United States General Accounting Office

GAO

Testimony

Before the Committee on Resources, Committee on the Budget, and Subcommitteee on Interior and Related Agencies, Committee on Appropriations, House of Representatives

For Release
on Delivery
Expected at
11 a.m. EST
Thursday
March 26, 1998

# FOREST SERVICE

# Lack of Financial and Performance Accountability Has Resulted in Inefficiency and Waste

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GAO/T-RCED/AIMD-98-135

Messrs. Chairmen and Members of the Committees:

We are pleased to be here today to discuss the management of the Department of Agriculture's Forest Service. Our testimony will summarize (1) our prior and ongoing work on the agency's financial and operational management and (2) actions that need to be taken to hold the Forest Service accountable for its expenditures and performance.

Our comments are based primarily on two reports issued within the last year that, together, cap over a decade of work and over 45 GAO products on the Forest Service.[1] Our testimony also draws on recently issued reports on the status of the agency's progress toward financial accountability[2] and the preliminary results of our work to date for you and other requesters on forest health, contracting practices, and budget reform.

In summary, our prior reports, reinforced by our ongoing work, have led us to observe the following:

- Forgone revenue, inefficiency, and waste throughout the Forest Service's operations and organization have cost taxpayers hundreds of millions of dollars. For example, as we have previously reported, the Forest Service has often not obtained fair market value for goods or recovered costs for services when authorized by the Congress and has not always acted to reduce or contain costs as requested by the Congress. The agency's financial statements are unreliable, and expenditures of significant amounts cannot be accounted for. Furthermore, as our ongoing work is showing, the Forest Service's weak contracting practices have exposed appropriated dollars to an increased risk of fraud, waste, and abuse. These and other findings have led us, Agriculture's Inspector General, and Forest Service task forces to make numerous recommendations to improve performance. The agency has not acted on some, has studied and restudied others without implementing them, and has left the implementation of others to the discretion of its independent and autonomous regional offices and forests with mixed results.
- To improve its operational efficiency and effectiveness, the Forest Service must be accountable for its expenditures and performance. While the agency has, in recent years, made some progress, it is still years away from

[1]See Forest Service Decision-Making: A Framework for Improving Performance (GAO/RCED-97-71, Apr. 29, 1997) and Forest Service: Barriers to Generating Revenue or Reducing Costs (GAO/RCED-98-58, Feb. 13, 1998).

[2]Forest Service: Status of Progress Toward Financial Accountability (GAO/AIMD-98-84, Feb. 27, 1998), Financial Management: Forest Service's Progress Toward Financial Accountability (GAO/AIMD-97-151R, Aug. 29, 1997), and Forest Service (GAO/AIMD-97-11R, Dec. 20, 1996).

achieving financial accountability and possibly a decade or more away from being accountable for its performance. Specifically, the Forest Service has identified the actions required to correct known accounting and financial reporting deficiencies and has established a schedule to attain financial accountability within the next few years. In addition, the agency has taken an important first step toward becoming accountable for its performance by making clear that its overriding mission and funding priority, consistent with its existing legislative framework, has shifted from producing goods and services to maintaining and restoring the health of the lands entrusted to its care. However, it has not identified the actions required to correct decade-old problems with its data, measurement, and reporting; addressed new challenges resulting from its changed priorities; or established a schedule to achieve accountability for its performance by a certain date. Strong leadership within the agency and sustained oversight by the Congress will be needed to ensure that the actions required to hold the agency accountable for its performance are identified and that the Forest Service adheres to schedules to achieve both performance and financial accountability.

## Opportunities Exist for the Forest Service to Operate More Efficiently and Effectively

Reports that we have issued during the last decade have identified numerous opportunities for the Forest Service to generate more revenue or to operate more efficiently and effectively. However, few of our recommended improvements have been implemented, and many of the agency's processes and programs remain broken and in need of repair.

