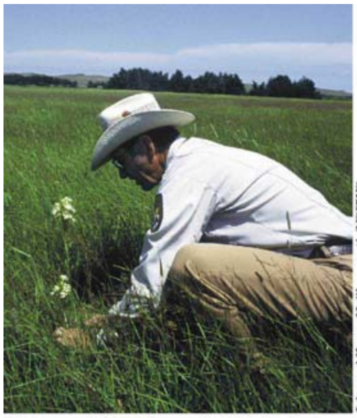
The following information delineates Strategic Plan goal attainment information for FY 2004, and provides explanations where appropriate for analysis and discussion.

FWS Employees Check Alligator

Mission Goal 1 - Resource Protection

Resource Protection/Improve Health of Watersheds, Landscapes, and Marine Resources that are DOI Managed or Influenced in a Manner Consistent with Obligations Regarding the Allocation and Use of Water/Achieve Watershed and Landscape Goals Through Voluntary Partnerships

The Service estimated that 403,072 acres of wetlands or uplands would be restored or protected in FY 2004. Estimates reveal 318,070 acres were restored or protected, therefore, the target was not met. Estimates are based on prior year's performance trend data that is subject to change. For example, because the reporting programs are voluntary programs, exact estimates of landowner interest by habitat type are not possible. Also, because the estimates are based on the prior year's performance, they may not be achievable if landowner interest varies from year to year.



John and Karen Hollingsworth/USFWS

Endangered Plant Research - The Western Prairie Fringed Orchid, Nebraska

Resource Protection/Sustain Biological Communities on DOI Managed or Influenced Lands and Waters in a Manner Consistent with Obligations Regarding the Allocation and Use of Water

Based on estimates, the Service set a FY 2004 target of stabilizing or improving the population status of 347 (39%) of the 894 Federally-listed threatened or endangered species listed for a decade or more. Current estimates are that 339 (38%) of these species were stabilized or improved and thus this target was met*. In meeting this target for FY 2004, the role of uncontrollable natural events (hurricanes and droughts) that may affect a species' population status and pose new threats became noteworthy for future estimates. Additionally, the Service set a target to prevent listing 4 (2%) of the 256 candidate species as a result of conservation actions or agreements. This target was not met, but conservation actions or agreements did prevent listing 3 species. The complex and voluntary nature of establishing and implementing candidate agreements adds to the difficulties in accomplishing the target. For example, the candidate agreement for the California golden trout was not signed until just before the end of FY 2004, leaving no time to make listing decisions. The Service expects to complete these tasks in FY 2005.

Bill West/USFWS

Sandhill Crane Chick

Resource Protection/Sustain Biological Communities on DOI Managed or Influenced Lands and Waters Consistent with Obligations Regarding the Allocation and Use of Water

The Service set a FY 2004 target to restore or enhance 3,969,495 acres consistent with management documents, program objectives, and consistent with substantive and procedural requirements of state and Federal water law. An estimated 3,365,558 acres (85%) of the target was attained. The FY 2004 target was not met due to several unplanned events. In FY 2004, about 400,000 acres underwent prescribed fires and an additional 400,000 acres was targeted for water level management at Okefenokee NWR. Thus, some of the acreage targeted for restoration in FY 2004 was contained in these areas and, therefore, could not be restored or enhanced.

* The DOI's guidance and specifications for the performance section of bureau FY 2004 annual reports considers targets to be "met" when final or preliminary data indicates that performance will be at or within 5% of the target.

Mission Goal 2 - Resource Use

Although *Resource Use* is only tangentially applicable to the activities performed by the Service and the DOI Strategic Plan does not contain an applicable performance measure, the Service does contribute through a collaborative environmental consultation effort. These consultation activities contribute to identifying environment issues and potential mitigation strategies. Service costs in this mission goal are related to consultation work performed for other parties. Approximately 2% or $31 million of the Service's appropriated funding is directed to these efforts. This activity is funded by Congressional appropriation, not reimbursable agreements, but is similar to reimbursable agreements in that there are no meaningful measures relating to the activity other than workload type measures.

Mission Goal 3 - Recreation

Recreation/Provide for a Quality Recreation Experience, Including Access, and Enjoyment of Natural and Cultural Resources on DOI Managed and Partnered Lands and Waters

The Service set targets for accomplishment in the following three intermediate performance measures:

Fishing at Patuxent River, Maryland

Community Partnerships: The Service set a FY 2004 target to maintain 273 of 665 recreation sites (41%) through community partnerships. These are groups formally engaged (through Memorandums of Understanding, Memorandums of Agreement, or General Agreements) in helping the Service achieve its mission. The 311 community partnerships established in FY 2004 exceeded our targeted goal by 14%. This was due in part by the method of collecting data, which was refined throughout FY 2004. Future targets will be based on the number of new friends groups established in any one FY.

Facility Condition Index (FCI): The Service uses the FCI, a standard measure of the physical condition for facilities, to estimate its deferred maintenance needs. The FCI is the ratio of estimated deferred maintenance needs to the estimates of replacing facilities at today's costs. The Service set the FCI target for FY 2004 at .181 for refuge recreational facilities. It is used to provide information to support the intermediate measure of achieving a condition rating of fair or better for NWRS recreational facilities (docks, boat launches, kiosks, observation decks, campground board walks, and picnic areas). Our FCI target was not met as the ratio was .262 at 2004 FY end. With condition assessments only about one-half completed and replacement costs being refined, the numerical basis for the index is expected to fluctuate in the future (the Required Supplementary Information (RSI) section of this report provides information on the Service's overall facilities maintenance needs).

Facilitated Programs: The Service set a FY 2004 target for refuge staff (paid employees, volunteers, and cooperating association employees) to offer facilitated refuge interpretation or educational programs to 1,315,984 refuge visitors. This target was exceeded, as 16,354,000 visitors were offered facilitated programs. The initial estimate was based on on-site interpretive and education programs only. However, the DOI strategic plan template for this measure greatly expanded coverage this year to include off-site interpretive programs, visitor centers, contact stations, and special events.

Mission Goal 4 - Serving Communities

Protect Lives and Property/Intermediate Strategy 1, Improve Fire Management

Black Crappie, NCTC Museum

The Service set a FY 2004 target of limiting land on refuges burned by unplanned and unwanted wildland fires to 259,963 acres. These fires include those burning outside the parameters defined in land use or fire management plans. This target was not met with 1,922,035 acres burned. Although the targeted total number of acres was not met, all areas of the country except Alaska met this goal. Out of a total of 1,922,035 burned acres, 46,058 acres (2%) were burned in the lower 48 states and 1,875,977 acres (98%) were burned in Alaska, where fire activity was severe and most fires are managed under a limited suppression strategy. The Service did exceptionally well in restricting burned acres where a risk to people, structures, or communities was a concern.

Mission Goal 5 - Management Excellence

Management Excellence

The Service set a FY 2004 target of 1,303,240 volunteer hours and exceeded it by 7% for a total of 1,398,953 hours. With Service employees working side-by-side with volunteers on every level, the Service protects, conserves, and restores our nation's fish, wildlife, plants, and their habitat.

Data Verification

The Service is committed to ensuring that those who use the Service's reported performance information to make decisions can do so with the confidence that our data is reliable and valid. The Service has made significant progress in developing the essential processes that support data verification methods used by the major program areas in determining data quality. For example, to ensure standardized data definitions, the Service has worked closely with the Department in developing performance measure definition templates for all DOI Strategic Plan performance measures. All goals and measures are developed and reviewed by Service officials and staff from the field through the headquarters level. Each goal is measurable and clear, and was developed to have a direct bearing on the mission activity in which it is categorized.

Gary M. Stolz/USFWS

Lamington National Park

Data sources are clearly identified. The Service utilizes a number of databases for collecting and reporting performance data. For example, the Ecological Services program maintains the Environmental Conservation Online System, Threatened and Endangered Species System, and Habitat Information Tracking System. The Fisheries Program uses its Fishery Information System (including the Fisheries Operational Needs System) to track performance. The Refuge Program utilizes a series of national databases that collect and provide crucial performance information including: Refuge Management Information System, Refuge Comprehensive Accomplishment Reporting System, and Refuge Operating Needs System. The Migratory Bird Management Program utilizes a national database to enter and track its performance information.

All data is aggregated at the regional level. The region programs offices have designated responsible officials who certify the data is accurate and that proper procedures are followed during each reporting period. The collection staffs in the field offices are highly-skilled and well-trained biologists. The assistant regional directors at each regional office have the ultimate responsibility for verifying the data accuracy. The data accuracy is again checked at the National Headquarters Office in the offices of the assistant directors for the various reporting programs.

Ron Singer/USFWS

Safe Harbor

While we strive to collect and report accurate data, data limitations exist for some performance measures. Some performance data are collected by outside sources. For example, Breeding Bird Survey data is provided by the U.S. Geological Survey - Biological Research Division. The National Audubon Christmas Bird Count is collected by volunteers. The International Affairs Program relies on obtaining plant and animal species performance data from foreign sources.

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 is obtained by existing data collection processes and is 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.

B. Management Controls and Legal Compliance

The Service is dedicated to maintaining integrity and accountability in all programs and operations. Service 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
- Reliable and timely information is maintained, reported, and used for decision making

Robert W. Hines/USFWS

Rainbow Trout

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 (FMFIA). Each year, the Service identifies specific management control assessments planned for the fiscal year. The results from these internal reviews as well as results in certain final audit reports issued primarily by the Office of Inspector General and the U.S. General Accounting Office are considered in the development of the Service's annual assurance statement on management controls. The statement also considers information obtained from the knowledge and experience management has gained from the daily operation of programs and systems of accounting and administrative controls. The statement informs DOI of the effectiveness of the Service's management controls, and includes information about any pending and new bureau-level material weaknesses and corrective actions.

In FY 2004, 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.

Tim McCabe/USFWS

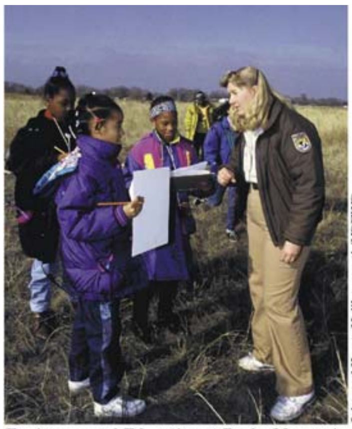
Mallard Ducks

C. Financial Highlights

Service Financial Performance

In FY 2004 the Service continued to improve the quality and timeliness of its financial information. Through enhancements to reporting processes and the expanded use of web-based technology, the Service processes payments more efficiently and as a result, improved its rate of compliance with departmental and Federal payment processing requirements. The Service's challenge remains to process financial and related information received from over 700 field offices in a timely and efficient manner.

Improving Financial Transaction Processes and Results



John and Karen Hollingsworth/USFWS

Environmental Education at Rocky Mountain Arsenal NWR

In FY 2004, the Service continued to maintain strong transaction process performance levels. For example, our accounts receivable delinquency rate (excluding debts referred to the Department of the Treasury for action) was only about 3% as of the end of FY 2004.

As required by the Department, Service offices conducted risk assessments for improper payments by reviewing programs and activities according to departmental guidance. After performing risk identification and risk analysis, offices determined annual dollar volumes, annual estimated improper payment amounts, percentages of improper payments to dollar volumes, and risk ratings. No program in the Service was rated as a high risk for making significant improper payments.

In FY 2004, the Service paid its vendors on time 98% of the time, paying only $29,605 in late payment penalties on over $480 million of total payments to vendors. During the same period, 95% of the Service's payments to vendors were accomplished through the Electronic Funds Transfer (EFT). In FY 2003, we also achieved an on time payment rate of 98% and EFT payment rate of 95%.

Cardholders and approving officials are regularly advised of their respective responsibilities under the purchase card program. Failure to comply with charge card policy can create an environment open for delinquent account balances or unauthorized use of Service funds. In FY 2004, Service employee travel charge card accounts delinquent more than 60 days represented less than 1% of the total Service cardholders, which is less than the Federal Government FY 2004 rate of 3%.

Jon Nickles/USFWS

Spider Wort

Improving the Accuracy and Timeliness of Financial Information

The President's Management Agenda, Governmentwide Initiatives, Improved Financial Performance section, challenges agencies to provide accurate and timely financial information. During FY 2004, the Service implemented several new policies and processes designed to improve the accuracy and timelines of its financial reporting and information.

- The audit report on the Service's FY 2003 financial statements identified a material weakness relating to financial reporting of its real property. In response, the Service established a team to evaluate the organizational structure, policies and procedures relating to our real property management activities. Based on the results of the evaluation, the team prepared a comprehensive manual providing detailed technical guidance to facilitate accurate processing and reporting of real property data. This guidance was implemented during FY 2004, resulting in more accurate and timely real property information. The FY 2003 audit finding was lowered to a reportable condition in the FY 2004 audit report.
- The Service implemented a Central Contractor Registration (CCR) database of contractors approved to conduct business with the Federal Government. The CCR helps make the payment process more efficient and reduces the number of erroneous payments. It also serves to increase the visibility of vendors, and establishes a common source of vendor data for the Federal Government. As of the end of FY 2004, 82% of the vendors used by the Service were registered in the CCR.
- The Service implemented a web-based questionnaire to assess the presence and use of internal controls over key financial processes performed throughout the Service. Each of the Service's offices performing financial functions will complete the questionnaire at least once every four years. In 2004, 196 or approximately 27% of the Servicewide eligible stations completed the questionnaire, exceeding the annual goal of 25%. Data from these surveys will be used as a tool to strengthen guidance or initiate timely corrective actions for problems discovered as a result of survey responses.
- As part of the President's Management Agenda, the Office of Management and Budget (OMB) has established accelerated due dates for completing performance and accountability reports. Effective FY 2004, the DOI's Performance and Accountability Report is due 45 days from the end of the FY. The Service instituted comprehensive quarterly financial statements throughout FY 2004 to meet the mandatory accelerated reporting schedule.

E.B. Forsythe/USFWS

Monarch Butterfly

Managing the Sport Fish Restoration Account (SFRA)

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 revenue 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. The ARTF is presented on the Service's financial statements in accordance with the requirements of Statement of Federal Financial Accounting Standards (SFFAS) Number 7, Accounting for Revenue and Other Financing Sources, and Statement of Federal Financial Accounting Concepts (SFFAC) 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.

Ed Loth/USFWS

Cecropia Moth

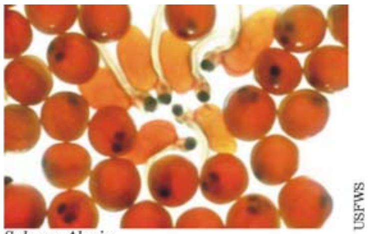
D. Limitations of the Financial Statements


S. Ron Simger/USFWS
Monarch Butterfly Caterpillar

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.


Karen Boylan/USFWS
Lupines at Fingerbay Creek on Adak Island

E. Analysis of Financial Statements



Salmon Alevin

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
5. Consolidated Statement of Financing

The notes accompanying the financial statements provide additional detail and context concerning the information presented in the financial statements. Two other statements, the Consolidating Statement of Net Cost and the Combining Statement of Budgetary Resources provide additional detail of information presented in the financial statements.

Budgetary Resources

The Service obtains most of its funding from enacted appropriations. In FY 2004, the Service's appropriations budget was approximately $2.10 billion. The total budgetary resources available for use in FY 2004 are approximately $2.86 billion. This includes budget authority, unobligated balances as of the beginning of the year, net transfers of budget authority, and spending authority from offsetting collections. In FY 2003, the Service's appropriation budget was $2.09 billion, with total budgetary resources available for use amounting to about $2.84 billion.

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 revenue from fees and collections relating to its various programs. In FY 2004, the Service recognized approximately $152 million in earned revenue compared with $173 million in FY 2003.

Expenses

The Service's cost of operations before earned revenue in FY 2004 was approximately $2.20 billion. The table below provides the Service's analysis of expenses by mission goal. (The Service updated its strategic plan for FY 2004 and established new mission goals. As a result, FY 2003 expenses are not available by the new mission goals.)

Sock-Eye Salmon

Expenses by Mission Goals
FY 2004
(dollars in thousands)

Mission Goal	Amount of FY 2004 Expenses	Percentage of FY 2004 Expenses
Resource Protection	$ 1,558	70.8 %
Resource Use	31	1.4
Recreation	477	21.7
Serving Communities	136	6.1
Total	$ 2,202	100.0 %

Assets

The largest portion of reported assets, approximately 42.8%, is Treasury securities held by the Service representing invested amounts from the Federal Aid in Wildlife Restoration Fund (approximately $363 million), and ARTF (approximately $1.45 billion). As of September 30, 2003, approximately $453 million was held in the Wildlife Restoration Fund, and about $1.42 billion was included in the ARTF, representing about 46.2% of Service Assets. Although the Department of the Treasury is responsible by statute for the balances in the ARTF, it is presented on the Service's financial statements in accordance with the requirements of the SFFAC Number 2, Entity and Display.

