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Status of Efforts to Improve Accountability

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the status of efforts by the Department of Agriculture's Forest Service to achieve accountability for the tax dollars appropriated to it to carry out its mission. Our statement will summarize (1) actions the agency has taken to improve its financial and performance accountability, (2) remaining hurdles to those improvements, and (3) strategies the agency is developing to address these hurdles. Our comments are based primarily on two reports issued within the last 15 months,[1] as well as on our ongoing work for this Subcommittee.

In summary, Mr. Chairman:

- The Forest Service is taking actions to address known problems with its financial management and reporting, as well as with its performance-related data, measurement, and reporting. For example, the agency implemented its new accounting system—the Foundation Financial Information System (FFIS)—agencywide on October 1, 1999, as scheduled, and has made significant progress in completing a physical inventory of its real and personal property, as well as developing a methodology for valuing its road assets. To improve its performance accountability, the agency is revising the strategic plan that it prepared under the Government Performance and Results Act of 1993 (the Results Act) to better focus on outcomes to be achieved over time. Such outcomes include the health of the land, the quality of water, and the satisfaction of customers. In addition to goals and objectives, the revised strategic plan sets out performance measures and milestones as indicators of progress. Moreover, as we have previously recommended, the agency has proposed significant changes in its budget structure for fiscal year 2001. These changes are intended to better link its largest discretionary appropriation—for

[1] *Forest Service: A Framework for Improving Accountability* (GAO/RCED/AIMD-00-2, Oct. 13, 1999) and *Forest Service Management: Little Has Changed as a Result of the Fiscal Year 1995 Budget Reforms* (GAO/RCED-99-2, Dec. 2, 1998).

the National Forest System—with the goals and objectives in its strategic plan and with the integrated way that work activities are conducted in the field.

- Despite these efforts, major hurdles to achieving financial and performance accountability remain. For instance, according to the Department of Agriculture's Office of Inspector General and a consultant for the Department, computer systems that preprocess data entered into FFIS are often deficient. These deficiencies reduce assurance that the new accounting system will provide timely, accurate, reliable, and consistent financial information. In addition, preliminary audit results of the Forest Service's fiscal year 1999 financial statements indicate that significant accounting deficiencies continue to exist. In terms of performance, the Forest Service's proposed fiscal year 2001 budget justification continues to rely on annual performance measures that do not always encourage progress toward the agency's strategic objectives. Furthermore, despite the changes to its budget structure that it has proposed to better link the National Forest System appropriation to its strategic goals, the agency has not yet developed criteria for allocating funds to its regions and forests on the basis of its strategic objectives or performance measures. The proposed budget structure would create larger pools of money, giving greater discretion to field and program managers in deciding where to spend the funds. However, until the agency better links annual performance measures and budget allocation criteria to its strategic goals and objectives and corrects deficiencies in its financial management and reporting systems, it will not be able to provide the Congress or the public with a clear understanding of how taxpayer dollars are being spent on each of its strategic goals and objectives and what is being accomplished with the money.

- To address the remaining hurdles to attaining financial accountability, the Forest Service has devised a strategy with goals, objectives, time frames, and measures and is redesigning the organizational structure of its financial management functions. The agency is also beginning to develop a strategy for improving the links between its strategic objectives and its annual performance measures and budget allocation

criteria. The Forest Service also plans to develop as yet unspecified changes to the organizational structure of the National Forest System to better accomplish its strategic goals and objectives. While progress has been made to improve financial accountability, this represents the third time in 13 years that the Forest Service is promising greater accountability for its performance in exchange for greater discretion over larger pools of money. In the two previous instances, the agency did not fulfill its promises to improve its performance-related data, measurement, and reporting. Therefore, while we believe that the proposed changes to the Forest Service's budget structure could facilitate the agency's management of the 155 national forests, we also believe that sustained oversight by the Congress should now be focused on ensuring that the agency (1) continues to make progress on its financial management and (2) follows through on its strategies to improve its performance accountability in a timely manner.

The Forest Service Has Completed Several Actions and Begun Others to Improve Accountability

The Forest Service has taken several actions to improve its financial management and reporting systems. For example, the agency implemented the FFIS accounting system agencywide on October 1, 1999, as scheduled. This system will enable the Forest Service to track its obligations, assets, liabilities, revenues, and costs. Despite some start-up problems, such as rejected transactions and system down time, Forest Service staff are now entering fiscal year 2000 transactions into the system. In addition, the agency has made significant progress in completing a physical inventory of its real and personal property, as well as developing a methodology for valuing its road assets. Furthermore, the Forest Service and the Department of Agriculture's National Finance Center (NFC)—which processes much of the Forest Service's accounting data—signed a Memorandum of Understanding (MOU) that will transfer responsibility for several key accounting functions from NFC to the Forest Service. For example, the MOU will transfer responsibility for preparing certain critical budgetary and accounting reports to the Forest Service.