For instance, when the Congress has given the Forest Service the authority to obtain fair market value for goods or recover costs for services, the agency often has not done so. It has not obtained fair market fees for commercial activities on the national forests—including resort lodges, marinas, and guide services—or for special noncommercial uses—such as private recreational cabins and special group events—or recovered the costs incurred in reviewing and processing applications for special-use permits. The Forest Service also (1) has not charged fair market value for rights-of-way for oil and gas pipelines, power lines, and communications lines on its lands and (2) has not used sealed bids for certain timber sales, relying instead on oral bids, which generate lower revenue. As a result, the agency forgoes at least $50 million in revenue annually.

Internal and external reviews of the Forest Service's processes and procedures have identified opportunities for the agency to operate more efficiently at virtually every organizational level. According to a

November 1995 Forest Service report, inefficiencies within the agency's decision-making process cost up to $100 million a year at the individual project level alone. Factors contributing to increased costs within the agency's decision-making process include the following:

- The Forest Service is not held accountable for developing forest plans in a timely, orderly, and cost-effective manner. For example, the agency spent about 10 years and $13 million revising the plan for the Tongass National Forest in southeastern Alaska.
- The agency has historically failed to live up to its own monitoring requirements. Because it has not obtained needed information, federal regulatory agencies and other stakeholders continue to insist that it prepare increasingly time-consuming and costly detailed environmental analyses and documentation before making a decision—effectively front-loading the process and perpetuating a cycle of inefficiency.
- Noncompliance with environmental and planning requirements is also time-consuming and costly. Because some forests have not satisfied or complied with these requirements, timber sales contracts have been suspended or canceled.
- For timber sales contracts that are canceled, the agency has not developed new regulations and a new timber sales contract that would limit the government's liability and redistribute the risk between the Forest Service and the purchaser.
- Limitations in data and systems, which hindered the adequacy and implementation of many of the agency's early forest plans, persist over a decade later and continue to hinder the development of revised plans, result in legal challenges to plans and projects, and limit the implementation of efforts to improve the timeliness of decisions.

Inefficiency and waste are not limited to the Forest Service's decision-making process. Preliminary results in a soon-to-be-issued GAO report to the Chairman of the House Committee on Agriculture on the Forest Service's contracting practices indicate that, in fiscal year 1996, the agency's weak contracting practices made $443 million in appropriated funds vulnerable to fraud, waste, and abuse. Many of the principal elements of an effective procurement system—including routine supervision of its contracting officers and monitoring and evaluation of the contractors' progress and performance—are absent in the Forest Service, and the internal controls that are used—such as limits on the authority of contracting officers—are not consistently applied or effectively implemented. Moreover, the agency has not required its field offices to comply with governmentwide regulations intended to reduce

hurried and unnecessary procurements, enhance competition, and reduce costs, and it has not complied with Department of Agriculture-wide requirements intended to improve performance. Forest Service managers told us that they believe that the agency's contracting officers are well trained to perform their duties and that their spending authority is limited on the basis of their education and experience. Therefore, Forest Service managers "trust" the contracting officers to perform competently and ethically.

Inefficiency within the Forest Service's business processes is accompanied by numerous shortcomings in the agency's accounting and financial data and information systems that preclude the Forest Service from presenting accurate and complete financial information. For example, in reporting its fiscal year 1995 financial results, the Forest Service could not identify how it spent $215 million of its $3.4 billion in operating and program funds. In addition, the $7.8 billion value reported for assets—including property, plant, and equipment—was erroneous because the records for these assets were not consistently prepared, regularly updated, or supported by adequate documentation.

Because of these and other deficiencies, Agriculture's Inspector General concluded that the agency's financial statements for fiscal year 1995 were unreliable. In addition, in 1996, we reported that the inaccuracy of the financial statement data precluded the Forest Service and the Congress from using these data to help make informed decisions about future funding for the agency and raised questions about the reliability of the agency's program performance measures and certain budget data. For instance, the Forest Service's current system for maintaining cost data does not enable the agency to associate the costs incurred in generating revenue from various forest uses. As a result, the Forest Service is unable to provide data showing the costs and revenue of management activities being carried out on each of the national forests.