Dave Menke/USFWS

Blue Jay

The Service's Fund Balance with the Department of the Treasury, as of September 30, 2004, is approximately $1.48 billion, or approximately 34.9% of Service assets. As of September 30, 2003, the Service's fund balance with the Department of the Treasury was $1.28 billion, or 31.2% of total assets. The portion of this balance available to the Service at any point in time depends on the terms of the Service's appropriation language, and other applicable statutes.

The Service's investment in Property, Plant and Equipment (PP&E), net of accumulated depreciation, is approximately $900 million, or approximately 21.3% of Service assets. As of September 30, 2003, the Service's net PP&E was $862 million, also representing about 21.3% of Service assets. The Service does not report stewardship property, such as NWRs 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 the SFFAS 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 $421 million as of September 30, 2004, consists of amounts owed to the U.S. Coast Guard and the Corps of Engineers from the ARTF. As of September 30, 2003, the ARTF liability to these agencies amounted to $390 million. These liabilities are reported in Service financial statements in accordance with the requirements of SFFAC Number 2, Entity and Display.

Ryan Hagerty/USFWS

Invasive Plant Elimination, Melauka, Florida

The Service has approximately $141 million in unfunded liabilities to the public, which cannot be paid until funds are appropriated by Congress in future periods. These liabilities consist primarily of unfunded annual leave and the Service's actuarial Federal Employees Compensation Act (FECA) liability. They also include environmental cleanup liabilities, representing the future costs of remediating hazardous waste, and landfills existing on Service lands. In FY 2004, unfunded liabilities include estimated costs to repair damage to NWRs, National Fish Hatcheries, and other Service facilities caused by hurricanes and storms. The following table summarizes the Service's unfunded liabilities to the public.

Unfunded Liabilities to the Public
as of September 30, 2004 and 2003
(dollars in millions)

Unfunded Liabilities	September 30, 2004	September 30, 2003
Federal Employees Compensation Act	$ 59	$ 62
Unfunded Annual Leave	48	46
Environmental Cleanup	13	12
Other	21	2
Total	$ 141	$ 122

Ostrich

The Service's Net Position consists of two components:

1. Unexpended Appropriations
2. Cumulative Results of Operations

The Unexpended Appropriations amount reflects spending authority made available to the Service by Congressional appropriation that the Service has not yet used. The Cumulative Results of Operations amount reflects the net results of the Service's operations over time. The Service's Net Position as of September 30, 2004 is approximately \$3.54 billion, of which approximately \$502 million is unexpended appropriations and \$3.04 billion is cumulative results of operations. As of September 30, 2003, the Service's net position was \$3.41 billion, with \$498 million in unexpended appropriations and \$2.91 billion in cumulative results of operations.

Greylag Geese

III. U.S. Fish and Wildlife Service Financial Statements

The Service Financial Statements section covers the following areas:

A. Principal Financial Statements
B. Notes to Principal Financial Statements
C. Required Supplementary Information (RSI)
D. Required Supplementary Stewardship Information (RSSI)


Bob Stratton/USFWS

Whistling Ducks

A. Principal Financial Statements

U.S. Department of the Interior
U.S. Fish and Wildlife Service
Consolidated Balance Sheet
as of September 30, 2004 and 2003
(dollars in thousands)

		2004		2003
ASSETS (Note 2)				
Intragovernmental Assets:				
Fund Balance with Treasury (Note 3)	$	1,479,492	$	1,276,656
Investments, Net (Notes 4 and 11)		1,816,233		1,870,014
Accounts and Interest Receivable, Net (Note 5)		26,410		21,596
Other				
Advances and Prepayments		1,301		755
Total Intragovernmental Assets		3,323,436		3,169,021
Cash (Note 3)		107		116
Accounts and Interest Receivable, Net (Note 5)		10,700		10,832
General Property, Plant and Equipment, Net (Note 6)		900,160		862,436
Other				
Advances and Prepayments		286		271
TOTAL ASSETS	$	4,234,689	$	4,042,676
LIABILITIES (Note 8)				
Intragovernmental Liabilities:				
Accounts Payable	$	5,810	$	12,191
Other				
Accrued Payroll and Benefits		17,904		16,927
Advances and Deferred Revenue		680		681
Deferred Credits		9		6
Aquatic Resources Trust Fund Amounts Due to Others (Note 11)		420,896		389,762
Judgment Fund		15		0
Other Liabilities		1,926		1,926
Total Intragovernmental Liabilities		447,240		421,493
Public Liabilities:				
Accounts Payable		80,068		69,159
Federal Employees Compensation Act Liability		58,821		62,153
Environmental Cleanup Costs (Note 8)		12,874		12,352
Other				
Accrued Payroll and Benefits		66,586		57,614
Advances and Deferred Revenue		5,949		6,292
Deferred Credits		408		1,430
Contingent Liabilities (Note 8)		12		0
Other Liabilities		21,247		21
Total Public Liabilities		245,965		209,021
TOTAL LIABILITIES		693,205		630,514
Commitments and Contingencies (Notes 8 and 9)				
Net Position				
Unexpended Appropriations		501,981		498,236
Cumulative Results of Operations		3,039,503		2,913,926
TOTAL NET POSITION		3,541,484		3,412,162
TOTAL LIABILITIES AND NET POSITION	$	4,234,689	$	4,042,676

The accompanying notes are an integral part of these financial statements

U. S. Department of the Interior
U.S. Fish and Wildlife Service
Consolidated Statement of Net Cost
for the years ended September 30, 2004 and 2003
(dollars in thousands)

	Resource Protection	Resource Use	Recreation	Serving Communities	2004 Total
Cost - Services Provided to the Public	$ 1,475,285	$ 30,446	$ 462,784	$ 132,974	$ 2,101,489
Revenue Earned from the Public	45,716	414	8,021	673	54,824
Net Cost of Services to the Public	1,429,569	30,032	454,763	132,301	2,046,665
Cost - Services Provided to Federal Agencies	82,642	109	14,432	3,160	100,343
Revenue Earned from Federal Agencies	80,403	107	13,972	3,070	97,552
Net Cost of Services Provided to Federal Agencies	2,239	2	460	90	2,791
Net Cost of Operations (Note 14)	$ 1,431,808	$ 30,034	$ 455,223	$ 132,391	$ 2,049,456

	Sustainability of Fish and Wildlife Population	Habitat Conservation	Public Use and Enjoyment	Partnerships in Natural Resources	2003 Total
Cost - Services Provided to the Public	$ 599,277	$ 726,876	$ 173,326	$ 560,119	$ 2,059,598
Revenue Earned from the Public	16,492	34,553	4,330	17	55,392
Net Cost of Services to the Public	582,785	692,323	168,996	560,102	2,004,206
Cost - Services Provided to Federal Agencies	53,692	57,511	10,234	29	121,466
Revenue Earned from Federal Agencies	51,934	56,153	9,857	29	117,973
Net Cost of Services Provided to Federal Agencies	1,758	1,358	377	0	3,493
Net Cost of Operations (Note 14)	$ 584,543	$ 693,681	$ 169,373	$ 560,102	$ 2,007,699

The accompanying notes are an integral part of these financial statements

U. S. Department of the Interior
U.S. Fish and Wildlife Service
Consolidated Statement of Changes in Net Position
for the years ended September 30, 2004 and 2003
(dollars in thousands)

	2004	2003
UNEXPENDED APPROPRIATIONS		
Beginning Balance	$ 498,236	$ 478,161
Budgetary Financing Sources		
Appropriations Received, General Funds	1,121,014	1,072,465
Appropriations Transferred In/Out	94,718	84,346
Appropriations Used	(1,198,544)	(1,130,272)
Other Adjustments	(13,443)	(6,464)
Total Budgetary - Financing Sources	3,745	20,075
Ending Balance – Unexpended Appropriations	$ 501,981	$ 498,236
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance	$ 2,913,926	$ 2,880,832
Budgetary Financing Sources		
Appropriations Used	1,198,544	1,130,272
Royalties Retained	6,456	2,909
Transfers In/Out without Reimbursement	165,382	143,939
Non-Exchange Revenue:		
Tax Revenue	717,364	659,217
Donations and Forfeitures of Cash and Cash Equivalents	4,840	4,163
Other Non-Exchange Revenue	27,202	49,747
Other Budgetary Financing Sources	169	1,909
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others (Note 10)	50,488	44,277
Transfers In/Out without Reimbursement	4,588	4,360
Total Financing Sources	2,175,033	2,040,793
Net Cost of Operations	(2,049,456)	(2,007,699)
Ending Balance - Cumulative Results of Operations	$ 3,039,503	$ 2,913,926

The accompanying notes are an integral part of these financial statements

U. S. Department of the Interior
U.S. Fish and Wildlife Service
Combined Statement of Budgetary Resources
for the years ended September 30, 2004 and 2003
(dollars in thousands)

	2004	2003
Budgetary Resources:		
Budget Authority:		
Appropriations Received	$ 2,103,220	$ 2,089,609
Net Transfers, Current Year Authority	(94,440)	(99,275)
Unobligated Balance:		
Beginning of Fiscal Year	570,853	730,861
Net Transfers, Unobligated Balance, Actual	15,296	(4,700)
Spending Authority from Offsetting Collections:		
Earned		
Collected	139,063	138,815
Receivable from Federal Sources	(3,631)	2,713
Change in Unfilled Customer Orders		
Advance Received	(344)	(32,119)
Without Advance from Federal Sources	70,883	(5,537)
Subtotal: Spending Authority from Offsetting Collections	205,971	103,872
Recoveries of Prior Year Obligations	79,302	75,403
Permanently Not Available (Note 12)	(16,323)	(58,458)
Total Budgetary Resources	$ 2,863,879	$ 2,837,312
Status of Budgetary Resources:		
Obligations Incurred:		
Direct	$ 1,996,205	$ 2,140,323
Reimbursable	203,822	126,136
Total Obligations Incurred	2,200,027	2,266,459
Unobligated Balance:		
Apportioned	660,255	569,286
Unobligated Balance not Available	3,597	1,567
Total Status of Budgetary Resources	$ 2,863,879	$ 2,837,312
Relationship of Obligations to Outlays:		
Obligations Incurred	$ 2,200,027	$ 2,266,459
Obligated Balance, Net, Beginning of Fiscal Year	1,211,727	1,066,316
Obligated Balance, Net, End of Fiscal Year:		
Accounts Receivable	27,493	31,124
Unfilled Customer Orders from Federal Sources	116,298	45,414
Undelivered Orders	(1,256,824)	(1,194,780)
Accounts Payable	(106,575)	(93,485)
Less: Spending Authority Adjustments	(146,554)	(72,579)
Outlays:		
Disbursements	2,045,592	2,048,469
Collections	(138,719)	(106,697)
Subtotal: Outlays	1,906,873	1,941,772
Less: Offsetting Receipts	(61,170)	(62,743)
Net Outlays	$ 1,845,703	$ 1,879,029

The accompanying notes are an integral part of these financial statements

U. S. Department of the Interior
U.S. Fish and Wildlife Service
Consolidated Statement of Financing
for the years ended September 30, 2004 and 2003
(dollars in thousands)

	2004	2003
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 2,200,027	$ 2,266,459
Less: Spending Authority from Offsetting Collections/Adjustments	(285,274)	(179,276)
Obligations Net of Offsetting Collections and Adjustments	1,914,753	2,087,183
Less: Offsetting Receipts	(61,170)	(62,743)
Net Obligations	1,853,583	2,024,440
Other Resources:		
Transfers In/Out Without Reimbursement	4,588	4,360
Imputed Financing From Costs Absorbed by Others (Note 10)	50,488	44,277
Net Other Resources Used to Finance Activities	55,076	48,637
Total Resources Used to Finance Activities	1,908,659	2,073,077
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	7,932	(194,831)
Resources That Fund Expenses Recognized in Prior Periods	(43)	(50)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Offsetting Receipts Not Part of the Net Cost of Operations	27,594	28,169
Resources That Finance the Acquisition of Assets	(80,258)	(51,706)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	10,958	2,231
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(33,817)	(216,187)
Total Resources Used to Finance the Net Cost of Operations	1,874,842	1,856,890
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase (Decrease) in Annual Leave Liability	2,336	3,343
Increase (Decrease) in Environmental and Disposal Liability	522	(2,843)
Other	18,259	5,264
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	21,117	5,764
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	42,534	34,872
Components of Net Cost of Operations Related to Transfer Accounts Where Budget Amounts Are Reported by Other Federal Entities (Note 13)	110,901	110,400
Other	62	(227)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	153,497	145,045
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	174,614	150,809
Net Cost of Operations	$ 2,049,456	$ 2,007,699

The accompanying notes are an integral part of these financial statements

B. Notes to Principal Financial Statements

Note 1 - Summary of Significant Accounting Principles

A. Reporting Entity

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

B. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the Service as required by the Chief Financial Officers Act of 1990, as amended by the Reports Consolidation Act of 2000, and the Government Management Reform Act of 1994. The financial statements have been prepared from the Service's books and records in accordance with the form and content for entity financial statements specified by OMB in the OMB Bulletin 01-09, dated September 25, 2001, as required for FY 2004 and 2003. Furthermore, the financial statements have been prepared in accordance with the Service's accounting policies summarized in this note.

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

The financial statements have been prepared from the books and records of the Service except for certain amounts relating to 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 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 (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 SFFAS Number 7, Paragraph 87, as applying to the ARTF. In FY 2004 the SFRA received approximately 79% of the ARTF transfers.

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

The Service maintains accounts in three separate budgetary categories:

1. Resources management
2. Grant programs
3. Other funds

1. Resource Management

This category includes expenditure accounts arising from Congressional appropriations or other authorizations to spend general revenue. The principal resource management accounts are:

a. Resource Management, Operating
b. Resource Management, Federal Infrastructure Improvement

2. Grant Programs

The Service administers 14 budgetary accounts for grant programs established under specific trust agreements and statutes. The major categories of grant programs are:

a. Sport Fish Restoration
b. Federal Aid in Wildlife Restoration
c. Other grant programs:
   - Wildlife Conservation (two budgetary accounts)
   - North American Wetlands Conservation
   - State Wildlife Grants
   - Tribal Wildlife Grants
   - Landowner Incentive
   - Cooperative Endangered Species Conservation Fund
   - Private Stewardship Grants
   - Multinational Species Conservation Fund (four budgetary accounts)

3. Other Funds

The Service also administers various other budgetary accounts, including:

a. Miscellaneous Permanent Appropriations - These funds are receipt funds earmarked by law for a specific purpose, and do not require appropriation language to use the receipts. These funds include:
   - Operations/Maintenance - Quarters
   - Lahontan Valley and Pyramid Lake Fish and Wildlife Fund
   - Other Miscellaneous Appropriations
b. Construction
c. Land Acquisition
d. Contributed Fund Account
e. Commercial Salmon Fishery Capacity Reduction
f. Migratory Bird Conservation Account
g. Recreation Fee Demonstration Program

C. Fund Balance with the Department of the Treasury and Cash

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

D. Investments in Treasury Securities

The Service invests funds from the Federal Aid in Wildlife Restoration Fund (Treasury Symbol 14X5029), the Multinational Species Conservation Fund (Treasury Symbol 14X1652), and the ARTF (Treasury Symbol 20X8147) in Federal Government Securities that include marketable Treasury Securities and non-marketable par value or non-marketable market-based securities issued by the Federal Investment Branch of the Bureau of Public Debt. Par value securities are special issue bonds or certificates of indebtedness that bear interest determined by legislation or the Department of the Treasury. Market-based securities are Treasury securities that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. The Service intends to hold these investments until maturity. Investments are valued at cost and adjusted for amortization of premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the straight-line method. No provision is made for unrealized gains or losses on these securities. Interest on investments is accrued as it is earned.

The investments reported by the Service for ARTF (Treasury Symbol 20X8147) are managed by the Department of the Treasury (see below, Note 1E Interest, and Taxes Receivable). Although the Service has advisory authority for ARTF investment decisions, the Department of the Treasury has legal responsibility for investing ARTF funds. Consistent with authorizing legislation and the Department of the Treasury fiscal investment policies, the Secretary of the Department 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 the Treasury. These securities are held in the name of the Secretary of the U.S. Department of the Treasury for the ARTF and interest in investments is accrued as it is earned. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method. Although funds collected and deposited in the ARTF in any one fiscal year are available for investment during the same fiscal year collected, they are not available for obligation that same year. Thus, the use of such funds collected from a prior fiscal year is restricted until the following fiscal year. Note 4 provides additional information on Service and ARTF investments.