The Forest Service is also taking actions to improve its performance accountability. In particular, it is revising its strategic plan, prepared under the Results Act, to better focus on outcomes and results to be achieved over time, such as the health of the land, the quality of water, and the satisfaction of customers.[2] The draft plan refines the agency's strategic goals and objectives and links them to long-term performance measures and 5-year milestones. In addition, the Forest Service has begun to develop strategies and plans to achieve its objectives. For example, the agency has drafted a strategy to address the increasing incidence of uncontrollable and often catastrophic wildfires. This strategy can serve as a basis for establishing funding priorities and developing more meaningful performance measures. In addition, according to the Forest Service's draft strategic plan, annual performance plans will address specific management actions and investments needed to ensure progress toward the goals and objectives of the strategic plan, and annual budget proposals will seek the funding needed to deliver these annual actions and investments.

Moreover, as we recommended in December 1998,[3] the Forest Service has proposed significant changes to its budget structure for fiscal year 2001. The revised budget structure would reduce 21 existing budget line items and extended budget line items within the National Forest System appropriation—the agency's largest discretionary appropriation—to 3 budget line items. These changes are intended to better link the $1.3 billion requested to manage the National Forest System with two goals in the agency's strategic plan and with the integrated way that work activities are conducted in the field. (See fig. 1.)

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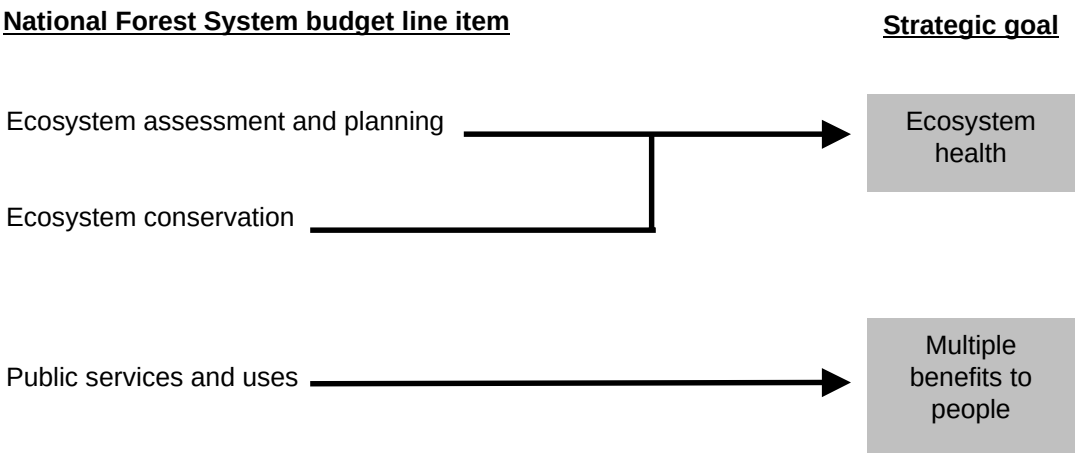
[2] *Draft USDA Forest Service Strategic Plan (2000 Revision)*, U.S. Department of Agriculture, Forest Service (Nov. 1999).

[3] *Forest Service Management: Little Has Changed as a Result of the Fiscal Year 1995 Budget Reforms* (GAO/RCED-99-2, Dec. 2, 1998).

Figure 1: National Forest System's Proposed Fiscal Year 2001 Budget Structure and Related Strategic Goals



Source: *U.S. Department of Agriculture Forest Service, Overview of FY 2001 President's Budget* and *Draft USDA Forest Service Strategic Plan (2000 Revision).*

The simplified budget structure would also better support the agency's integrated approach to land management. This approach recognizes that a full range of tools—including timber sales, thinning, watershed improvement projects, wildlife habitat treatments, prescribed fires, and mechanical treatments—are often necessary to restore and protect land health and forest resources. Finally, the agency proposes to justify its future fiscal year budgets on the basis of annual performance measures linked to mission-oriented outcomes, outputs, and financial information rather than on the basis of resource-specific programs that no longer reflect the integrated way that work activities are conducted in the field.

Major Hurdles to Financial and Performance Accountability Remain

While the Forest Service has made considerable progress toward improved accountability, much difficult work remains. The agency still faces several major hurdles before it can provide accurate and timely information on how much of its funds are spent on specific strategic goals and objectives and what is accomplished with the money.