## Recommended Improvements Have Not Been Implemented

Over the years, we, Agriculture's Inspector General, and internal Forest Service task forces have made numerous recommendations to improve the Forest Service's financial and operational performance and to obtain a better return on the American taxpayers' multibillion-dollar annual investment in the agency. However, the agency has not acted on some recommended improvements and has studied and restudied others without establishing a clear sequence or schedule for reaching closure.

When improvements are adopted by the agency's leadership, their implementation is often left to the discretion of regional offices and forests with uneven and mixed results. The Forest Service has consistently operated under the principle that its independent and autonomous regional offices and forests can determine how best to manage their lands and resources. As a result, the agency has given its field managers broad discretion in decision-making. Although accountability should be the price that these managers pay for the freedom to make choices, the Forest Service has given them broad discretion in complying with financial and performance accountability requirements as well as in implementing efforts to operate more efficiently and effectively.

For example, in a 1980 report on the Forest Service's then relatively new planning process, we identified the need for a complete inventory of the national forests' natural resources and noted that without such an inventory, forest plans were bound to be inadequate. Over a decade later, we found that these deficiencies persisted throughout the agency, and the Forest Service has conceded that, regrettably, delays of 2 years or more must still be expected when some forest plans are revised because "realistically, many forests do not have fully updated inventories."

Similarly, Agriculture's Deputy Assistant Inspector General recently testified that the Forest Service's reported maintenance backlog of between $7.3 billion and $8.3 billion is "outdated, inconsistent, inflated, and not readily supported."[3] To correct these deficiencies, we had recommended in 1991 that the Forest Service (1) require that data on maintenance needs be collected and (2) install internal controls to ensure the accuracy of the reported maintenance backlog. The agency agreed with our recommendations; however, 3 years later, the Inspector General followed up on the recommendations and found that little or no corrective action had been taken. Four more years later, the Inspector General again reported that the Forest Service had not established a comprehensive, systematic method to collect and report information on the backlog, nor could it ensure the reliability of the data that had been reported. Once again, the agency generally agreed to implement corrective action.

The Forest Service has also failed to sustain the management attention needed to implement operational improvements recommended by the agency's own task forces. For instance, a February 1994 report by a Forest Service task force on accountability set forth a seven-step process to

[3]Forest Service Maintenance Backlog, U.S. Department of Agriculture, Office of Inspector General, Feb. 4, 1998.

strengthen accountability and made recommendations to help the agency change its behavior. The concepts in the task force's report were adopted by the Forest Service's leadership team and distributed agencywide. However, the task force's recommendations were never implemented throughout the agency.

Similarly, in November 1995, a Forest Service reengineering team made recommendations to streamline and improve the process for conducting project-level environmental analyses. However, the agency has not acted on these recommendations or on proposals from other initiatives, many of which were identified as "high priority." Instead, it has simply rolled them over from year to year.

Lack of sustained management attention has also characterized the Forest Service's response to requests by the Congress for the agency to contain costs. For example, concerned with the escalating costs of the Forest Service's timber program, the Congress, in fiscal year 1991, asked the agency to develop a multiyear program to reduce the costs of its timber program by not less than 5 percent per year. The Forest Service responded to these and other concerns by undertaking a cost-reduction study and issuing a report in April 1993. However, the agency left the implementation of the field-level action items to the discretion of each of its nine regional offices, and while some regions rapidly pursued the goal of becoming cost-efficient, others did not. In April 1997, the Forest Service was preparing to undertake the third major examination of its timber program in the last 4 years. Meanwhile, the costs associated with preparing and administering timber sales remain higher than in fiscal year 1991 when the Congress first voiced its concern.