E. Accounts, Interest, and Taxes Receivable

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

F. Operating Materials and Supplies

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

G. Property, Plant and Equipment

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

General PP&E consists of that property which is used in Service operations. General PP&E includes buildings, structures, facilities and equipment used in the operation of wildlife refuges, fish hatcheries, wildlife and fishery research centers, waterfowl production areas, and administrative sites. In FY 2004, the Service made a prospective change in the real property capitalization threshold from $50,000 to $100,000. Capitalized buildings and structures have a cumulative acquisition cost $100,000 or more. Buildings and structures are reported in the financial statements based on legal ownership. Buildings are comprised of facilities owned by the Service, such as houses, garages, shops, schools, laboratories, and other buildings. Structures and facilities owned by the Service include powerhouses and pumping plants, structural and general service facilities systems (e.g., drainage, plumbing, sewer, ventilating, water or heating systems), ground and site improvements (e.g., roads and roadways, fences, parking areas, sidewalks, sprinkler systems, yard drainage systems, or yard lighting systems), bridges and trestles, dams and dikes, waterways and wells. Capitalized costs include materials, labor, and overhead costs incurred during construction, attorney and architect fees, and building permits. Permanent improvements to stewardship land, including earthen structures, such as canals, dikes, levees, and dirt roads, are not capitalized. Depreciation of buildings and other structures is recorded using the straight-line method based on an estimated useful life of 10 to 40 years. Note 6 provides additional information on the Service's general PP&E.

Investments in improvements to buildings, structures and facilities leased by the Service are capitalized if they exceed the capitalization threshold for real property. Leasehold improvements are depreciated using the straight-line method over their estimated useful life or the term of lease, whichever is less.

Capitalized equipment consists of those assets, other than buildings or other structures, which have an estimated useful life of two or more years and an initial acquisition cost of $15,000 or more. In FY 2004, the Service made a prospective change in the capitalization threshold for capitalized equipment from $25,000 to $15,000. Depreciation of equipment is recorded using the straight-line method based on the estimated useful life of the respective assets of 5 to 20 years.

2. Construction Work in Progress (CWIP)

CWIP is used for the accumulation of the cost of construction or major renovation of real property during the construction period. Costs are transferred out of CWIP when they meet the criteria for capitalization.

3. Stewardship Property, Plant and Equipment (PP&E)

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

4. Internal Use Software

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

5. Leases

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

H. Seized and Forfeited Property

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

I. Liabilities and Contingencies

A liability for Federal accounting purposes is a probable and measurable outflow or other sacrifice of resources as a result of past transactions or events. 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.

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

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

J. Revenue and Other Financing Sources

1. Appropriations

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

2. Exchange and Non-exchange Revenue

The Service classifies revenue as either exchange or non-exchange revenue. Exchange revenue derives from transactions in which both the Service and the other party receive value. This revenue is presented in the Consolidated Statement of Net Cost. The non-exchange revenue results from donations to the government and from the government's sovereign right to demand payment, including fines for violation of environmental laws. This revenue is not considered as reductions of the cost of the Service's operations and is reported on the Consolidated Statement of Changes in Net Position. Significant funding is made available to support Service programs from tax revenue, which is recognized when earned. This tax revenue emanates 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.

3. Imputed Financing Sources

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

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

4. Deferred Revenue

Unearned revenue is recorded as deferred revenue until earned.

K. Personnel Compensation and Benefits

1. 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.

2. Federal Employees Worker's Compensation Program

The Federal Employees Compensation Act (FECA) authorizes income and medical cost protection to covered Federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor. Initially, FECA benefit claims for DOI employees are paid by the Department of Labor, and subsequently reimbursed by the Interior. The Department of Labor is responsible for calculating FECA liability of future compensation benefits for all Federal agencies. The resulting liability is then distributed by the Department of Labor to each benefiting agency.

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

3. Federal Employees Group Life Insurance Program (FEGLI)

The OPM administers the FEGLI program. The Service recognizes identified costs for partial funding of insurance costs paid for by OPM as Service expenses. The funding for insurance costs is reflected as imputed financing sources on the Statement of Changes in Net Position.

Most Service employees are entitled to participate in the FEGLI program. Participating employees can obtain various options of term life insurance. OPM administers this program and is responsible for reporting FEGLI liabilities on its financial statements.

4. Retirement Programs

The OPM administers the Federal retirement programs. The Service recognizes identified costs for partial funding of retirement benefits paid for by OPM as Service expenses. The funding for these retirement costs is reflected as imputed financing sources on the Statement of Changes in Net Position.

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. Employees hired prior to January 1, 1984 could elect either FERS and Social Security, or remain in CSRS.

FERS offers a savings plan to which the Service automatically contributes 1% of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional 4% of basic pay. Employees could contribute up to 14% of their gross earnings to FERS for the year ended September 30, 2004, or 13% of their gross earnings to the year ended September 2003. Employees could contribute up to 9% of their gross earnings to CSRS for the year ended September 30, 2004, or 8% of their gross earnings for the year ended September 2003. CSRS employees 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. OPM, which administers the plans, is responsible for, and reports these amounts.

L. Use of Estimates

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

M. Statement of Financing

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

Note 2 - Assets Analysis

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

Assets Analysis
as of September 30, 2004 and 2003
(dollars in thousands)

	ENTITY UNRESTRICTED	ENTITY RESTRICTED	NON-ENTITY	2004 TOTAL
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	$ 1,454,550	$ 24,941	$ 1	$ 1,479,492
Investments, Net	631,241	640,576	544,416	1,816,233
Accounts and Interest Receivable, Net	18,283	8,127	0	26,410
Other - Advances and Prepayments	1,301	0	0	1,301
Total Intragovernmental Assets	2,105,375	673,644	544,417	3,323,436
Cash	107	0	0	107
Accounts and Interest Receivable, Net	10,700	0	0	10,700
General Property, Plant and Equipment, Net	900,160	0	0	900,160
Other - Advances and Prepayments	286	0	0	286
TOTAL ASSETS	$ 3,016,628	$ 673,644	$ 544,417	$ 4,234,689

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

Note 3 - Fund Balance with Treasury and Cash

The Service's fund balance with the Department of the Treasury is as follows:

Fund Balance with Treasury
as of September 30, 2004 and 2003
(dollars in thousands)

Fund Balance with Treasury by Fund Type	2004	2003
General Fund	$ 494,046	$ 477,336
Special Fund	932,007	768,531
Trust Fund	53,022	29,353
Other Fund Types	417	1,436
Total	$ 1,479,492	$ 1,276,656

Status of Fund Balance with Treasury	2004	2003
Unobligated Balance		
Available	$ 284,569	$ 282,089
Unavailable	242,403	215,904
Obligated Balance Not Yet Disbursed	952,520	778,663
Total Status of Fund Balances with Treasury	$ 1,479,492	$ 1,276,656

Service cash as of September 30, 2004 and 2003 is $107,000 and $116,000 respectively.

Service Cash
as of September 30, 2004 and 2003
(dollars in thousands)

	2004	2003
Imprest Fund	$ 107	$ 116
Total Cash	$ 107	$ 116

Note 4 - Investments, Net

Investments in non-marketable market-based Treasury securities consist of various bills purchased through the Federal Investment Branch of the Bureau of Public Debt. The invested funds consist of excise tax receipts from the Federal Aid in Wildlife Restoration Fund (Treasury Symbol 14X5029), ARTF (Treasury Symbol 20X8147), and the Multi-National Species Conservation Fund (Treasury Symbol 14X1652). The Service's outstanding investments in Treasury securities are as follows:

Investments, Net
as of September 30, 2004 and 2003
(dollars in thousands)

	Investment Type	Cost	Amortized (Premium)/ Discount	Investments, Net	Market Value 2004
U.S. Treasury Securities					
14X5029	Non-Marketable, Market-Based	$ 363,832	$ (1,073)	$ 362,759	$ 363,614
14X1652	Non-Marketable, Market-Based	0	0	0	0
Total Entity		363,832	(1,073)	362,759	363,614
ARTF 20X8147	Non-Marketable, Market-Based	1,455,389	(4,045)	1,451,344	1,446,897
Total Non-Entity		1,455,389	(4,045)	1,451,344	1,446,897
Total U.S. Treasury Securities		1,819,221	(5,118)	1,814,103	1,810,511
Accrued Interest		2,130	0	2,130	0
Total Investments		$ 1,821,351	$ (5,118)	$ 1,816,233	$ 1,810,511

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

Note 5 - Accounts, Interest, and Taxes Receivable, Net

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

Accounts Receivable
as of September 30, 2004 and 2003
(dollars in thousands)

Accounts Receivable from Federal Agencies

	2004	2003
Accounts Receivable from Federal Agencies		
Current	$ 25,321	$ 20,053
1 - 180 Days Past Due	116	628
181 - 365 Days Past Due	56	78
Over 1 Year Past Due	173	208
Total Billed Accounts Receivable - Federal	25,666	20,967
Unbilled Accounts Receivable	744	629
Total Accounts Receivable - Federal	$ 26,410	$ 21,596

Accounts Receivable from the Public

	2004	2003
Accounts Receivable from the Public		
Current	$ 10,775	$ 10,841
1 - 180 Days Past Due	37	66
181 - 365 Days Past Due	34	21
Over 1 Year Past Due	66	361
Total Billed Accounts Receivable - Public	10,912	11,289
Unbilled Accounts Receivable	7	12
Total Accounts Receivable - Public	10,919	11,301
Allowance for Doubtful Accounts	(219)	(469)
Total Accounts Receivable - Public Net of Allowance	$ 10,700	$ 10,832

Change in Allowance for Bad Debts - Public	2004	2003
Allowance for Doubtful Accounts, Beginning	$ 469	$ 544
Deletions	(250)	(75)
Allowance for Bad Debts - Public	$ 219	$ 469

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

Net General PP&E owned by the Service consists of the following:

General Property, Plant and Equipment (PP&E), Net
as of September 30, 2004 and 2003
(dollars in thousands)

	Acquisition Cost	Accumulated Depreciation	Net 2004
Land and Land Improvements	$ 10,571	$ 0	$ 10,571
Buildings	575,766	149,479	426,287
Structures and Facilities	474,776	203,037	271,739
Leasehold Improvements	2,585	209	2,376
Construction in Progress - General	67,806	0	67,806
Equipment, Vehicles, and Aircraft	284,389	164,268	120,121
Internal Use Software:			
In Use	1,454	194	1,260
Total Property, Plant, and Equipment	$ 1,417,347	$ 517,187	$ 900,160

	Acquisition Cost	Accumulated Depreciation	Net 2003
Land and Land Improvements	$ 10,570	$ 0	$ 10,570
Buildings	501,563	140,161	361,402
Structures and Facilities	448,735	189,111	259,624
Leasehold Improvements	1,926	0	1,926
Construction in Progress - General	114,420	0	114,420
Equipment, Vehicles, and Aircraft	263,861	150,436	113,425
Internal Use Software:			
In Development	1,069	0	1,069
Total Property, Plant, and Equipment	$ 1,342,144	$ 479,708	$ 862,436

Note 7 - Seized and Forfeited Property

Seized and forfeited property is recorded in case files maintained in the Service's Law Enforcement Management Information System (LEMIS 2000). The Service does not assign a financial value to, or recognize for purposes of its financial statements, property seized by or forfeited to the Service that cannot be sold due to legal restrictions. Such property is typically wildlife or wildlife parts that 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 as follows:

Seized and Forfeited Property
for the years ended September 30, 2004 and 2003
(dollars in thousands)

	Balance 10/01/2003		Additions		Dispositions		Balance 09/30/2004	
	# Cases	Market Value	# Cases	Market Value	# Cases	Market Value	# Cases	Market Value
Seized Property								
Wildlife	1,014	$ 2,676	1,919	$ 2,464	1,819	$ 2,234	1,114	$ 2,906
Non-Wildlife	201	202	314	136	304	35	211	303
Forfeited Property								
Wildlife	1,004	2,671	1,310	2,093	1,211	1,865	1,103	2,899
Non-Wildlife	200	202	271	127	263	26	208	303

	Balance 10/01/2002		Additions		Dispositions		Balance 09/30/2003	
	# Cases	Market Value	# Cases	Market Value	# Cases	Market Value	# Cases	Market Value
Seized Property								
Wildlife	935	$ 4,700	1,640	$ 1,102	1,561	$ 3,126	1,014	$ 2,676
Non-Wildlife	150	24	181	186	130	8	201	202
Forfeited Property								
Wildlife	928	4,698	930	856	854	2,883	1,004	2,671
Non-Wildlife	150	24	131	176	81	0	200	202

Note 8 - Liabilities Analysis

Liabilities are claims against the Service by other Federal and non-Federal entities for measurable past transactions or events. Certain types of liabilities are not covered by budgetary resources and require Congressional action before budgetary resources can be provided. Service liabilities are detailed below:

Liabilities Analysis
as of September 30, 2004 and 2003
(dollars in thousands)

	Covered by Budgetary Resources		Not Covered by Budgetary Resources		
	Current	Non-Current	Current	Non-Current	2004 Total
Intragovernmental Liabilities:					
Accounts Payable	$ 5,810	$ 0	$ 0	$ 0	$ 5,810
Other					
Accrued Payroll and Benefits	4,571	0	4,570	8,763	17,904
Advances and Deferred Revenue	680	0	0	0	680
Deferred Credits	0	0	9	0	9
Aquatic Resources Amounts Due to Others	0	0	0	420,896	420,896
Judgment Fund	0	0	0	15	15
Other Liabilities	0	0	0	1,926	1,926
Total Intragovernmental Liabilities	11,061	0	4,579	431,600	447,240
Public Liabilities:					
Accounts Payable	80,068	0	0	0	80,068
Federal Employees Compensation Act Liability	0	0	0	58,821	58,821
Environmental Cleanup Costs	0	0	0	12,874	12,874
Other					
Accrued Payroll and Benefits	18,596	0	0	47,990	66,586
Advances and Deferred Revenue	5,949	0	0	0	5,949
Deferred Credits	0	0	0	408	408
Contingent Liabilities	0	0	0	12	12
Other Liabilities	0	0	21,247	0	21,247
Total Public Liabilities	104,613	0	21,247	120,105	245,965
Total Liabilities	$ 115,674	$ 0	$ 25,826	$ 551,705	$ 693,205

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

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 NWRS and the National Fish Hatcheries System (NFHS) and for which the government is legally liable. In accordance with accounting principles generally accepted in the U.S., the Service has recorded in its financial statements a liability for remediating contamination on Service land of $13 million and $12 million as of September 30, 2004 and 2003, respectively. The Service believes that a reasonable estimate of the additional potential liabilities for remediation efforts ranges between $0 and $98 million as of September 30, 2004. The estimated range of additional potential liabilities as of September 30, 2003 was between $0 and $93 million.

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 Federal 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. Changes in cleanup cost estimates are developed in accordance with departmental policy, which addresses systematic processes for cost estimating and places added emphasis on development and retention of supporting documentation. Changes in cleanup cost estimates are based on progress made in, and revision of, the cleanup plans, assuming current technology, laws, and regulations. There is not a broad application of any particular inflation or deflation factors to prior estimates. There are no material changes in total estimated cleanup costs that are due to changes in law and technology.

Contingent Liabilities

There are two claims pending administrative action against the Service for which payments have been deemed probable and the amount of potential loss is estimated at $12,000. In accordance with accounting principles generally accepted in the U.S., the Service has recorded $12,000 as a liability as of September 30, 2004. The Service estimates a range of potential liabilities for other claims where the likelihood of an unfavorable outcome is reasonably possible, which is between $51,000 and $4.6 million as of September 30, 2004. The following tables present accrued and potential liabilities related to estimated cleanup costs and contingent liabilities:

Contingent Liabilities
as of September 30, 2004 and 2003
(dollars in thousands)

	Accrued Liabilities 2004	Accrued Liabilities 2003
Estimated Cleanup Cost	$ 12,874	$ 12,352
Contingent Liabilities	12	0
Total Environmental and Contingent Liabilities - Accrued	$ 12,886	$ 12,352

Additional Potential Liabilities

	2004		2003	
	Lower End of Range	Upper End of Range	Lower End of Range	Upper End of Range
Estimated Cleanup Cost	$ 0	$ 97,983	$ 0	$ 93,092
Contingent Liabilities	51	4,600	1,630	2,430
Total Environmental and Contingent Liabilities - Potential	$ 51	$ 102,583	$ 1,630	$ 95,522

Liabilities Involving Government-Related Events

During August and September 2004, hurricanes and other storms caused significant damage to numerous units of NWRS, NFHS, and other facilities primarily in the southeastern U.S. Funding for most of the estimated repair costs was included in a supplemental appropriation (Public Law 108-324) that was enacted October 13, 2004.

Most of the costs are for removal of debris, repairs to permanent land improvements and other stewardship assets, and repairs to noncapitalized or fully depreciated assets. A liability of $21 million was established for these costs. Certain capitalized assets were completely destroyed or affected to such an extent to necessitate adjustment to recorded values. The Service’s net property, plant and equipment was reduced by less than $2 million to account for destroyed or impaired assets.

Note 9 - Operating Leases

Most of the Service's leased facilities are rented from the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. The Service includes the estimated rental payments to GSA in the following table. For federally owned facilities, the Service either does not execute an agreement with GSA, or enters into cancelable agreements, some of which do not have a formal lease expiration date. The Service can vacate these properties after giving 120 to 180 days notice of intent to vacate; however, the Service normally occupies these properties for an extended period of time with little variation from year to year. For non-federally owned property an occupancy agreement is generally executed, according to standard contract principles. Estimates for real and personal property leases are based on an annual inflation factor of 1.7% for FY 2005 and 1.5% thereafter.