Hurdles to Financial Accountability

The Forest Service's existing accounting structure uses computer systems—referred to by the Department of Agriculture as feeder systems—to preprocess data, which are subsequently sent to FFIS. The Department's Office of Inspector General and Logistics Management Institute—a consultant for the Department—have criticized these feeder systems. Specifically, the Office of Inspector General reported that the feeder systems are poorly documented, operationally complex, deficient in appropriate control processes, and costly to maintain. The Office of Inspector General has concluded that the feeder systems reduce assurance that FFIS will be able to provide timely, accurate, reliable, and consistent financial information. The Department's Chief Financial Officer has agreed with the Office of Inspector General's recommendation to develop a long-range plan to consolidate, integrate, and/or reengineer the feeder systems.

Another hurdle that the Forest Service must address is the lack of information needed to transfer to FFIS over $100 million in unreconciled or unsupported transactions remaining from its old accounting system. The agency faces a major effort in trying to (1) document and validate these transactions so they can be transferred to FFIS or (2) reach agreement with the Office of Inspector General on a policy to write off or otherwise resolve the differences.

Preliminary audit results of the Forest Service's fiscal year 1999 financial statements indicate that significant accounting deficiencies still exist. For example, the Office of Inspector General found reporting errors in the Forest Service's supporting accounting records for individual property, plant, and equipment assets included in the agency's physical inventory. The Office of Inspector General's audit also disclosed that the Forest Service's internal controls over its Fund Balance with Treasury account were not sufficient to ensure that these assets were adequately safeguarded. This account, which is similar in nature to a checking account with the U.S. Treasury, contained $2.6 billion as of September 30, 1999. Since insufficient internal controls over Fund Balance with Treasury accounts is also a Department-wide problem, Agriculture formed a task force representing the Forest Service, NFC, the Department's Office of the Chief Financial

Officer, and an outside consultant—PricewaterhouseCoopers LLP—to resolve this issue. The task force anticipates the problem will be corrected sometime next month.

In January 1999, when we designated the Forest Service's financial management as a high-risk area vulnerable to waste, fraud, abuse, and mismanagement, we noted that an unqualified audit opinion on financial statements, on which the agency is primarily focused, while certainly important, is not an end in itself.[4] Efforts to obtain reliable year-end data that are not backed up by fundamental improvements in underlying financial management systems and operations that enable the routine production of accurate, relevant, and timely data to support ongoing program management will not achieve financial accountability. In addition, the National Academy of Public Administration (NAPA)—an independent, nonpartisan, nonprofit organization chartered by the Congress to help federal, state, and local governments improve their performance—reported that attaining an unqualified audit opinion would not, by itself, restore the Forest Service's credibility and trust with the Congress and other external groups.[5]

Hurdles to Performance Accountability

The Forest Service's proposed budget structure for fiscal year 2001 moves the agency toward performance-based budgeting by linking each budget line item to specific annual performance measures for which the agency believes it can be held accountable. These measures are intended to gauge the Forest Service's annual progress toward achieving its long-term strategic goals and objectives. However, the annual performance measures often do not adequately indicate the outcomes the agency intends to achieve. As a result, they do not always encourage progress toward the agency's strategic goals and objectives and are not clearly linked to the long-term performance measures or the 5-year milestones set out under each objective in the agency's draft strategic plan.

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[4] *High-Risk Series: An Update* (GAO/HR-99-1, Jan. 1999).
[5] *Restoring Managerial Accountability to the United States Forest Service*, Report by a Panel of the National Academy of Public Administration for the United States Forest Service (Aug. 1999).

For example, to gauge its annual progress toward achieving one strategic objective—improving the capability of the national forests and rangelands to provide diverse, high-quality outdoor recreation opportunities—the Forest Service proposes to annually tally the total number of special-use permits (permits for private recreational cabins, special group events, and other noncommercial special uses) in existence at the end of the fiscal year without consideration of the quality of facilities provided. Thus, special-use permits for substandard facilities are counted as an accomplishment toward improving the capability of the national forests to provide high-quality outdoor recreation opportunities. Such an annual performance measure confuses quantity with quality. In addition, in our opinion, a substandard recreational cabin or special group event would detract from, rather than contribute to, the long-term measure and 5-year milestone in the agency's draft strategic plan of increasing user satisfaction with recreation programs and facilities.

Similarly, the Forest Service's annual measure of progress toward reducing hazardous fuels on the national forests and its basis for justifying each future fiscal years' funding—the number of acres treated—encourages a focus on quantity without reference to difficulty or safety. Thus, the agency's field offices have an incentive to focus on the easiest and least costly areas, rather than on those that present the highest risks but are often costlier to treat.[6] Moreover, an annual performance measure focused on the total acreage treated rather than on nearby communities, watersheds, and species at risk is not clearly linked to the long-term measure and 5-year milestone in the Forest Service's draft strategic plan of decreasing the number of acres at extreme risk from wildfire.