## Strong Leadership Within the Forest Service and Sustained Oversight by the Congress Will Be Needed to Ensure Corrective Action

To improve its operational efficiency and effectiveness, the Forest Service must be held accountable for its expenditures and performance. Although the agency has promised to improve its accountability for the last 10 years, it has not done so. In the interim, the Forest Service has asked for, and the Congress has provided, increased discretion in fiscal decision-making. Specifically, the Congress has simplified the agency's budget structure and significantly increased its spending flexibility to ensure that funds are available when and where they are needed.

During the past 2 years, the Forest Service has taken steps to achieve financial accountability. It has (1) identified the actions needed to correct known accounting and financial reporting deficiencies and (2) established

a schedule to achieve financial accountability by the end of fiscal year 1999. The Forest Service has not, however, (1) identified the actions needed to correct decade-old performance-related deficiencies or to address new problems that have arisen or (2) established a schedule to achieve accountability for its performance by a certain date.

## The Forest Service Has Not Kept Its Promises to the Congress to Improve Accountability

In 1987, the Forest Service proposed a quid pro quo to the Congress. If the Congress would increase the agency's flexibility in fiscal decision-making, the Forest Service would improve its accountability in budget execution through better accounting for its expenditures and performance.

During the intervening decade, the Congress has given the Forest Service virtually all of the flexibility in fiscal decision-making that it requested. For fiscal year 1995, the Congress (1) simplified the Forest Service's budget structure by consolidating budget line items and extended budget line items and (2) expanded the agency's reprogramming authority, giving the Forest Service greater latitude in shifting funds between and within the line items. In addition, the Congress, beginning in fiscal year 1997, made all of the agency's discretionary appropriations available for an unlimited number of years (no-year appropriations). However, the Forest Service has not improved its accountability as it promised, and, beginning in fiscal year 1998, the Congress began to reduce the agency's latitude to shift funds between and within budget line items.

## The Forest Service May Not Meet Its Goal of Achieving Financial Accountability by September 30, 1999

Since Agriculture's Inspector General reported in July 1996 that the Forest Service's financial statements for fiscal year 1995 were unreliable, the agency has taken steps to achieve financial accountability. In its report, the Inspector General identified shortcomings in the Forest Service's accounting and financial data and information systems that preclude it from presenting accurate and complete financial information. Forest Service officials determined that corrective actions could not be completed in time to improve the agency's fiscal year 1996 data. As a result, the Forest Service did not prepare financial statements for fiscal year 1996.

Instead, the Forest Service, the Inspector General, and Agriculture's Office of the Chief Financial Officer identified the actions that would be required to correct the deficiencies and have established a schedule to do so by the end of fiscal year 1999. Implementation of a new financial accounting system for the agency is a joint responsibility of the Forest Service and the

Office of the Chief Financial Officer. The Forest Service is also responsible for implementing other corrective measures that are required to achieve financial accountability.

The Forest Service has taken some positive steps to address its accounting deficiencies. However, serious problems have been encountered in attempting to implement the agency's new financial accounting system. Additional accounting problems—such as the lack of reliable account balances for lands, buildings, and roads and the lack of detailed records to substantiate amounts that the agency either owes or is owed by others—continue to hamper the Forest Service's ability to produce reliable financial information. In addition, the new financial accounting system to be implemented departmentwide—purchased by Agriculture's Office of the Chief Financial Officer in December 1994—is not Year 2000 compliant.

According to several agency officials responsible for implementing the new financial accounting system or taking other corrective measures, the Forest Service is unlikely to achieve its goal of financial accountability by the end of fiscal year 1999 if the serious problems with the new financial accounting system are not corrected. Thus, the earliest that the Congress may have assurance that the agency's financial statements are reliable may be when Agriculture's Inspector General reports on the Forest Service's fiscal year 2000 statements sometime in fiscal year 2001.