The estimates for personal property represent the cost of leasing GSA vehicles. The terms for GSA leases frequently exceed one year, although a definite lease period is usually not specified. For purposes of disclosing future operating payments, GSA personal property leases are included from 2005 through 2009. The current lease costs are based on the vehicles leased by the Service from GSA as of September 2004. The Service's estimates are based on an annual inflation factor of 1.7% for FY 2005 and 1.5% for FY 2006 through 2009.

The aggregate estimates for the Service's: (1) future payments due under non-federal or non-cancelable operating leases; and (2) estimated real property rent payments to GSA and other Federal entities are as follows:

Future Operating Lease Payments
(dollars in thousands)

	Real Property		Property Personal		
FY	Federal	Non-Federal	Federal	Non-Federal	Total
2005	$ 46,593	$ 1,136	$ 2,781	$ 0	$ 50,510
2006	44,513	844	2,822	0	48,179
2007	42,593	399	2,865	0	45,857
2008	41,330	279	2,908	0	44,517
2009	36,853	43	2,951	0	39,847
Thereafter	83,683	737	0	0	84,420
Total Future Lease Payments	$ 295,565	$ 3,438	$ 14,327	$ 0	$ 313,330

Note 10 - Imputed Financing Sources

Imputed financing sources primarily represent costs that have been incurred by the Service but budgeted by another entity. The imputed cost of approximately $50 million for the year ended September 30, 2004 presented in the Service's accompanying financial statements reflects the recorded costs (e.g., employee benefit costs) that were financed by budgetary resources of the OPM. For the year ended September 30, 2003, imputed financing sources totaled approximately $44 million. The Service recognizes the actuarial present value of pensions and other retirement benefits for its employees during their active years of service. Imputed costs also include services that are received by the Service at less than full cost. The U.S. Department of the Treasury made no Judgment Fund payments on behalf of the Service in FY 2004 and 2003.

Note 11 - Dedicated Collections

The Service's financial statements reflect balances in three dedicated collections accounts: ARTF, the Federal Aid in Wildlife Restoration account, and the SFRA.

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

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

The distribution of funds relating to these accounts represents an inflow of revenue as a result of intragovernmental transfers. The table below reflects the Service's summarized information:

Dedicated Collections
as of and for the years ended September 30, 2004 and 2003
(dollars in thousands)

	Aquatic Resources Trust Fund	Wildlife Restoration	Sport Fish Restoration	2004 Total	Aquatic Resources Trust Fund	Wildlife Restoration	Sport Fish Restoration	2003 Total
ASSETS								
Fund Balance with Treasury	$ 24,941	$ 120,209	$ 14,255	$ 159,405	$ 22,074	$ 18,099	$ (6,938)	$ 33,235
Investments	1,451,344	364,889	0	1,816,233	1,415,812	453,148	0	1,868,960
Accounts Receivable	8,127	0	921,021	929,148	273	1	883,688	883,962
Other Assets	0	107	0	107	0	123	0	123
TOTAL ASSETS	$ 1,484,412	$ 485,205	$ 935,276	$ 2,904,893	$ 1,438,159	$ 471,371	$ 876,750	$ 2,786,280
LIABILITIES								
Aquatic Resources Amounts Due to FWS	$ 920,993	$ 0	$ 0	$ 920,993	$ 883,661	$ 0	$ 0	$ 883,661
Aquatic Resources Amounts Due to Coast Guard	0	0	68,351	68,351	0	0	62,515	62,515
Aquatic Resources Amounts Due to Corps of Engineers	0	0	352,546	352,546	0	0	327,164	327,164
Aquatic Resources Amounts Due to Others	0	0	0	0	83	0	0	83
Accounts Payable	0	14,613	22,991	37,604	0	17,073	22,284	39,357
Other Liabilities	0	781	988	1,769	0	624	1,348	1,972
TOTAL LIABILITIES	920,993	15,394	444,876	1,381,263	883,744	17,697	413,311	1,314,752
TOTAL NET POSITION	563,419	469,811	490,400	1,523,630	554,415	453,674	463,439	1,471,528
TOTAL LIABILITIES AND NET POSITION	$ 1,484,412	$ 485,205	$ 935,276	$ 2,904,893	$ 1,438,159	$ 471,371	$ 876,750	$ 2,786,280
CHANGE IN NET POSITION								
Net Position, Beginning of Fiscal Year	$ 554,415	$ 453,674	$ 463,439	$ 1,471,528	$ 538,979	$ 490,490	$ 462,309	$ 1,491,778
Change in Net Position:								
Non-exchange Revenue								
Taxes	455,828	238,807	0	694,635	426,377	214,337	0	640,714
Investment Interest and Other	16,551	10,451	177	27,179	40,949	8,745	358	50,052
Transfers In/Out without Reimbursement	(463,375)	(173)	345,405	(118,143)	(451,890)	(243)	329,816	(122,317)
Program Expenses	0	(232,948)	(318,621)	(551,569)	0	(259,655)	(329,044)	(588,699)
Net Position, End of Fiscal Year	$ 563,419	$ 469,811	$ 490,400	$ 1,523,630	$ 554,415	$ 453,674	$ 463,439	$ 1,471,528

Note 12 - Combined Statement of Budgetary Resources

Apportionments for the Service fall into OMB Category B, which apportions amounts by activity, project, or object. Apportionment Categories of Obligations Incurred include:

1. Direct and Reimbursable Obligations Incurred
2. Amounts Apportioned and Exempt from Apportionment
3. Obligations by Apportionment Category

Each of the above categories is presented in the following table:

Obligations by Apportionment Category
for the years ended September 30, 2004 and 2003
(dollars in thousands)

	Apportioned							
	Category A		Category B		Not Subject to Apportionment		2004 Total	
Obligations Incurred:								
Direct	$	0	$	1,996,206	$	0	$	1,996,206
Reimbursable		0		203,821		0		203,821
Total Obligations Incurred	$	0	$	2,200,027	$	0	$	2,200,027

	Apportioned							
	Category A		Category B		Not Subject to Apportionment		2003 Total	
Obligations Incurred:								
Direct	$	0	$	2,140,323	$	0	$	2,140,323
Reimbursable		0		126,136		0		126,136
Total Obligations Incurred	$	0	$	2,266,459	$	0	$	2,266,459

A. Permanent Indefinite Appropriations

As of September 30, 2004, the Service had 12 permanent indefinite appropriations which are primarily utilized to administer endangered species and wildlife and sport fish restorations grants to states and other non-Federal entities, and to fund land acquisition for NWRS. These funds do not require annual appropriation action by Congress as they are subject to the authorities of permanent law and are available indefinitely. FY 2004 total budgetary resources were $950,140,423, which comprise $684,084,489 in obligations incurred and an available balance of $266,055,934. Comparatively, at the end of FY 2003 total budgetary resources were about $948,308,893, which comprised approximately $715,854,624 in obligations incurred and an available balance of about $232,454,269.

B. Legal Arrangements Affecting Use of Unobligated Balances

The Service's FY 2004 operating and grant programs were financed and its financial activity summarized under 9 general fund accounts, 17 special fund accounts, and 2 trust fund accounts, all with distinct Treasury Fund Symbols. All of the Service's funding needs are authorized in a number of appropriation laws, which prescribe a combination of current and permanent authority. Each of the Service's funds was appropriated under OMB apportionment Category B and was subject to annual apportionment. Current authority includes funding that is legislatively reauthorized each fiscal year, while permanent authority is issued once and remains in effect in future fiscal years until reauthorized or rescinded. The majority of the Service's 28 fund accounts are classified as no-year, which allows the Service to use its fiscal year-end unobligated resources remaining in these accounts to execute its operating and grant programs in subsequent fiscal years.

The Service's operating account is classified as a multiyear appropriation, whose budget authority is available for two years. The FY 2003/2004 Resource Management appropriation expired at the end of FY 2004. Expired, not cancelled funds, are resources that are available for the next 5 fiscal years to settle obligations arising in the year the funds were enacted, but are not available for new business. These expired resources are reported as "Permanently Not Available."

C. Differences Between Amounts Reported in the Statement of Budgetary Resources and Amounts Reported in the Budget of the U.S. Government

The Statement of Budgetary Resources (SBR) has been prepared to coincide with the amounts shown in the FY 2005 President's Budget (Budget of the U.S. Government). The President's Budget with the actual FY 2003 amounts was released on February 3, 2004 and can be found at the OMB Web site: http://www.whitehouse.gov/omb. The actual amounts for FY 2004 are expected to be released in February 2005.

The differences between the FY 2003 SBR and the President's Budget primarily relate to:

1. Unobligated Balances Start of Year and Spending Authority from Offsetting Collections reflect differences between the SBR and the President's Budget which are attributed to the fact that the SBR includes expired appropriations in Resource Management for $1.6 million and the President's Budget does not.
2. A small difference exists due to the cancellation of expired accounts in Resource Management for $75,000 out of $58 million. This amount is below the reporting threshold used for the President's Budget.
3. The President's Budget reflects a total of $50 million on line 40.38 which crosswalks to line 5, "Temporarily Not Available" on the SBR. The Service reflects the same resources on line 6, "Permanently Not Available" on the SBR. The resources (representing $40 million in Budget Account 14-5496, State Wildlife Grants and $10 million in Budget Account 14-5495, the Landowner Incentive Program), were rescinded during FY 2003. Accordingly after rescission, the Service identified those budgetary resources as "Permanently Not Available."

   That same year OMB designated the resources as available for future return to the National Parks Service (NPS) Land and Water Conservation Fund for subsequent allocation. Although the budgetary resources remain within the DOI as "Temporarily Not Available" to NPS, the Service reflects the impact of its 2003 rescission.

Reconciliation Steps: No adjustments were made to the Service's accounting system, the Federal Financial System (FFS), after the Federal Agencies' Centralized Trial-Balance System II (FACTS II) cutoff date.

Note 13 - Consolidated Statement of Financing – Allocation Transfers

Allocation transfers are the amounts of budget authority and other resources transferred to other Federal agencies to carry out the purposes of the parent account. Within DOI, 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). Non-Interior transferals are the Department of Transportation, the Department of Labor, the Department of Agriculture, and the General Services Administration.

OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," requires transferor (parent) accounts to report their allocation agency's transactions as part of their SBR, 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 titled "Components of Net Cost of Operations related to Transfer Accounts where Budget Accounts are reported by Other Federal Entities on the Statement of Financing."

The following table presents information on trading partners, or entity performing the transfer, the purpose of transfer, and the amount of reconciling differences on the Statement of Financing.

Consolidated Statement of Financing - Allocation Transfers
for the years ended September 30, 2004 and 2003
(dollars in thousands)

Trading Partner	Nature and Purpose of Transfer	2004 Reconciling Difference	2003 Reconciling Difference
Transfer of Appropriations where the Service is the recipient (i.e., child) and therefore reports the proprietary activity, but not the budgetary activity:			
Department of Transportation - Highway Trust Fund	Federal Aid for maintenance of Department Highways	$ 7,493	$ 11,701
Department of Labor - Job Corps	Employee Training services	11,927	11,576
Department of Agriculture	Forest Pesticide Programs	199	147
Department of the Interior - Bureau of Land Management	Wildland Fire Management Fund Central Hazardous Fund	77,478	74,384
General Services Administration	Real Property Relocation	0	10
Department of the Interior - Office of the Secretary	Natural Resources and Damage Assessment	13,804	12,582
Reconciling Difference of appropriations transferred to or from other Federal Agencies		$ 110,901	$ 110,400

Note 14 - Consolidating Statement of Net Cost

The Government Performance and Results Act (GPRA) requires that Federal agencies formulate strategic plans, identify major mission goals, and report performance and costs related to these goals. Under GPRA, strategic plans are to be revised and updated every three years. Accordingly, the Service updated its strategic plan in FY 2004 and replaced the four mission goals and reporting responsibility segments with the new GPRA mission goals established for DOI. The mission goals applicable for FY 2004 are: Resource Protection, Resource Use, Recreation, Serving Communities, and Management Excellence. These mission goals for the Service are supported by thirteen bureau-level end outcomes.

The GPRA also requires that the Service report costs for the goals identified in the strategic plan. Accordingly, the Service presented earned revenue and gross costs in FY 2004 by the mission goals in the current Strategic Plan. Earned revenue and gross costs for FY 2003 were presented by the goals in the FY 2001 Strategic Plan. As a result, the FY 2004 Consolidated Statement of Net Cost is not comparable to the FY 2003 Consolidated Statement of Net Cost.

The Service presented costs associated with acquiring, constructing, and renovating heritage assets which were $35,000 and $31,000 for the years ended September 30, 2004 and 2003, respectively. The costs associated with acquiring and improving stewardship lands were $85 million and $122 million for the years ended September 30, 2004 and 2003, respectively.

The supporting statements on the following pages present the Service’s cost of services provided, earned revenue, and net cost of operations by mission goal and end outcome for FY 2004, and by mission goal and reporting responsibility segment for FY 2003:

U.S. Department of the Interior
U.S. Fish and Wildlife Service
Consolidating Statement of Net Cost
for the year ended September 30, 2004
(dollars in thousands)

	Endangered Species	Fisheries and Habitat Conservation	Servicewide Support	International Affairs	Law Enforcement	Migratory Birds and State Programs	National Wildlife Refuge System	Wildlife and Sport Fish Restoration	Eliminations	Total
Resource Protection										
Cost -Services provided to the Public	$ 221,654	$ 223,556	$ 255,961	$ 14,634	$ 60,289	$ 68,809	$ 274,134	$ 356,248	$ 0	$ 1,475,285
Revenue Earned from the Public	341	18,247	15,905	550	7,352	269	3,052	0	0	45,716
Net Cost of Services to the Public	221,313	205,309	240,056	14,084	52,937	68,540	271,082	356,248	0	1,429,569
Cost - Services provided to Federal Agencies	8,089	54,511	10,134	0	127	237	10,367	0	(823)	82,642
Revenue Earned from Federal Agencies	7,953	53,238	9,605	0	123	235	10,072	0	(823)	80,403
Net Cost of Services provided to Federal Agencies	136	1,273	529	0	4	2	295	0	0	2,239
Net Cost of Operations	221,449	206,582	240,585	14,084	52,941	68,542	271,377	356,248	0	$ 1,431,808
Resource Use										
Cost -Services provided to the Public	22,182	4,260	0	0	0	0	4,004	0	0	30,446
Revenue Earned from the Public	0	0	0	0	0	0	414	0	0	414
Net Cost of Services to the Public	22,182	4,260	0	0	0	0	3,590	0	0	30,032
Cost - Services provided to Federal Agencies	66	0	0	0	0	0	43	0	0	109
Revenue Earned from Federal Agencies	64	0	0	0	0	0	43	0	0	107
Net Cost of Services provided to Federal Agencies	2	0	0	0	0	0	0	0	0	2
Net Cost of Operations	22,184	4,260	0	0	0	0	3,590	0	0	30,034
Recreation										
Cost -Services provided to the Public	0	12,762	77,087	0	0	13,999	135,916	223,020	0	462,784
Revenue Earned from the Public	0	1,347	4,486	0	0	177	2,011	0	0	8,021
Net Cost of Services to the Public	0	11,415	72,601	0	0	13,822	133,905	223,020	0	454,763
Cost - Services provided to Federal Agencies	0	6,707	2,851	0	0	146	4,965	0	(237)	14,432
Revenue Earned from Federal Agencies	0	6,531	2,710	0	0	144	4,824	0	(237)	13,972
Net Cost of Services provided to Federal Agencies	0	176	141	0	0	2	141	0	0	460
Net Cost of Operations	0	11,591	72,742	0	0	13,824	134,046	223,020	0	455,223
Serving Communities										
Cost -Services provided to the Public	0	7,404	10,104	0	0	9	115,457	0	0	132,974
Revenue Earned from the Public	0	359	0	0	0	0	314	0	0	673
Net Cost of Services to the Public	0	7,045	10,104	0	0	9	115,143	0	0	132,301
Cost - Services provided to Federal Agencies	0	1,769	0	0	0	0	1,394	0	(3)	3,160
Revenue Earned from Federal Agencies	0	1,723	0	0	0	0	1,350	0	(3)	3,070
Net Cost of Services provided to Federal Agencies	0	46	0	0	0	0	44	0	0	90
Net Cost of Operations	0	7,091	10,104	0	0	9	115,187	0	0	132,391
Totals										
Cost -Services provided to the Public	$ 243,836	$ 247,982	$ 343,152	$ 14,634	$ 60,289	$ 82,817	$ 529,511	$ 579,268	$ 0	$ 2,101,489
Revenue Earned from the Public	341	19,953	20,391	550	7,352	446	5,791	0	0	54,824
Net Cost of Services to the Public	243,495	228,029	322,761	14,084	52,937	82,371	523,720	579,268	0	2,046,665
Cost - Services provided to Federal Agencies	8,155	62,987	12,985	0	127	383	16,769	0	(1,063)	100,343
Revenue Earned from Federal Agencies	8,017	61,492	12,315	0	123	379	16,289	0	(1,063)	97,552
Net Cost of Services provided to Federal Agencies	138	1,495	670	0	4	4	480	0	0	2,791
Net Cost of Operations	$ 243,633	$ 229,524	$ 323,431	$ 14,084	$ 52,941	$ 82,375	$ 524,200	$ 579,268	$ 0	$ 2,049,456