Hurdles to Linking Budget Allocation Criteria to Strategic Goals and Objectives and Annual Performance Measures

The budget structure for the Forest Service's proposed fiscal year 2001 National Forest System appropriation is generally linked to the agency's strategic goals and to the integrated way that work activities are conducted in the field. However, the current

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[6] *Western National Forests: A Cohesive Strategy Is Needed to Address Catastrophic Wildfire Threats* (GAO/RCED-99-65, Apr. 2, 1999).

criteria that the agency uses under its existing budget structure to allocate funds to its regions and forests are based on its resource-specific programs rather than on the objectives in its draft strategic plan or on the annual performance measures in its budget justification.

Since fiscal year 1996, the Forest Service has used criteria developed at its Washington Office to allocate appropriated funds to its field offices. Like many of the agency's annual performance measures, many of the Forest Service's budget allocation criteria are based on quantity and outputs rather than on quality and outcomes. For example, the agency allocates funds appropriated for recreation facilities on the basis of the quantity, rather than the quality, of recreational experiences on the national forests. Funds for recreational facilities are allocated on the basis of how many people the developed sites can accommodate at one time rather than on the quality of visitors' recreational experiences. Continuing to allocate funds for recreation management solely on this basis could work counter to the agency's strategic objective of improving the capability of the national forests and rangelands to provide diverse, high-quality outdoor recreational opportunities, because this allocation criterion gives forests an incentive to maintain substandard facilities and sites. Specifically, we have found that because forest managers fear their future years' funding could be reduced, they are reluctant to close substandard facilities.

According to NAPA, using a criteria-based approach for allocating funds does not result in budgets that reflect the Forest Service's changing priorities, nor does it allow the agency to hold its field organization and employees fully accountable for expenditures or performance. NAPA observed that distributing budget resources on the basis of allocation criteria "is a poor substitute for making hard choices among alternatives given limited resources." It recommended replacing the Forest Service's criteria-based approach with one based on the agency's strategic plan and the level of resources needed to accomplish stated goals and objectives.

The Forest Service Has Devised or Is Beginning to Develop Strategies to Address the Remaining Hurdles to Accountability

The Forest Service has developed strategies and undertaken various organizational initiatives to help it achieve a clean opinion on its fiscal year 2000 financial statements and address the remaining hurdles to financial accountability. Specifically, the Forest Service retained a consultant—Grant Thornton LLP—whose final report has enabled the agency to prioritize its efforts and develop a realistic time line for achieving a clean opinion. In addition, the Forest Service has devised a strategy with goals, objectives, time frames, and measures that it believes will eventually allow it to obtain not only a clean opinion on its year-end financial statements but also accurate and timely information for decision-making throughout the year. Moreover, it is redesigning the organizational structure of its financial management functions to provide the leadership needed to correct its long-standing financial management and reporting deficiencies. This new structure will also serve as a nucleus around which financial accountability can be built. Moreover, the Forest Service plans to establish a team this year to study the financial management structure of its highly decentralized and autonomous field offices.

The Forest Service is also working to refine its annual performance measures to better link them with the objectives, long-term performance measures, and 5-year milestones in its draft strategic plan. However, the agency has not determined how long it will take to gather and analyze the data needed to evaluate and refine annual and long-term performance measures. In addition, the Forest Service plans to revise its budget allocation criteria to, among other things, reflect its strategic priorities and integrate its resource-specific programs with its strategic plan before allocating the funds appropriated for fiscal year 2001 to its regions and forests. Furthermore, in a December 22, 1999, letter to this Subcommittee, the Secretary of Agriculture stated that by March 31, 2000, the Forest Service will propose changes to the National Forest System's organizational structure to better align it with the agency's proposed fiscal year 2001 budget structure and, thus, with its strategic goals.

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In conclusion, Mr. Chairman, we commend the Forest Service for the progress it has made to date and its commitment to overcome the remaining hurdles to financial and performance accountability. We are optimistic that the agency will continue to improve its financial management. However, given its history, continued vigilance and oversight seems appropriate. As we have reported previously, the Forest Service also promised in 1987 and 1995 to improve its performance accountability in exchange for a simplified budget structure. The Appropriations Committees, on both occasions, gave the agency more flexibility in managing its budget, but the Forest Service did not improve its performance-related data, measurement, and reporting. Therefore, while we believe that the proposed changes to the Forest Service's budget structure could facilitate the agency's management of the 155 national forests, we also believe that sustained oversight by the Congress should now be focused on ensuring that the agency (1) continues to make progress on its financial management and (2) follows through on its strategies to improve its performance accountability in a timely manner.

This concludes my formal statement. If you or other Members of the Subcommittee have any questions, we will be pleased to respond to them.

Contact and Acknowledgment

For future contacts regarding this testimony, please contact Barry T. Hill on (202) 512-3841. Individuals making key contributions to this testimony included Ryan T. Coles, Charles S. Cotton, Dena M. Owens, Louis J. Schuster, and McCoy Williams.

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