## The Forest Service Has No Goal or Schedule for Achieving Accountability for Its Performance

On the basis of our work, we believe that the Forest Service's statements of performance are also unreliable and that numerous shortcomings in its inventory data, accomplishment measures, and reporting systems preclude it from presenting accurate and complete performance information. Although the Forest Service has known of these problems for over a decade, it has not (1) identified the actions needed to correct the deficiencies or (2) established a schedule to achieve accountability for its performance by a certain date. In addition, new performance-related problems have arisen as the agency attempts to (1) shift its emphasis from consumption (primarily producing timber) to conservation (primarily sustaining wildlife and fish) and (2) move from managing individual resources, such as wildlife, recreation, timber, range, and water, to a more comprehensive approach to land management (ecosystem management) that considers the interaction among management activities and programs.

In a March 1988 report,[4] we stated that before the Forest Service could be held accountable for its performance, it would need to accurately charge costs to accounts, identify useful program output targets, accurately record and report target accomplishments, and relate useful oversight targets to forest plans. The report noted that the Forest Service was, at the time, addressing all of these problems. Today, 10 years later, the agency is still addressing these problems.

New problems have also arisen as the Forest Service has shifted its emphasis from consumption to conservation and from managing individual resources to managing natural systems. As the agency has made clear in several recent documents—including its September 30, 1997, strategic plan prepared under the Government Performance and Results Act of 1993 (the Results Act), its proposed fiscal year 1999 budget, its first annual performance plan developed under the Results Act, and the Chief's March 1998 natural resource agenda for the 21st century—its overriding mission and funding priority, consistent with its existing legislative framework, is to maintain or restore the health of the lands entrusted to its care. The agency intends to limit goods and services on national forests—including recreational experiences, commercial sawtimber and other forest products, and livestock and wildlife forage—to the types, levels, and mixes that the lands are capable of sustaining. The documents also make clear that the agency intends to fulfill this responsibility primarily by maintaining and restoring the health of aquatic, forested, and rangeland ecosystems.

By clarifying its central mission and funding priority, the Forest Service has taken a significant first step toward establishing accountability for its performance. However, before the agency can be held accountable for its performance, other components of its planning, budgeting, and reporting processes and systems must be aligned with its strategic goals and objectives. Currently, there is no clear link between the Forest Service's ecosystem-based goals and objectives and its budget line items, funding allocation criteria, and performance measures.

For example, the fiscal year 1995 budget reforms were intended to improve efficiency and accountability by, among other things, consolidating the funding for a project or an activity in one program. Thus, all activities in support of a timber sale—including expenditures for a watershed survey, wildlife habitat mitigation, and/or an inventory of archaeological sites—were to be consolidated in and paid for by the

[4]Forest Service: Evaluation of "End-Results" Budgeting Test (GAO/AFMD-88-45, Mar. 31, 1988).

timber program. However, under the Forest Service's integrated approach to natural resources management, which emphasizes maintaining and restoring the health of aquatic, forested, and rangeland ecosystems, the timber program is often no longer the program that primarily benefits from a timber sale. Rather, the sale is used as a "tool" for achieving a land stewardship objective that requires manipulating the existing vegetation. Such objectives include promoting the forests' health, creating desired wildlife habitat, and reducing fuels and abnormally dense undergrowth that have increased the threat of unnaturally catastrophic fires.

Since the Forest Service's current budget structure remains highly fragmented along the lines of individual program functions, it works against an integrated approach to natural resources management. For example, an analysis linking the strategic objectives of the agency with its budget structure for fiscal year 1999 identified at least 23 funding sources that could be used to restore or protect a forested ecosystem, indicating that consolidation for strategic planning, efficiency, and accountability purposes has not been accomplished.

The fiscal year 1995 budget reforms were also intended to improve accountability by providing a better link between expenditures and performance. However, 12 of the 23 potential funding sources for forested ecosystems—including those for forest health, forest stewardship, wildlife habitat management, timber sales management, timber salvage sales, and wildland fire preparedness and operations—also fund one or more other objectives, making it difficult to determine the effects of different funding levels on forest-health-related outputs and outcomes.