U.S. Department of the Interior
U.S. Fish and Wildlife Service
Consolidating Statement of Net Cost
for the year ended September 30, 2003
(dollars in thousands)

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

C. Required Supplementary Information

Required Supplementary Information (RSI) covers:

- Combining Statement of Budgetary Resources
- Facilities Management

Hidden Lake

Combining Statement of Budgetary Resources

U.S. Department of the Interior
U.S. Fish and Wildlife Service
Combining Statement of Budgetary Resources
for the year ended September 30, 2004
(dollars in thousands)

	Resource Management	Sport Fish Restoration Grants	Federal Aid in Wildlife Restoration Grants	Other Grants	Total Grants	Miscellaneous	Total Budgetary Accounts
Budgetary Resources:							
Budget Authority:							
Appropriations Received	$ 963,352	$ 463,375	$ 222,890	$ 273,255	$ 959,520	$ 180,348	$ 2,103,220
Net Transfers, Current Year Authority (+/-)	5,200	(117,960)	0	0	(117,960)	18,320	(94,440)
Unobligated Balance:							
Beginning of Fiscal Year	30,365	149,178	61,510	180,633	391,321	149,167	570,853
Net Transfers, Unobligated Balance, Actual (+/-)	15,296	0	0	0	0	0	15,296
Spending Authority from Offsetting Collections:							
Earned							
Collected	137,397	0	0	1	1	1,665	139,063
Receivable from Federal Sources	(3,044)	0	0	0	0	(587)	(3,631)
Change in Unfilled Customer Orders							
Advance Received	(344)	0	0	0	0	0	(344)
Without Advance from Federal Sources	71,794	0	0	0	0	(911)	70,883
Subtotal: Spending Authority from Offsetting Collections	205,803	0	0	1	1	167	205,971
Recoveries of Prior Year Obligations	16,212	36,475	15,270	7,335	59,080	4,010	79,302
Permanently Not Available	(11,932)	0	0	(2,929)	(2,929)	(1,462)	(16,323)
Total Budgetary Resources	$ 1,224,296	$ 531,068	$ 299,670	$ 458,295	$ 1,289,033	$ 350,550	$ 2,863,879
Status of Budgetary Resources:							
Obligations Incurred:							
Direct	$ 957,186	$ 344,173	$ 242,320	$ 245,023	$ 831,516	$ 207,503	$ 1,996,205
Reimbursable	203,682	0	0	0	0	140	203,822
Total Obligations Incurred	1,160,868	344,173	242,320	245,023	831,516	207,643	2,200,027
Unobligated Balance:					0		
Apportioned	59,831	186,894	57,349	213,272	457,515	142,909	660,255
Unobligated Balance Not Available	3,597	0	0	0	0	0	3,597
Total Status of Budgetary Resources	$ 1,224,296	$ 531,067	$ 299,669	$ 458,295	$ 1,289,031	$ 350,552	$ 2,863,879
Relationship of Obligations to Outlays:							
Obligations Incurred	$ 1,160,868	$ 344,173	$ 242,320	$ 245,023	$ 831,516	$ 207,643	$ 2,200,027
Obligated Balance, Net, Beginning of Fiscal Year	269,263	337,866	193,561	318,757	850,184	92,280	1,211,727
Obligated Balance, Net, End of Fiscal Year:							
Accounts Receivable	27,252	0	0	0	0	241	27,493
Unfilled Customer Orders from Federal Sources	113,164	0	0	0	0	3,134	116,298
Undelivered Orders	(340,205)	(304,255)	(170,615)	(354,871)	(829,741)	(86,878)	(1,256,824)
Accounts Payable	(59,141)	(23,201)	(14,777)	(7,730)	(45,708)	(1,726)	(106,575)
Less: Spending Authority Adjustments	(84,962)	(36,475)	(15,270)	(7,335)	(59,080)	(2,512)	(146,554)
Outlays:							
Disbursements	1,086,239	318,108	235,219	193,844	747,171	212,182	2,045,592
Collections	(137,053)	0	0	(1)	(1)	(1,665)	(138,719)
Subtotal: Outlays	949,186	318,108	235,219	193,843	747,170	210,517	1,906,873
Less: Offsetting Receipts	0	0	(8,553)	(35,094)	(43,647)	(17,523)	(61,170)
Net Outlays	$ 949,186	$ 318,108	$ 226,666	$ 158,749	$ 703,523	$ 192,994	$ 1,845,703

U.S. Department of the Interior
U.S. Fish and Wildlife Service
Combining Statement of Budgetary Resources
for the year ended September 30, 2003
(dollars in thousands)

	Resource Management	Sport Fish Restoration Grants	Federal Aid in Wildlife Restoration Grants	Other Grants	Total Grants	Miscellaneous	Total Budgetary Accounts
Budgetary Resources:							
Budget Authority:							
Appropriations Received	$ 922,429	$ 451,890	$ 235,466	$ 277,725	$ 965,081	$ 202,099	$ 2,089,609
Net Transfers, Current Year Authority (+/-)	18,113	(121,938)	0	0	(121,938)	4,550	(99,275)
Unobligated Balance:							
Beginning of Fiscal Year	52,121	138,295	81,060	294,984	514,339	164,401	730,861
Net Transfers, Unobligated Balance, Actual (+/-)	646	0	0	0	0	(5,346)	(4,700)
Spending Authority from Offsetting Collections:							
Earned							
Collected	132,342	0	0	0	0	6,473	138,815
Receivable from Federal Sources	1,989	0	0	0	0	724	2,713
Change in Unfilled Customer Orders							
Advance Received	(8,385)	0	0	0	0	(23,734)	(32,119)
Without Advance from Federal Sources	(8,279)	0	0	0	0	2,742	(5,537)
Anticipated for Rest of Year, without Advances	0	0	0	0	0	0	0
Transfers from Trust Funds	0	0	0	0	0	0	0
Subtotal: Spending Authority from Offsetting Collections	117,668	0	0	0	0	(13,795)	103,872
Recoveries of Prior Year Obligations	19,433	32,831	16,599	3,175	52,605	3,365	75,403
Temporarily Not Available Pursuant to Public Law	0	0	0	0	0	0	0
Permanently Not Available	(6,038)	0	0	(51,496)	(51,496)	(924)	(58,458)
Total Budgetary Resources	$ 1,124,371	$ 501,078	$ 333,125	$ 524,388	$ 1,358,591	$ 354,350	$ 2,837,312
Status of Budgetary Resources:							
Obligations Incurred:							
Direct	$ 969,541	$ 351,900	$ 271,615	$ 343,754	$ 967,269	$ 203,513	$ 2,140,323
Reimbursable	124,465	0	0	0	0	1,671	126,136
Total Obligations Incurred	1,094,006	351,900	271,615	343,754	967,269	205,184	2,266,459
Unobligated Balance:							
Apportioned	28,798	149,178	61,510	180,634	391,322	149,166	569,286
Unobligated Balance Not Available	1,567	0	0	0	0	0	1,567
Total Status of Budgetary Resources	$ 1,124,371	$ 501,078	$ 333,125	$ 524,388	$ 1,358,591	$ 354,350	$ 2,837,312
Relationship of Obligations to Outlays:							
Obligations Incurred	$ 1,094,006	$ 351,900	$ 271,615	$ 343,754	$ 967,269	$ 205,184	$ 2,266,459
Obligated Balance, Net, Beginning of Fiscal Year	263,121	339,683	195,051	123,845	658,579	144,616	1,066,316
Obligated Balance, Net, End of Fiscal Year:							
Accounts Receivable	30,297	0	0	0	0	827	31,124
Unfilled Customer Orders from Federal Sources	41,370	0	0	0	0	4,044	45,414
Undelivered Orders	(294,811)	(315,422)	(176,361)	(313,314)	(805,097)	(94,872)	(1,194,780)
Accounts Payable	(46,119)	(22,444)	(17,200)	(5,442)	(45,086)	(2,280)	(93,485)
Less: Spending Authority Adjustments	(13,143)	(32,831)	(16,599)	(3,175)	(52,605)	(6,831)	(72,579)
Outlays:							
Disbursements	1,074,721	320,886	256,506	145,668	723,060	250,688	2,048,469
Collections	(123,958)	0	0	0	0	17,261	(106,697)
Subtotal: Outlays	950,763	320,886	256,506	145,668	723,060	267,949	1,941,772
Less: Offsetting Receipts	0	0	(11,676)	(34,835)	(46,511)	(16,232)	(62,743)
Net Outlays	$ 950,763	$ 320,886	$ 244,830	$ 110,833	$ 676,549	$ 251,717	$ 1,879,029

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 budget constraints. Deferring maintenance of facilities leads to accelerated deterioration that can adversely impact public and employee health and safety, disrupt operations of the Service, and compromise the conservation of fish and wildlife resources.

USFWS

View of Water through Sea Arch

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% 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's method of calculating deferred maintenance is consistent with calculations made by the other Bureaus within the DOI. Condition Assessments of the Service's public road systems have resulted in upward revisions of the deferred maintenance estimates and may contribute to additional estimate increases in future years.

Deferred maintenance for Service facilities is estimated at approximately $1.51 billion, plus or minus 15%, placing the range between approximately $1.28 billion and $1.74 billion for all facilities under the jurisdiction of the Service. Included in these figures is approximately $400,000 of deferred maintenance for museum related property.

The table below shows deferred maintenance projections by assets category.

Estimated Range of Deferred Maintenance
as of September 30, 2004
(dollars in thousands)

Type of Deferred Maintenance	General PP&E		Stewardship PP&E		Total	
	Low	High	Low	High	Low	High
Roads Bridges and Trails	$ 499,274	$ 675,488	$ 121,457	$ 164,324	$ 620,731	$ 839,812
Irrigation, Dams, and Other Water Structures	248,068	335,622	39,431	53,347	287,499	388,969
Buildings (e.g. Administration, Education, Housing, Historic Buildings)	224,624	303,902	18,933	25,615	243,557	329,517
Other Structures (e.g. Recreation sites, Hatcheries, etc.)	130,595	176,687	2,110	2,854	132,705	179,541
Total	$ 1,102,561	$ 1,491,699	$ 181,931	$ 246,140	$ 1,284,492	$ 1,737,839

Glen Smart/USFWS

Hawaiian Geese

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 portion of an institution's capital amount that it would have to spend to eliminate the deferred maintenance. If the ratio of accumulated deferred maintenance to replacement value is from 0 to .05, the condition of the facilities is considered "good." If the ratio is greater than .05 but less than .10, the condition is considered "fair" and if the ratio is .10 or greater, then condition is considered "poor." The combined FCI for all Service facilities is estimated at approximately .11, meaning that the overall condition of Service facilities is "poor." (A discussion of the FCI for Service recreation facilities is included in the Management's Discussion and Analysis section of this report.)

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

FWS Fish Stocking Truck at Jones Hole NFH, Utah

D. Required Supplementary Stewardship Information

Required Supplementary Stewardship Information (RSSI) covers:

- Stewardship Lands
- Stewardship Investments
- Heritage Assets


USFWS

Brant

Stewardship Lands

William Radke/USFWS

Columbine and Parnassian Butterfly

Lands within the NWRS include 544 refuge units, 203 Waterfowl Production Areas Counties, and 50 Coordination Areas. Lands and facilities within the NFHS comprise 69 National Fish Hatcheries, 7 Fish Technology Centers, 9 Fish Health Centers, and 1 Historical National Fish Hatchery, located in 34 States.

The chart below displays the acreage owned by the Service (Federal Acres) and acreage where the Service has an interest in land (non-Federal acres). Lands are acquired through a variety of methods, including withdrawal from the public domain, fee title purchase, transfer of jurisdiction, donation, or gift. Lands are purchased through two primary sources of funding, the Migratory Bird Conservation Fund and the Land and Water Conservation Fund. As the result of further research the Service has determined that approximately 2 million acres reported as non-Federal acres in the FY 2003 Annual Financial report are owned by other Federal agencies, and accordingly were not included in the current report.

Service Stewardship Lands
as of September 30, 2004
(acres in thousands)

	Federal Acres							
Category	Acres 10/01/03	Additions	Withdrawals	Acres 09/30/04	Total Non-Federal Acres	Combined Total Acres	Condition*	Number of Sites
National Wildlife Refuges	89,313	38	0	89,351	1,384	90,735	Acceptable	544
Refuge Coordination Areas	197	0	0	197	64	261	Acceptable	50
Waterfowl Productions Areas	741	5	0	746	2,325	3,071	Acceptable	203
Fish Hatcheries	13	0	0	13	4	17	Acceptable	86

* Land is categorized as acceptable when it is adequate for operating needs and the Service has not identified any improvements that are necessary to prepare and/or sustain the land for its intended use.

David Menke/USFWS

Wood Duck Pair

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 130 years. Although the Service does not own all the lands and facilities in the NFHS, the Service participates in managing all units within the system. 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.

USFWS

Northern Lights

Condition of Stewardship Lands

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

Scott Ayers/USFWS

Subsistence Gillnetting at Togiak Bay

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 or the NFHS, is sufficient to support the mission of the Service and the statutory purposes for which these conservation systems were authorized.

USFWS

Lamington National Park

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 2003 to 2004

The Service had an estimated net change of approximately 42,600 acres of stewardship lands in FY 2004. These lands provide permanent protection for valuable wetland, riparian, coastal and upland habitat for fish, wildlife and plant species, including threatened and endangered species. The Service increased the number of units in the NWRS in FY 2003 from 542 to 544 in FY 2004. The Theodore Roosevelt National Wildlife Refuge and the Holt Collier National Wildlife Refuge were both established in Mississippi. Both refuges were created from lands currently administered as part of the NWRS.

Stewardship Investments

Revenue from Stewardship Assets

The Recreation Fee Demonstration Program is a highly successful endeavor for participating sites of the NWRS, which collected approximately $4 million in FY 2004. $4 million was collected in FY 2003. At least 80% of revenue is 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.


Beth Jackson/USFWS

Aquatic Invertebrates, Chincoteague NWR, Virginia

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 revenue 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 2004 were approximately $18 million compared with $17 million in FY 2003.

Investments in Human Capital

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

Investment in Human Capital
(dollars in millions)

	2000*	2001*	2002	2003	2004	Total
Total Job Corps Program	$ 11.8	$ 10.9	$ 12.3	$ 12.3	$ 11.9	$ 59.2

*Some amounts are based on obligations rather than actual expenses. Beginning in FY 2002, other educational programs includes educational facilities cost.


Ryan Hagerty/USFWS

Puerto Rican Parrot Research, Puerto Rico

Job Corps Centers are rated on the attainment of goals for graduations and student placement in jobs once students leave the program. For Program Year 2004, the Service's centers statistics are as follows for the number of students served, graduates and placements:

Job Corps Center Statistics
for the period July 1, 2003 through June 30, 2004

Center	Students Served	Graduates	Placements
Mingo	405	235	218
Treasure Lake	306	179	168

Tod Harless/USFWS

Environmental Education - Water Quality

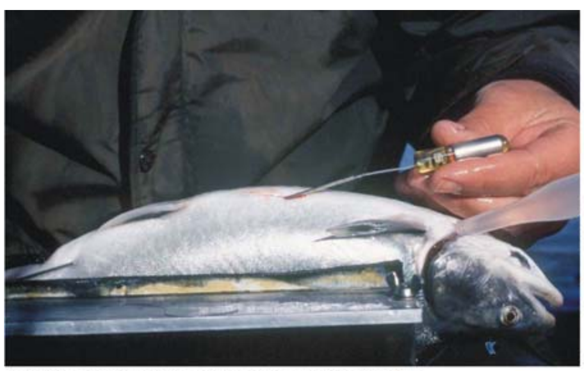
Investment in Non-Federal Physical Property

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 2004, the Service estimates that it provided $122 million in grants to state and local governments that resulted in the purchase, construction or major renovation of physical property they own. The amounts provided for non-federal physical property are provided below.

Investment in Non-Federal Physical Property
(dollars in millions)

Property Type	2000	2001*	2002**	2003	2004	Total
Dams and Other Water Structures	$ 0	$ 0	$ 0	$ 62.0	$ 37.6	$ 99.6
Land	0	0	0	52.0	84.6	136.6
Not Classified	0	178.0 - 192.0	169.0	0	0	347.0 - 361.0
Total	Not Available	$ 178.0 - 192.0	$ 169.0	$ 114.0	$ 122.2	$ 583.2 - 597.2

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



George Harrison/USFWS

Inserting Radio Transmitter into a Dolley Varden

Heritage Assets

Some of the Service stewardship lands fall into the category of heritage assets. Heritage assets are those lands, buildings and structures, and associated resources recognized for their ecological, cultural, historical and scientific importance. Heritage assets also include cultural resources, such as archaeological resources and historic properties, and museum collections derived from lands and facilities managed by the Service.

Brook Trout, NCTC Museum

Heritage assets include those lands managed by the Service that carry overlay or special designations authorized by Congress, the President, the Secretary of the Interior or by conventions of national or international statute. Thus, heritage assets also include Wilderness Areas, Wild and Scenic Rivers, National Natural Landmarks, and Wetlands of International Importance. Such lands managed by the Service protect valuable natural and cultural resources in every state and a number of U.S. territories and possessions. The protection of these lands benefits not only the Nation's fish and wildlife populations, but helps preserve important elements of our past and cultural diversity. The condition of all lands managed by the Service, including those lands represented by special designations of national or international importance, are discussed in previous paragraphs as well as in this section. Special designations are managed or maintained in a manner that preserves the values that originally qualified these assets for their special designations. The status and condition of cultural resources, museum collections, and facilities defined as heritage assets are discussed below.

Blue-Winged Teal Brood

Condition of Heritage Assets Facilities

The Service defines those sites and facilities under its administration that have nationally recognized historical or cultural designations as heritage assets. Please refer to the RSI section of this report for details on the deferred maintenance needs of all facilities managed by the Service. From this information, the Service concludes that the infrastructure that supports the mission work of the Service is suffering from accelerated deterioration. Overall, the numerous facilities managed by the Service, which include heritage assets, are in need of some form of repair.

USFWS

Slough South of Innoko River and North Hather Creek

Cultural Resources

Lands managed by the Service are particularly important for protecting significant sites associated with the Nation's prehistory and history. By closely examining their geographic distribution, an obvious pattern unfolds. The Service lands are located along major river corridors, coastal areas, or in association with wetlands and North America's migratory bird flyways. These same areas have been used by humans for thousands of years for transportation, settlement, and subsistence. Archaeological and historic sites located on these lands contribute important information on changes to habitat and wildlife over time and offer fish and wildlife conservation partnership opportunities with local communities and tribes.

John and Karen Hollingsworth/USFWS

Karner Blue Butterfly

As of FY 2004, the Service documented over 12,000 archaeological resources 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 10,000 year old archaeological site on a refuge in Tennessee, 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.

Of the total number of known cultural resources, 83 sites or districts have been listed in the National Register of Historic Places, while an additional 409 are considered eligible for listing. The Service also manages nine National Historic Landmarks designated by the Secretary of the Interior to protect and recognize sites of exceptional importance. Approximately 675 buildings and structures are considered potentially eligible for listing in the National Register.

Gene Nieminen/USFWS

Mute Swan

Inventories and records of archaeological and historic sites are maintained by each Service Regional Office for field stations under its jurisdiction. The Servicewide 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. No comprehensive assessment is available. The Service estimates that a minimum of 10 years is required to assess the condition of identified cultural resources under its jurisdiction.

Gary Halvorsen/USFWS

Attwater's Prairie Chicken

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The physical condition of cultural resources managed by the Service varies tremendously, depending on location, maintenance, use, and type of resource. No comprehensive assessment is available. The Service estimates that a minimum of 10 years is required to assess the condition of identified cultural resources under its jurisdiction.

Non-Collectible Cultural and Natural Heritage Assets
as of September 30, 2004

					Condition of Units (%)			
Category	Balance 10/01/03	Additions (units)	Withdrawals (units)	Balance 09/30/04	Good	Fair	Poor	Unknown
Archeological and Historic Sites	12,022			12,022		5%		95%
National Historic Landmarks	9			9				100%
National Register of Historic Places	85			85		20%		80%
Wilderness Preservation Areas	84			84	50%	50%		
Wild and Scenic Rivers	8			8		100%		
National Natural Landmarks	43			43	50%	50%		
Wildlife Refuges	542	2		544		100%		
Total	12,793	2		12,795				

Museum Collections

Based on the most current assessment, the Service museum collections consist of millions of objects, documents, and specimens maintained in 136 offices or on loan to 325 non-federal repositories for study and long-term care. Collections consist of archaeological materials excavated from the Service managed cultural resources; paleontological collections; objects and documents associated with the agency's history; wildlife art; and, wildlife, fisheries, and botanical specimens. The 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 programs and employees.

S. Maslowski/USFWS

Ovenbird

In FY 2004, the Service continued with its cooperative work with the Museum of the Rockies-Berkeley to survey and excavate dinosaur fossils from the Hell Creek Formation on the Charles M. Russell National Wildlife Refuge, Montana. The session was part of a five-year program to survey the refuge's world-renowned fossil beds to identify the remains of mammals, invertebrates, dinosaurs and plants. Collections from the excavations will be stored at the Museum of the Rockies in Bozeman for study and possible future display.

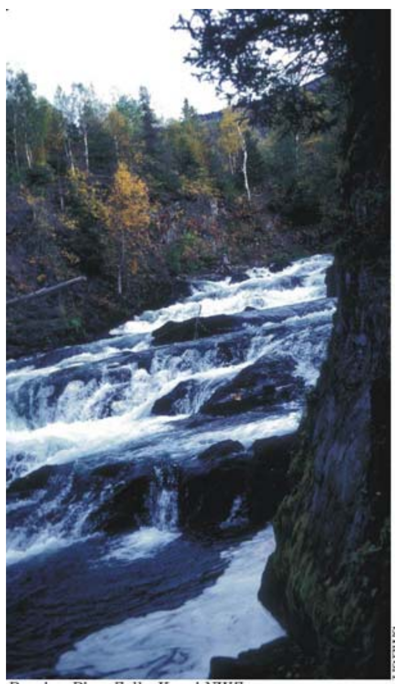
The Service maintains a collection of artwork at the Academy of Natural Sciences of Philadelphia under a long-term loan agreement. The collection consists of 487 pieces of artwork created by notable painters such as Louis Agassiz Fuertes, Ernest Thompson Seton, and Jay Norwood (Ding) Darling. The artists were commissioned by the Bureau of Biological Survey, a predecessor to the Service, during the late 19th and early 20th centuries to depict various wildlife species and landscapes for use in government publications. Under the agreement, the Academy maintains the collection in a climate controlled and secure storage area to prevent deterioration and loss.

Ghost Crab

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. The overall condition of Service museum collections is adequate to good. Over 82% of the Service 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 the code of Federal Regulators, 36 CFR 79. Institutions must maintain the appropriate environmental, record-keeping, and security controls in order to qualify for maintaining federal collections.

Information standards for tracking the location, provenance or origin, and condition of museum collections are addressed by the 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.

In FY 2004, the Service received a final report for the first phase of a national survey of collections through a cooperative agreement with the Army Corps of Engineers St. Louis District Office. The agreement calls for the Corps to compile collections information maintained by the Service offices and evaluate management deficiencies. A new phase of work has been contracted and will take a regional focus to. The new project is currently underway and will be completed sometime next FY.



Russian River Falls, Kenai NWF

Service Museum Property
as of September 30, 2004

Arctic Hare

Number of Service Units Holding Museum Property: 136
Number of Non-Service Institutions Holding Museum Property: 325
Year Data Last Updated: 2004

Discipline	Number of Objects in Service Facilities	Number of Objects in Other Institutions	Total Number of Service Objects
Archeology	177,680	2,284,778	2,462,458
Art	594	37	631
Ethnography	62	11,001	11,063
History	212,681	508	213,189
Documents	374,268	1,312,009	1,686,277
Botany	13,085	3,100	16,185
Zoology	183,469	1,331	184,800
Paleontology	464	13,212	13,676
Geology	0	0	0
Environmental Samples	13	202	215
Total Number of Objects	962,316	3,626,178	4,588,494

Status of Cataloging and Condition of Cataloged Service Museum Collections
as of September 30, 2004

Estimated Total Collection Size 10/01/03	Additions	Withdrawals	Estimated Total Collection Size 09/30/04	Total Number of Service Items Cataloged*	Number of Cataloged Items with Item-Level Condition Data	Number of Cataloged Items in Good, Fair, and Poor Condition: Good	Fair	Poor
3,993,647	594,847	0	4,588,494	1,743,487	210,031	**	**	**

* These material, while reported as "stable", do not have item level condition data available.
** Service repositories holding these items have completed condition assessments but reporting on those findings is not yet available.

Condition of Locations Housing Service Collections
as of September 30, 2004

			Condition of Collections Based on the % of Department Standards Met by the Locations Evaluated*			Estimated Deferred Maintenance of Museum Collections		
	Number of Locations with Implemented Evaluation Standards	Number of Locations Evaluated	Good (Meet >70%)	Fair (Meet 50-70%)	Poor (Meet <50%)	Facilities Housing	Collections	Other Collections Maintenance
Service Facilities	51	11	1	5	5	*		$ 50,000
Non-Service Facilities	274	35	16	19	0	0		350,000
Total	325	46	17	24	5			$ 400,000

* Condition of museum property is judged by the degree to which facilities housing Service property meet accepted museum standards adopted by the Department. Due to the nature of the Service's museum property, i.e., pottery shards, arrowheads, condition assessment of individual items is not meaningful.

Polar Bears


M.H. Dick/USFWS
Nauvak Bay at Sunset

Wilderness

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 units encompassing over 20 million acres in 26 States. This total represents approximately 20% of the National Wilderness Preservation System. These lands and resources are kept in their natural state and protected from man made disturbances and, as such, the condition of these lands is maintained so as to preserve the natural qualities for which they were originally designated. Although mostly located in Alaska, the Service manages a number of wilderness areas in the lower 48 States including those at Agassiz NWR in Minnesota and Lostwood NWR in North Dakota.

Information on wilderness areas is reported each year in the Service Annual Report of Lands Under Control of the Service. Wilderness areas contribute significantly to the Service's mission and to the purposes for which the Refuge System was authorized by sustaining healthy ecosystems and wildlife habitat.


George Gentry/USFWS
Okefenokee NWR, Georgia

Wild and Scenic Rivers

With the passage of the Wild and Scenic Rivers Act in 1968, Congress established the National Wild and Scenic Rivers System to preserve and protect free-flowing rivers that possess outstandingly remarkable scenic, recreational, geologic, fish and wildlife, historic, cultural, or other similar values. An eligible river may be added to the National System by an act of Congress or by the Secretary of Interior upon application of the governor of a state. Designated rivers, or sections of rivers, are classified and administered as wild, scenic, or recreational depending upon the extent of development and accessibility along each section. Uses compatible with the management goals of a particular river are allowed. Development that does not damage the outstanding resources of a designated river, or curtail its free flow, is usually allowed.

The Wild and Scenic Rivers Act has been amended many times to designate additional rivers and authorize eligibility studies. Today, the National System includes 11,294 river miles in 160 river units. Designated rivers are administered by 1 of 4 federal agencies (FWS, National Park Service, Bureau of Land Management, and Forest Service) or the states. The Service manages 1,051 of these river miles on 8 rivers. All but one of these rivers is in Alaska.


John & Karen Hollingsworth USFWS
Fall Scene at John Heinz NWR

National Natural Landmarks

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. Sites must be one of the best-known examples of a unique feature and must be located in the U.S. or on the Continental Shelf. There are 587 designated natural landmarks throughout the U.S., with 43 on units of NWRS. Refuge landmarks vary from the meandering resacas of Laguna Atacosa in Texas, part of the Bayside Resaca Landmark, to the urban Tinicum Wildlife Preserve at John Heinz NWR in Pennsylvania.

Other Service-managed landmarks recognize important ecological or geological features deserving protection and further study. National Natural Landmarks are designated by the Secretary of the Interior because they possess characteristics of a particular type of natural feature, have not been seriously disturbed by humans, contain diverse or rare natural features, or possess outstanding scientific values and educational opportunities. Their condition is maintained and managed to preserve the natural qualities for which they were originally designated.

Wetlands of International Importance


USFWS

Restored Wetland

Adopted in 1971, in Ramsar, Iran, the Convention on Wetlands of International Importance provides a framework for the conservation of wetlands worldwide. Marsh, fen, peatland, or water, whether static or flowing; fresh, brackish or salt and riparian or coastal zones adjacent to wetlands are included in and protected by the Ramsar Convention, embraced by more than 122 nations throughout the world. Ramsar recognizes the special value of 1,031 Wetlands of International Importance located throughout 122 countries in the World. There are 20 refuges that encompass 17 U.S. Ramsar sites.

Western Hemisphere Shorebird Reserve Network

The Western Hemisphere Shorebird Reserve Network (WHSRN) was created in 1986 to foster international shorebird conservation partnerships among countries throughout the Americas. Sites are accepted into the WHSRN if they satisfy biological criteria and all owners and stakeholders agree to make a commitment to shorebird conservation. The Service broadly supports the WHSRN. The Refuge System boasts an enormous array of shorebird habitats. At present, 24 sites are managed within the Refuge System, nine of which hold international status. Sites range throughout the U.S. from Virginia's shores (Eastern Shore NWR) to the California coast (San Francisco Bay NWR).


Blake, Tupper Ansel/USFWS

Wood River, Oregon

IV. Independent Auditors' Report

The Independent Auditors' Report covers:

- Memorandum: Independent Auditors' Report on the Fish and Wildlife Service's Financial Statements for Fiscal Years 2004 and 2003 (Report No. C-IN-FWS-0064-2004)
- Attachment 1: KPMG LLP Independent Auditors' Report
- Attachment 2: Memorandum – Draft Independent Auditors' Report on the U.S. Fish and Wildlife Service's Financial Statements for Fiscal Years 2004 and 2003

USFWS

Horned Puffins on Puffin Island, Alaska

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

February 8, 2005

Memorandum

To: Director, Fish and Wildlife Service

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

Subject: Independent Auditors' Report on the Fish and Wildlife Service's Financial Statements for Fiscal Years 2004 and 2003 (Report No. C-IN-FWS-0064-2004)

We contracted with KPMG LLP (KPMG), an independent certified public accounting firm, to audit the Fish and Wildlife Service's (FWS) financial statements for fiscal years 2004 and 2003. The contract required that KPMG conduct its audit in accordance with U.S. generally accepted government auditing standards; Office of Management and Budget Bulletin 01-02, as amended, *Audit Requirements for Federal Financial Statements*; and the Government Accountability Office/President's Council on Integrity and Efficiency's *Financial Audit Manual*.

In its audit of FWS (Attachment 1), KPMG found that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. As discussed in KPMG's report and Note 14 to the financial statements, FWS's fiscal year 2004 consolidated statement of net cost is not comparable to its fiscal year 2003 consolidated statement of net cost. This occurred because in fiscal year 2004 FWS revised the presentation of costs and revenues to match the *Government Performance and Results Act* strategic plan applicable to fiscal year 2004, which is different from the plan applicable to fiscal year 2003.

In its report, KPMG also stated, based upon the limited procedures performed, that the required supplementary information on deferred maintenance and required supplementary stewardship information on the condition of stewardship land and heritage assets was not reported in conformity with accounting principles generally accepted in the United States of America.

In addition, KPMG identified three reportable conditions related to internal controls and financial operations, none of which KPMG considers to be a material weakness. These conditions are in the following subject areas:

- Controls, processes, and financial reporting related to construction work in progress;
- Controls and processes over financial statement variance analysis; and
- Application and general controls over financial management systems.

KPMG also noted the following significant deficiencies in internal controls over FWS's Required Supplementary Information and Required Supplementary Stewardship Information that could affect FWS's ability to collect, process, record, and summarize information. These deficiencies are in the following subject areas:

- Processes and controls over the condition assessment of stewardship land and heritage assets,
- Internal control over required supplementary information (including performance measures and deferred maintenance), and
- Reporting of deferred maintenance amounts for stewardship land and heritage assets.

KPMG also found that FWS's financial management systems did not comply with the *Federal Financial Management Improvement Act* (FFMIA) because of substantial noncompliance with federal financial management systems requirements and federal accounting standards relating to condition assessments and deferred maintenance for stewardship land and heritage assets. Excluding FFMIA, there were no reportable findings of noncompliance with laws and regulations tested during the audit.

KPMG is responsible for the attached draft audit report and for the conclusions expressed therein. We do not express an opinion on FWS's financial statements; conclusions on the effectiveness of internal controls or whether FWS's financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations.

In the November 29, 2004 response (Attachment 2), FWS generally concurred with the findings and recommendations in the report and indicated corrective actions would be taken, with the exception of the following recommendations:

- C- Management did not agree with the portion of KPMG's finding related to former users and FPPS and responded that users identified in the finding were incorrectly evaluated and they believe an effective process is in place to remove former users. Management also did not agree with KPMG's finding that there are no formal procedures for granting users access to the Federal Aid Information Management System (FAIMS) and responded that these procedures do exist.

- D- Management did not agree with KPMG's recommendation to develop a policy to address stewardship land and heritage asset condition assessments to comply with currently applicable accounting standards until the Federal Accounting Standards Advisory Board (FASAB) provides new guidance. Management indicated that meaningful and consistent condition assessments of stewardship land and heritage assets referenced in SFFAS No. 8 are difficult to achieve and may not be required. However, Management did agree to seek guidance from FASAB.

- F- Management did not agree with KPMG's recommendation to develop a process consistent with accounting standards generally accepted in the United States of America for estimating deferred maintenance costs on stewardship land and heritage assets. Management indicated that deferred maintenance costs would be difficult, it not impossible, to ascertain and so subjective as to be useless.