In addition, to be most useful to congressional and executive branch decisionmakers, performance information needs to be consolidated with the financial and program cost data in financial statements. However, it is not clear how costs will be charged to accounts so that the agency's financial accounting system can identify and link costs to each objective.

Many of the Forest Service's criteria for allocating funds to its regions and forests are also not clearly linked to its strategic objectives. While the Forest Service's objectives focus on maintaining and restoring aquatic, forested, and rangeland ecosystems and on improving the delivery of goods and services, the agency's funding allocations are based, not on need, but rather on factors such as numbers of acres, forests, or endangered species and on prior years' funding.

Developing data and measures to gauge performance toward meeting long-term and annual goals has also become more problematic for the Forest Service. Revenue and commodity outputs are now contingent on healthy aquatic, forested, and rangeland ecosystems, and the focus of the agency's strategic goals and objectives is tending toward a system of dynamic, interrelated objectives—frequently called "desired future conditions"—rather than a set of discrete objectives for individual programs or resources, such as the volume of timber offered or sold. However, the agency does not know the condition of many of these ecosystems. In addition, it has not developed objective, verifiable accomplishment measures and criteria that focus on actual improvements and gauge longer-term (5- to 10-year) trends in the condition of specific resources or attributes of environmental quality, such as sediment loads in streams or the percentage of trail miles meeting a specific standard.

In its February 1998 annual performance plan developed under the Results Act, the Forest Service acknowledged that inventories of 40 percent of the aquatic ecosystems on its lands are inadequate to determine their condition and that the boundaries of many of these ecosystems have not been systematically delineated. Similarly, descriptions of the condition of forested ecosystems within the national forests are generally based on estimates, and the criteria for determining their condition and prioritizing needed actions have not been developed.

In its June 1990 Critique of Land Management Planning,[5] the Forest Service stated that "meaningful production goals for recreation, water, wildlife, and fisheries have yet to be established, even in theory, and reported accomplishments would be nearly impossible to evaluate objectively or even verify independently." Our work indicates that, in the intervening 8 years, the agency has not made a serious, systematic attempt to undertake this admittedly daunting task. Establishing such goals is, however, essential to being able to predict with any reasonable degree of certainty what levels of goods and services the national forests can produce.

Therefore, identifying objective and independently verifiable measures of the health of aquatic, forested, and rangeland ecosystems must be the Forest Service's first focus in developing a schedule to achieve performance accountability. If such measures cannot be developed, then the Congress and the American public will not have an objective basis for

[5]Critique of Land Management Planning, Vol. 2, National Forest Planning: Searching for a Common Vision, Forest Service (FS-453, June 1990).

evaluating the agency's performance or for assessing the benefits derived from the yearly investment in the Forest Service.

In conclusion, Messrs. Chairmen, we recognize that the Forest Service is not a private firm and that its stewardship responsibilities and conservation mandates constrain its ability to generate revenue and provide goods and services. We also recognize that protecting "public goods," like endangered and threatened species and their habitats, increases management costs on the national forests. However, we believe that the agency is also responsible for spending taxpayers' dollars wisely and providing taxpayers with a complete and accurate accounting of how funds are spent and what is accomplished with the money.

Forgone revenue, inefficiency and waste, increased vulnerability to fraud and abuse, and lack of financial and performance accountability indicate to us that the American public is not receiving a fair return for its annual investment in the Forest Service. Unlike the management of national forests, compliance with the requirements for financial and performance accountability cannot be left to choice, and strong leadership within the agency and sustained oversight by the Congress will be needed to ensure corrective action. We believe that, at a minimum, the agency must replace its decade-old promises to improve with firm schedules to correct identified management deficiencies and to achieve both financial and performance accountability. Finally, we believe that future years' funding should be based, in part, on the Forest Service's demonstrated progress toward developing and implementing these schedules.

Messrs. Chairmen, this concludes our prepared statement. We will be pleased to respond to any questions that you or the Members of the Committees may have.

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