- G.2- Management did not agree with KPMG's recommendations to develop procedures to conduct condition assessments on all stewardship land and heritage assets and identify and report related amounts of deferred maintenance.

In its comments on these matters, KPMG reiterated for recommendation C, its belief the findings are accurate on FPPS and former users, and stated that the FAIMS user account management procedures were not provided during the audit. KPMG also reiterated for recommendations D, F, and G.2, that FWS is required to either obtain new guidance or develop procedures to comply with applicable accounting standards.

Based on FWS's response, we consider all of the recommendations, except for C, D, F, and G.2 resolved but not implemented. These recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. Recommendations C, D, F, and G.2 will be referred for resolution.

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

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

Attachments (2)

ATTACHMENT 1

KPMG

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the United States Fish and Wildlife Service (the Service) as of September 30, 2004 and 2003, and the related consolidated statements of net costs, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing for the years then ended (herein after referred to as the financial statements). The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered the Service's internal control over financial reporting and tested the Service's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that the Service's financial statements as of and for the years ended September 30, 2004 and 2003 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 14 to the financial statements, the Service's fiscal year 2004 statement of net cost is not comparable to the fiscal year 2003 statement of net cost because, in fiscal year 2004, the Service revised the presentation of costs and revenues to match the Government Performance and Results Act strategic plan applicable to fiscal year 2004, which is different than the plan applicable to fiscal year 2003.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions. However, none of these reportable conditions are believed to be a material weakness.

A. Controls, processes, and financial reporting related to construction work in progress

B. Controls and processes over financial statement variance analysis

C. Application and general controls over financial management systems

Our limited procedures over required supplementary stewardship information, performance measures and deferred maintenance reported as required supplementary information identified the following significant deficiencies in the reporting on the condition of stewardship land, performance measures, and deferred maintenance for stewardship land.

D. Processes and controls over the condition assessment of stewardship land and heritage assets

E. Controls over reporting performance measures

F. Reporting of deferred maintenance amounts for stewardship land and heritage assets

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters 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. These instances are detailed later in this report.

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

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, regulations, contracts, and grant agreements, 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, 2004 and 2003, and the related consolidated statements of net costs, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Service as of September 30, 2004 and 2003, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 14 to the financial statements, the Service's fiscal year 2004 statement of net cost is not comparable to the fiscal year 2003 statement of net cost because, in fiscal year 2004, the Service revised the presentation of costs and revenues to match the Government Performance and Results Act strategic plan applicable to fiscal year 2004, which is different than the plan applicable to fiscal year 2003.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information (Stewardship Assets), and Required Supplementary Information (Supplementary Statements of Budgetary Resources by Major Budget Accounts on pages 54 and 55 and Deferred Maintenance) sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We did not audit this information and, accordingly, we express no opinion on it. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. As a result of such limited procedures, we believe that the reporting of required supplementary stewardship information on the condition of stewardship land and heritage assets is not in conformity with accounting principles generally accepted in the United States of America. Our limited procedures found the Service does not have adequate policies and procedures to report this information consistent with accounting principles generally accepted in the United States of America.

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 2004 audit, we noted the following matters involving internal control over financial reporting and its operation that we consider reportable conditions. However, none of the reportable conditions are believed to be material weaknesses.

A. Controls, Processes, and Financial Reporting Related to Construction Work in Progress

In order to address the problems noted in prior audits regarding the recording of general property, plant, and equipment (PP&E), the Service issued a comprehensive *Plant, Property, and Equipment Financial Management Guidance Handbook* in July 2004 (with interim guidance issued in April 2004). This handbook was designed to provide business processes and financial guidance to regions and program offices responsible for PP&E data management and to improve the accuracy and credibility of financial data in the Real Property Inventory (RPI). During our audit, we noted much improvement by the Service in addressing PP&E weaknesses, including improved accuracy of acquisition cost recorded in RPI. However, we noted that improvements still need to be made in controls over Construction Work In Progress (CWIP).

CWIP is a holding account that captures the expended costs associated with buildings and structures currently under design and construction that will meet the Service's capitalization rules and threshold. Once the building or structure is usable, even if the construction contract remains open, the value of costs accumulated in CWIP to date associated with the building or structure should be moved into a real property asset account.

Based on our test work as of June 30, 2004, we noted 11 of 49 sample items in which the Service did not record real property assets in RPI in a timely manner and transfer CWIP balances in the general ledger. We also noted 10 of 49 sample items in which CWIP balances should have been expensed in the statement of net cost, since these project costs were not scheduled to result in a capitalized real property asset. In total, $20.4 million of $44.6 million was inaccurately reported in CWIP. As a result, the Service made adjustments to correct CWIP. Based on those adjustments, we tested the ending CWIP balance as of September 30, 2004 and noted 6 of 26 sample items in which the Service did not properly expense items recorded in CWIP. In total, $524,000 was inaccurately reported in CWIP.

Recommendation

We recommend the Service continue its efforts to improve its CWIP business processes to ensure real property assets are accurately recorded in RPI in a timely manner and that CWIP balances are properly recorded in the general ledger. Specifically, the Service should improve its procedures to monitor anticipated project completion dates and placed in service dates so that assets are recorded in RPI in a timely manner and transfers are made out of CWIP.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.

B. Controls and Processes Over Financial Statement Variance Analysis

Each quarter the Division of Financial Management (DOFM) analyzes the Service's financial statements and compares current year activity to prior year activity. The Branch of Financial Statements (BOFS), based on its analysis and input from the Branch of Financial Operations (FOB), provides explanations to changes in these account balances. Historically, many explanations provided by the Service only contain the standard general ledger accounts which make up the change, as opposed to identifying the underlying operational or accounting reason for the increased or decreased balance. During our audit, we noted several instances in which the explanations provided by the Service were incomplete and indicated potential errors in the financial statements.

The North American Wetlands Conservation Fund (NAWCF) supports wetlands conservation projects approved by the Migratory Bird Conservation Commission. The Service receives a general fund appropriation and passes those funds through a general fund (1641) into a special fund (5241). Typically, special funds, designated by the first digit of 5, record transfers in/out without reimbursement and report cumulative results of operations (CRO). However, there are certain special funds that should record appropriations transferred in/out and report unexpended appropriations. For the NAWCF, the Service made entries in both the prior and current year to report CRO. However, the NAWCF should report unexpended appropriations. FOB personnel did not recognize the accounting treatment of the NAWCF and made incorrect entries during the year to this fund. The Service also did not detect errors in its variance analysis both at June 30 and September 30. As a result of this erroneous reporting, the Service reported approximately $31 million of cumulative results of operations in the prior year. In the current year, the Service initially recorded approximately $39 million of transfers in/out without reimbursement instead of appropriations transferred in/out. The Service made adjustments to correct this error.

We also noted that on its September 30 variance analysis, the Service explained that a $4 million increase in royalties retained was due to an increase in receipts for offshore royalties. Our review of this variance explanation and subsequent follow-up revealed approximately $5.7 million of entrance fees collected at National Wildlife Refuges was erroneously recorded as royalties retained in the statement of changes in net position. These monies should have been recorded as exchange revenue in the statement of net cost.

Recommendations

1. The Service should ensure FOB personnel are properly trained on accounting for special funds, including the NAWCF, and that net position for the NAWCF is reported as unexpended appropriations.

2. The Service should also ensure financial statement variance explanations are thorough and provide adequate detail in order for a user and/or supervisor to understand the reason for the financial statement change, in addition to which accounts make up the difference.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.

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C. Application and General Controls Over Financial Management Systems

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

1. **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 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. Specifically, we noted:

   - User accounts were not promptly removed upon employee termination in the Interior Department Electronic Acquisition System (IDEAS) Procurement Desktop (IDEAS-PD) and Federal Personnel and Payroll System (FPPS) applications. We compared the IDEAS-PD, FPPS, and Federal Financial System (FFS) users lists to the Service's employee terminations list and noted three users with active IDEAS-PD user accounts and seven users with active FPPS accounts that were previously terminated. While there is a documented process in place for removal of user accounts from these systems, this process is not consistently applied.
   - There are no formal procedures in place for monitoring access granted to the FPPS. While the National Business Center (NBC) is the system owner of FPPS, the Service's system administrators and managers are the only parties that are knowledgeable about the level of access that should be granted to each Service user. The NBC is responsible for granting the access that the Service requests, not for ensuring that the access is appropriate for the person's role within the Service.
   - There are no formal procedures for granting users access to the Federal Aid Information Management System (FAIMS).
   - 385 IDEAS user accounts out of a population of 1,846 had not been used in more than 90 days. Service policy states that no account should remain inactive for more than 90 days.
   - The Service has a "User Security Access" policy related to IDEAS-PD. However, our test work revealed in a sample of 30 IDEAS-PD users, two users did not have a supervisor signature on their IDEAS-PD form used for the recertification process, and one did not have a signed password control document, as required by Service policy.
   - In a sample of 30 Service Modem Pool (SMP) users, 27 users' statement of responsibility forms (SOR) did not indicate the user as having an SMP account, indicating that the procedures for granting remote user access need to be improved.

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

   - The Service has not established appropriate position sensitivity levels and performance of adequate background checks for certain sensitive positions. In a sample of 15 information technology employees, we noted six did not have a background investigation conducted. We also noted one Chief Technology Officer (CTO) and one

Installation IT Security Manager (IITSM) with a position sensitivity level of 1 (non-sensitive). Based upon our review and discussion with Service personnel, CTO and IITSM personnel should not have level 1 position sensitivity. Additionally, we noted that the Service is not applying the background check requirement for all employees who were hired before 2000. This decision has caused many employees to have inadequate sensitivity levels and background check investigations based on their job responsibilities. We noted that several IT staff with insufficient background investigations and clearances were assigned to their current position after 2000.

- The Service has not developed an IDEAS-PD security plan and ensured that security plans for the National Communications Center and Washington Office security plans are complete.

Recommendation

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

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with some of our findings and its comments were responsive to some of our recommendations. Management did not agree with our finding related to terminated users and FPPS and responded that users identified in the finding were incorrectly evaluated. The Service also responded that they believe an effective process is in place to remove terminated users. Management also did not agree with our finding on FAIMS user account management procedures and responded that these procedures do exist.

Auditors' Response to Management's Response

During the audit process we validated our findings with Service personnel and believe based on the information provided by the Service during our audit that the findings are accurate on FPPS and terminated users. Also, FAIMS user account management procedures were not provided to us during our audit.

Internal Control Over Required Supplementary Stewardship Information

We noted a significant deficiency in internal control over Required Supplementary Stewardship Information discussed in the following paragraphs that, in our judgment, could adversely affect the Service's ability to collect, process, record, and summarize Required Supplementary Stewardship Information.

D. Processes and Controls Over the Condition Assessment of Stewardship Land and Heritage Assets

Statement of Federal Financial Accounting Standards (SFFAS) No. 8, *Supplementary Stewardship Reporting*, paragraphs 50 and 81 (as amended by SFFAS No. 14), establishes minimum reporting requirements for stewardship land and heritage assets. These standards require the Service to report in its stewardship section of its annual report the condition of stewardship land and heritage assets. Our audit found the Service has not completed condition assessments for stewardship land and certain heritage assets, including the archeological sites, historic structures, and museum collections. During our review, we noted that the Service uses the condition assessment survey method to assess the condition of real property, including permanent improvements to stewardship land. This process is also used in part to determine deferred maintenance on these assets. However, this process does not address the land itself. As a result of the conditions noted above, Required Supplementary Stewardship Information pertaining to condition of major classes of assets for stewardship land and heritage assets may not be complete.

We recognize that the Service does not believe that it needs to perform condition assessments over stewardship land. However, paragraphs 50 and 81 of SFFAS No. 8 indicates that the Service is required to do so. The Service should meet with the Federal Accounting Standards Advisory Board (FASAB) to discuss its position.

Recommendation

Until FASAB provides new guidance, we recommend that the Service develop and implement policies to conduct condition assessments and estimate deferred maintenance related to stewardship land and heritage assets.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our recommendation to discuss with the Federal Accounting Standards Advisory Board the burden that the accounting standards place on the Service for conducting condition assessments on stewardship land and heritage assets. Management did not agree with our recommendation to develop a policy to address stewardship land and heritage asset condition assessments to comply with applicable accounting standards. Management indicated that meaningful and consistent condition assessments of stewardship land and heritage assets referenced in SFFAS No. 8 are difficult to achieve and may not be required.

Auditors' Response to Management's Response

Statement of Federal Financial Accounting Standards (SFFAS) No. 8, *Supplementary Stewardship Reporting*, paragraphs 50 and 81, require federal agencies to report in its stewardship section of its annual report the condition of stewardship land and heritage assets. Unless the Federal Accounting Standards Advisory Board provides new guidance eliminating this requirement, or the Service develops procedures to comply with applicable accounting standards, this inconsistency will continue to be reported as noncompliance with the accounting standards and as a weakness in internal control.

Internal Control Over Required Supplementary Information (Including Performance Measures and Deferred Maintenance)

With respect to the design of internal controls relating to existence and completeness assertions over performance measures determined by management to be key and reported in the Management's Discussion and Analysis section of the Annual Report, we noted certain significant deficiencies in internal control over reported performance measures discussed in the following paragraphs that, in our judgment, could adversely affect the Service's ability to collect, process, record, and summarize performance information and report performance measures in accordance with management's criteria.

E. Controls Over Reporting Performance Measures

In its draft annual report, the Service reported 27,351,000 visitors were offered facilitated programs (i.e., refuge staff offer facilitated refuge interpretation or educational programs) and that it exceeded its target of 1,315,984 visitors due to the fact that the initial performance measure was based on on-site interpretive and education programs only. However, the Department of the Interior's strategic plan template for this measure greatly expanded coverage this year to include off-site interpretive programs, visitor centers, contact stations, and special events.

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We made inquiries of the Service related to the accuracy of the 27 million visitors and were told that the measure was accurate given that the Department of the Interior (Department) changed its reporting to include more categories of programs. Based on this response, and to test internal control over the measure, we requested additional information supporting the reported figure and controls in place to ensure accuracy of the measure. However, we did not receive sufficient information in response to our request for data verification and validation, including those control procedures in place to ensure data is reliable and valid. These control procedures should be in place at the regions to ensure refuges visitors are accurately reported. While the definitions and instructions memo provided some information, it did not include regional procedures to ensure data is accurate, complete, and exists.

Based on our discussion with Service personnel, one region indicated it had a display in the Phoenix, Arizona airport for approximately six months. The region included approximately 11 million visitors in its number for contact stations. The 11 million-visitor figure was obtained from personnel at the Phoenix airport and represents the number of passengers that traveled through the airport during the period the display was available in 2004. We were unable to determine if such reporting was consistent amongst regions and such interpretation of visitors contacted met the criteria established by the Service and the Department.

Recommendation

The Service should ensure controls are in place to validate the reliability of transactions and other data that support reported performance measures and that each region consistently reports its performance measures.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.

Deferred maintenance amounts are reported as required supplementary information to the financial statements. We noted certain significant deficiencies in internal control over the reporting of deferred maintenance amounts discussed in the following paragraph that, in our judgment, could adversely affect the Service's ability to collect, process, record, and summarize in a timely manner.

F. Reporting of Deferred Maintenance Amounts for Stewardship Land and Heritage Assets

The Service has not fully implemented the requirements of Statement of Federal Financial Accounting Standard (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, as amended by SFFAS No. 14, *Amendments to Deferred Maintenance Reporting Amending SFFAS No. 6 and SFFAS No. 8*. SFFAS No. 6 requires the Service to estimate the deferred maintenance for its general, heritage, and stewardship assets using either the condition assessment survey or life cycle costing method. Federal accounting guidance defines deferred maintenance as maintenance that was not performed when it should have been or was scheduled to be and which, therefore, was put off or delayed for a future period. Maintenance is the act of keeping fixed assets in acceptable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services.

The Service has adopted the condition assessment survey method, which requires the Service to perform periodic inspections of assets to determine their current condition and estimate the cost to correct any deficiencies. The Service has implemented procedures to measure deferred maintenance for certain assets. However, the Service has not fully established controls over the condition assessments performed to determine deferred maintenance for all assets. Specifically, our audit found the Service has reported deferred maintenance costs on permanent improvements to stewardship land; however, it has not reported in its annual report any deferred maintenance costs related to the stewardship land itself. The Service has also not completed condition assessments and estimated deferred maintenance for certain heritage assets, such as, the archeological sites, historic structures, and museum collections. As a result, deferred maintenance for the Service may be substantially understated.

Recommendation

The Service should develop a process consistent with accounting standards generally accepted in the United States of America for estimating deferred maintenance costs on stewardship land and heritage assets.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management disagreed with our recommendation. Management indicated that deferred maintenance costs would be difficult, it not impossible, to ascertain, and so subjective as to be useless.

Auditors' Response to Management's Response

SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, paragraph 83, requires federal agencies to report in its deferred maintenance section of its annual report the amount of deferred maintenance for stewardship land and heritage assets. Unless the Federal Accounting Standards Advisory Board provides new guidance eliminating this requirement, or the Service develops procedures to comply with applicable accounting standards, this inconsistency will continue to be reported as noncompliance with the accounting standards and as a weakness in internal control.

A summary of the status of prior year reportable conditions is included as exhibit I. We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of the Service in a separate letter dated November 1, 2004.

Compliance With Laws and Regulations and Other Matters

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of compliance with other laws, regulations, contracts, and grant agreements, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance that are required to be reported 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 Federal financial management systems requirements.

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

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

2. **Federal Accounting Standards** – The Service is required to prepare its financial statements in accordance with federal accounting standards. As discussed in the section of this report entitled Internal Control Over Required Supplementary Stewardship Information (RSSI) and Internal Control Over Required Supplementary Information. (RSI), we noted significant deficiencies in internal control over RSSI related to condition assessments of categories of land and heritage assets and over RSI related to deferred maintenance amounts for stewardship land and heritage assets. These significant deficiencies in internal control are also indicators of noncompliance with FFMIA provisions relating to Federal accounting standards.

Recommendations

1. We recommend that the Service take the necessary actions to improve information technology security and general controls over its financial management systems in accordance with requirements set forth in OMB Circular A-130 in fiscal year 2005.

2. We recommend that the Service strengthen its procedures and internal control to ensure that condition assessments over categories of stewardship land and heritage assets are completed and deferred maintenance costs on stewardship land and heritage assets are reported in accordance with Federal accounting standards.

Management Response

Management has prepared an official response presented as a separate attachment to this report. In summary, management partially agreed with our recommendation to improve controls over information technology. As discussed in the sections of our report entitled Internal Control Over Required Supplementary Stewardship Information and Internal Control Over Required Supplementary Information, management did not agree with our recommendations to develop procedures to conduct condition assessments on all stewardship land and heritage assets and identify and report related amounts of deferred maintenance.

Auditors' Response to Management's Response

As discussed in the sections of our report entitled Internal Control Over Required Supplementary Stewardship Information and Internal Control Over Required Supplementary Information, federal accounting standards require federal agencies to report in their annual report the condition assessment of stewardship land and heritage assets and related amounts of deferred maintenance. Unless the Federal Accounting Standards Advisory Board provides new guidance eliminating these requirements, or the Service develops procedures to comply with applicable accounting standards, these inconsistencies will continue to be reported as noncompliance with the accounting standards and as weaknesses in internal control.

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

Responsibilities

Management's Responsibilities

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

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting, and preparing the Management's Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information, and
- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

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

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2004 and 2003 financial statements of the Service based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

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

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

In planning and performing our fiscal year 2004 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 *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. Also projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, our internal control testing may not be sufficient for other purposes. 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 section, 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 2004 financial statements are free of material misstatement, we performed tests of the Service's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws, regulations, contracts, and grant agreements 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, regulations, contracts, and grant agreements applicable to the Service. Accordingly, noncompliance may occur and not be detected by these tests and such testing may not be sufficient for other purposes. Providing an opinion on compliance with laws, regulations, contracts, and grant agreements 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 Service's management, and the Department of the Interior's management, the Department of the Interior's Office of Inspector General, the U.S. Government Accountability Office, 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

November 1, 2004

Exhibit I

UNITED STATES FISH AND WILDLIFE SERVICE

Summary of the Status of Prior Year Reportable Conditions

September 30, 2004

Reference	Condition	Status
2003 – A	Processes, controls, and financial reporting relating to property, plant, and equipment.	This finding has not been entirely corrected and is repeated as a reportable condition in fiscal year 2004. See finding A.
2003 – B	Financial reporting process.	This condition has been corrected.
2003 – C	Controls, processes, and allocations in the statement of net cost.	This condition has been downgraded from a reportable condition to a management letter comment in fiscal year 2004. Management letter comments are reported in a separate letter dated November 1, 2004.
2003 – D	Application and general controls over financial management systems.	This condition has not been corrected and is repeated in fiscal year 2004. See finding C.
2003 – E	Reconciling transactions within the Service as well as with other Department of the Interior components.	This condition has been corrected.
2003 – F	Controls, processes, and financial reporting relating to capital equipment.	This condition has been downgraded from a reportable condition to a management letter comment in fiscal year 2004. Management letter comments are reported in a separate letter dated November 1, 2004.

ATTACHMENT 2

United States Department of the Interior

FISH AND WILDLIFE SERVICE
Washington, D.C. 20240

NOV 2 9 2004

In Reply Refer To:
FWS/DFM

Memorandum

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

From: Acting Director Marshall P Jones Jr

Subject: Draft Independent Auditors' Report on the U.S. Fish and Wildlife Service's Financial Statements for Fiscal Years 2004 and 2003

The Fish and Wildlife Service (Service) has reviewed the subject draft audit report, in which KPMG, LLP issued an unqualified opinion on the Service's financial statements for Fiscal Years (FY) 2004 and 2003. The Service generally agrees that internal control weaknesses found in financial reporting represent reportable conditions, and that improvements can be made in demonstrating compliance with the Federal Financial Management Improvement Act of 1996. Further, we agree that controls over the reporting of program performance can be improved. We do not agree that condition assessments of lands and other stewardship assets in the National Wildlife Refuge System and the National Fish Hatchery System are required by accounting standards. In this instance, the standards are unclear and lack practical application. Before expending resources to implement condition assessments, clarification of the standards is required.

General Comments

The Service is committed to taking all necessary corrective actions to resolve the identified deficiencies in our internal controls over financial reports. However, several of the recommendations address areas such as information technology controls and requirements for condition assessments and deferred maintenance reporting relating to stewardship land and certain heritage assets where corrective actions depend in part on implementation of the Department of the Interior's (DOI) policies, processes or systems. The Service will provide assistance to support the DOI in these endeavors.

Internal Control over Financial Reporting

A. Controls, Processes, and Financial Reporting Related to Construction Work in Progress (CWIP)

The Service agrees that we need to continue to improve our CWIP business processes to ensure that our real property records are more up-to-date, accurate and complete. We recognize that procedures need to be in place for monitoring the status of construction projects so that assets are removed from CWIP and entered in the Real Property Inventory (RPI) system as soon as they are placed in service. The actions to correct these deficiencies are in progress. The Service appreciates the recognition by KPMG of our progress in correcting real property financial reporting weaknesses.

B. Controls and Process over Financial Statement Variance Analysis

The Service agrees that financial statement variance analyses need to be thorough, and supported with detailed and accurate explanations of the causes of differences. Service accountants have reviewed all funds with dual fund types to make sure that the fund type is correctly set in the Federal Financial System (FFS). Controls will be established to detect future errors.

Line variance analyses will be reviewed by the Chief, Financial Operations Branch for completeness and appropriate documentation. The Financial Systems Branch will provide a trial balance that will include prior year comparables so that any large variances in general ledger account balances can be identified. Those variances will be appropriately researched and documented.

C. Application and General Controls over Financial Management Systems

The Service has been actively working to implement many application and general control improvements. The following is the Service's response to the specific audit findings relating to access controls and entity-wide security:

1. Access Controls:

   - The Service has reassessed its process for removing terminated/transferred employees' access from all systems. The Service believes that there is an effective process in place for removing terminated/transferred employee access from Service systems.

     Transferred/terminated employees are required to go through an exit clearance process. This process requires an employee to receive an exit clearance from their local Human Resources (HR) office. At that point, the appropriate HR official removes that employee's access from FPPS. The exit clearance process also provides for revoking access to other Service systems

     Additionally, the Service's FPPS Security Point of Contact (SPOC) runs a monthly report on separations. This report is reviewed against a National Business Center (NBC)-generated list of users provided on a monthly basis, and ensures any remaining terminated/transferred users who still have access are removed. This report is then forwarded to the Division of Information Resources and Technology Management who in turn, distributes it to the cognizant IT

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Security Manager (IITSM) or Chief Technology Officer (CTO). This report is used by the respective Region and program to terminate system access for the terminated/transferred employee. On a weekly basis, the NBC runs a program through the Resource Access Control Facility (RACF) and revokes the user ID of any user who has not changed his/her password within the past 60 days. This does not remove a user's account information from the system, but it does revoke access, and the user is not able to get into the system without having proper authorization forwarded to the SPOC.

With regard to the seven FPPS users cited in the finding, four users do not appear in our earlier lists of active users, two of the named FPPS users did have their accesses revoked and one user separated from the Service between December 2003 and February 2004. With the exception of the employee reemployed by the Service, these "terminated/transferred" employees with active FPPS accounts have either had their accesses revoked or their accounts deleted from RACF. There was nothing inaccurate with listing the user reemployed by the Service on the active users list in May and June 2004 as he was an active employee with a need to access FPPS.

The Interior Department Electronic Acquisition System (IDEAS) finding did not provide details regarding specific user accounts. There are legitimate circumstances that explain an inactive account which do not require suspension or closing of the account. For example, the user is on temporary travel or training assignment, and there is no procurement requirement during the 90-day period. In addition to controls for separating employees, an individual attempting to access an IDEAS account that has been inactive for more than 60 days needs to contact a System Administrator to obtain a new password. An individual attempting to access an account that has been inactive for more than 90 days will be denied access until a Systems Administrator issues that person a new password and unlocks the account. The control system in place is adequate to address the risks of unauthorized IDEAS access.

- Current Service policy does not require FPPS to conduct periodic reviews for the purpose of recertifying users' access rights; however, the Service concurs that it should conduct periodic reviews of users' access levels for the purpose of recertifying users' access levels. Therefore, the Service will incorporate a requirement into the security plan for FPPS to conduct a periodic review of users' access levels and ensure that the recertification of each user is documented. Currently, the Service does not monitor access to FPPS because users can only perform actions consistent with the permissions granted to them. Access to FPPS is granted based on the users' role. Additionally, the NBC maintains logs of users' actions. If unauthorized activity is suspected, the supervisor will contact NBC, in coordination with the SPOC, to conduct an investigation.

- The Service asserts there is a documented process for granting access to the Federal Aid Information Management System (FAIMS). This document is titled

"Regional System Administrator" and provides detailed guidance for granting users access to FAIMS. This guidance is also found in the FAIMS help files located on their webpage.

- *Federal Aid and FFMIA testing* (The Service has received verbal notification that this finding has been withdrawn.)

- An internal random sampling of IDEAS users in three Regions revealed the majority of the inactive accounts could/should be deactivated in IDEAS. Several Regions have already purged their inactive accounts. We will instruct the Regions to purge inactive accounts at least monthly and will monitor such activity. The Service would like to reiterate that the current management control regarding access to IDEAS is an adequate security measure. An individual attempting to access an account that has been inactive for more than 60 days needs to contact a System Administrator to obtain a new password. An individual attempting to access an account that has been inactive for more than 90 days will be denied access until a Systems Administrator issues that person a new password and un-locks the account.

- The Service's Division of Contracting and Facilities Management issued a policy memorandum on April 5, 2004, establishing a User Security Access Policy and required all Regions to review and update user accounts by May 31, 2004. Regions have reported compliance. The incomplete forms found in Region 9 have since been corrected.

- The Service accepts that procedures need to be developed to formally authorize and grant access to Service Modem Pool (SMP) remote accounts. The Service is currently changing the method used for user provisioning as Active Directory is implemented, which will be used for SMP authentication. The Service will ensure that a Statement of Responsibility is part of this re-engineering effort.

- The Service will examine generalizing the user validation procedures in the Service's Manual Chapter 270 FW 7, section 7.4 so they apply to the DOI systems. Currently, DOI-owned systems fall outside of the scope of this manual chapter.

2. Entity-Wide Security Program and Planning:

    - The Service's procedures for conducting background investigations is based on DOI policy and as such, the Service is in compliance with DOI policy. There is guidance in place for establishing sensitivity levels for specific duties, not titles such as IITSM or CTO. Since the duties performed by employees in these positions are covered by the guidance, we in fact do have standard sensitivity levels in place based upon duties and position description. Guidance can be found in the Service Security and Suitability Memorandum dated September 5, 2003.

The Service's policy of not reviewing position sensitivity designations until positions are vacated and refilled or reclassified is in accordance with DOI policy 441 DM 3.4, dated July 27, 2004. If a position is reclassified while occupied, and a new sensitivity level is assigned, the employee must meet the investigative requirements of the new sensitivity level. The use of grandfathering implies that a position has been assigned a new sensitivity level, but the employee is not required to have the correct investigation. As a result, the Service is in compliance with DOI policy and a reassessment is not necessary. Service policy requires that any position vacated after 2000 must have its sensitivity reassessed before it can be re-filled. New positions must also be assessed for the correct sensitivity level.

The Service will reassess the sensitivity levels of the Information Technology Specialist (2210) job series positions and then ensure those personnel have the proper background checks commensurate with the sensitivity levels of those positions. Of the six employees noted in the "Condition" section, two no longer work for the Service. The remaining four will be reassessed.

- The Service only provides a hosting platform for IDEAS-PD. The IDEAS-PD application is owned by NBC. This hosting platform resides on the Washington Office LAN, which is part of the Service Wide Area Network (SWAN), and the security information for this hardware is included in the Washington Office LAN System Security Plan (SSP). However, an addendum will be added to the Washington Office LAN SSP to clearly address the Service's responsibilities in securing the IDEAS hosting platform and also clearly delineate other responsibilities between the Service and NBC.

D. Processes and Controls over the Condition Assessment of Stewardship Land and Heritage Assets

The Service believes that meaningful and consistent condition assessments of the stewardship land referenced in Statement of Federal Financial Accounting Standards (SFFAS) Number 8, Supplementary Stewardship Reporting, are difficult to achieve and may not be required. The list of potential criteria for determining what constitutes an "acceptable operating condition" for stewardship land would be almost endless. Also, the criteria would be highly subjective and would contradict existing departmental and Office of Management and Budget (OMB) definitions for maintenance. In addition, the sheer volume of stewardship land subject to review, and the remoteness of many of the tracts, makes condition assessments of the type referenced by SFFAS Number 8 practically impossible. The cost in dollars and staff resources required to assess the condition of 95 million acres of Service stewardship land would be prohibitive. Moreover, any estimate of deferred maintenance costs without established measurement criteria would be meaningless.

The Service also believes that meaningful and consistent condition assessments of certain heritage assets (referred to in the Service's annual financial report as cultural resources) cannot be achieved without great effort. As with stewardship land, the list of potential criteria for determining what constitutes an "acceptable operating condition" for resources such as archaeological and historic sites and national historic landmarks would be quite long and very subjective. However, we do perform condition assessments of buildings and structures designated as heritage assets. For these assets, we believe the criteria for determining an acceptable operating condition are reasonable.

The Service has considered the recommendation that policies be implemented to conduct condition assessments and estimate deferred maintenance related to stewardship land and heritage assets until the Federal Accounting Standards Advisory Board (FASAB) provides new guidance. We plan to work through the DOI to have FASAB clarify the applicability of its requirements for condition assessments and deferred maintenance for these types of assets. However, for the reasons indicated above, we have concerns about implementing policies to conduct condition assessments and estimate deferred maintenance for stewardship land and heritage assets on an interim basis. As noted in the previous paragraphs, conducting condition assessments would be prohibitively expensive and would provide subjective estimates of little practical value.

E. Controls over Reporting Performance Measures

We agree that effective controls need to be in place to ensure that the data supporting performance measures used by the Service are reliable and consistent among programs and Regions. We will review the processes used to obtain performance data and revise as necessary. We will also provide guidance to offices preparing performance information on the need for appropriate supporting documentation.

F. Reporting of Deferred Maintenance Amounts for Stewardship Land and Heritage Assets

As detailed in our response to the findings and recommendations in Section D., Processes and Controls over the Condition Assessment of Stewardship Land and Heritage Assets, we do not believe that it is feasible to assess the condition of Service stewardship land and certain types of heritage assets. The cost in dollars and staff resources required to assess the condition of these assets would be prohibitive. Moreover, any estimate of deferred maintenance costs would be difficult, if not impossible, to ascertain, and so subjective as to be useless.

We would like to point out that the Service does provide deferred maintenance estimates relating to our buildings and structures designated as heritage assets. For these assets, we believe the criteria for determining the deferred maintenance estimates are reasonable.

The Service has considered the recommendation that a process be developed consistent with accounting standards generally accepted in the United States of America for estimating deferred maintenance costs on stewardship land and heritage assets. As mentioned in our response to Section D., the Service plans to work through the DOI to have FASAB clarify the applicability of its requirements for condition assessments and deferred maintenance reporting relating to stewardship land and certain types of heritage assets including archaeological and historic sites, and museum property.

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

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

1. **Federal Financial Management Systems Requirements:**
   The Service continues to make substantial efforts to comply with the information technology security and general control requirements of OMB Circular A-130, as detailed in our response to section C., Application and General Controls over Financial Management Systems. We believe these efforts will bring the Service into substantial compliance with OMB Circular A-130.

2. **Federal Accounting Standards:**
   The Service believes FASAB standards relating to condition assessments and deferred maintenance reporting need clarification as they relate to stewardship land and certain heritage assets. We plan to work through the DOI to have FASAB clarify the applicability of its requirements for condition assessments and deferred maintenance for these types of assets.

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

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

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