United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Department Operations, Oversight, Nutrition, and Forestry, Committee on Agriculture, House of Representatives

For Release on Delivery
Expected at
10 a.m.
Thursday,
March 11, 1999

FOREST SERVICE

Financial Accountability

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GAO/T-AIMD-99-106

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our ongoing monitoring of the Forest Service's efforts to improve its financial accountability. In January 1999, we designated Forest Service financial management as a high-risk area because of serious and long-standing accounting and financial reporting weaknesses plaguing its operations. For several years it has been unable to obtain a positive audit opinion on its financial statements, continuing today with the Department of Agriculture (USDA) Inspector General's (IG) disclaimer of opinion [1] on the Forest Service's fiscal year 1998 financial statements. These problems have included a lack of basic accountability for major assets and liabilities, the inability to accurately track the cost of programs and activities, and significant reporting errors in the Forest Service's financial statements and the records that support those statements. Additionally, the Forest Service has experienced significant problems in implementing its new accounting system, which is key to correcting its financial management deficiencies and attaining fundamental accountability over billions of dollars in taxpayer funds and investments.

These shortcomings mean that the agency and the Congress do not have accurate financial data to help make informed decisions about future funding. Further, the inaccuracy of the financial statement data raises questions about the accuracy of program performance measures and certain budget data that is drawn from the same database.

My testimony today will

- briefly describe the historical pattern of the Forest Service's financial management weaknesses,
- discuss the fundamental problems that the Forest Service must resolve in order to achieve financial accountability,
- outline GAO's criteria for placing Forest Service financial management on our high-risk list and what must take place for the agency to be removed from the list, and
- highlight corrective measures the agency has under way.

[1] A disclaimer of opinion means that the auditor is unable to form an opinion on the financial statements. A disclaimer results when a pervasive material uncertainty exists, or there is a significant restriction on the scope of the audit.

History of Financial Management Weaknesses

Since its first audit of the Forest Service's financial statements, which covered fiscal year 1991, the USDA IG has found serious accounting and financial reporting weaknesses. The IG issued an adverse [2] opinion on the fiscal years 1991 and 1992 financial statements, due to major inaccuracies in those statements. For fiscal years 1993 and 1994, the IG issued qualified audit opinions and reported that the Forest Service's financial statements were unreliable due to pervasive errors in the field-level data supporting the land, buildings, equipment, accounts receivable, and accounts payable accounts. This unfavorable pattern continued the following year when the IG issued an adverse audit opinion on the Forest Service's fiscal year 1995 financial statements.

Due to the severity of the accounting and reporting deficiencies, the Forest Service did not prepare financial statements for fiscal year 1996, but chose instead to focus on trying to resolve these problems. The Forest Service's initial goal was to correct some of the deficiencies during fiscal years 1997 and 1998 and to complete corrective actions and receive an unqualified audit opinion on its fiscal year 1999 financial statements. The Forest Service subsequently revised this goal to receiving an unqualified opinion on its fiscal year 2000 financial statements.

Many of the Forest Service's long-standing accounting and reporting problems are the result of outdated accounting systems--a problem that exists USDA-wide. USDA's current financial accounting system, the Central Accounting System (CAS) is not U.S. Government Standard General Ledger compliant,[3] not well integrated, and is generally outdated. In December 1994, the Office of the Chief Financial Officer (OCFO) purchased a new accounting system, the Foundation Financial Information System (FFIS), to replace CAS USDA-wide. Because of the reported financial deficiencies at the Forest Service, it was decided that the Forest Service would be one of the first USDA agencies to implement FFIS.

The Forest Service implemented FFIS in three of its operating units, representing about one-third of all Forest Service transactions, on October 1, 1997. While the overall responsibility and oversight for implementing FFIS rests with the USDA OCFO, implementation at the

[2] An adverse opinion means that the financial statements as a whole are not fairly stated.

[3] The U.S. Government Standard General Ledger provides a standard chart of accounts and standardized transactions that agencies are to use in all their financial systems.

Forest Service is a joint effort. In addition, OCFO uses Agriculture's National Finance Center (NFC) to help carry out its FFIS responsibilities.

As a result of serious implementation problems, in January 1998 USDA retained an outside consultant to independently review and assess FFIS management and implementation and to report its findings to the Office of the Chief Information Officer and the Office of the Chief Financial Officer. Several positive actions, which I will discuss later, were taken by USDA in response to recommendations by the consultant. The Forest Service also asked that consultant to evaluate its financial management structure and workload requirements. Such an evaluation was needed to determine if its organizational structure and resources were sufficient to accomplish the remaining tasks required to achieve financial accountability.

Fundamental Problems Need Resolution

As we discussed in our October 1998 report, [4] there are three fundamental problems that the Forest Service must resolve before it can achieve the most basic levels of financial accountability.

- First, the Forest Service must correct the basic accounting and reporting deficiencies that have plagued the agency for years.
- Second, it must overcome the initial implementation problems it encountered with its new accounting system, FFIS, and complete the implementation of the system agencywide.
- And finally, the Forest Service needs to revise its field structure to provide functional lines of accountability for financial management.

I will now discuss each of these issues in a little more detail.

Major Accounting and Reporting Deficiencies Remain

The IG's most recent report on his audit of the Forest Service's fiscal year 1998 financial statements–a disclaimer of opinion--shows that the Forest Service continues to be unable to reliably keep track of billions of dollars of major assets, cannot accurately allocate revenues and costs to its programs in its Statement of Net Costs, and made significant errors in preparing its financial statements. The report also identified major internal control weaknesses related to each of these areas. Specifically, the report stated that

[4] Forest Service: Barriers to Financial Accountability Remain (GAO/AIMD-99-1, October 2, 1998).

- continuing financial management deficiencies prevented the Forest Service from preparing complete, reliable, and consistent financial statements,
- the lack of an integrated accounting system and material weaknesses within the current system resulted in inaccurate and unreliable financial data, and
- internal controls were not sufficient to safeguard assets or to ensure that field-level data were accurate.

The IG's report identified numerous financial reporting errors and internal control weaknesses, including the following examples.

- The Forest Service's reported $3 billion in Fund Balance Accounts with the U.S. Treasury,[5] maintained by the National Finance Center (NFC), were not in balance with the amounts reported by Treasury.[6] A net adjustment of $535 million to Fund Balance with Treasury was made by NFC to balance these accounts for all of USDA, an undetermined portion of which pertained to the Forest Service. NFC adjusted its records for the differences without establishing or analyzing the cause of the differences. Because most assets, liabilities, revenues, and expenses stem from, or result in, cash transactions, errors in these accounts may affect the accuracy of various Forest Service financial reports, including budget execution reports and information reported to the Congress.
- The accuracy of the reported $2.6 billion in net Property, Plant, and Equipment could not be determined because of the lack of procedures and controls for reporting real property and discrepancies found by the Forest Service after most units had reportedly certified and validated their respective amounts of property, plant, and equipment. Additionally, the Forest Service did not complete physical inventories of personal property. Until a system of controls is put into place to accurately track the quantities, locations, and costs of these assets, the Congress cannot be assured that the Forest Service's requests for additional funds to acquire property, plant, or equipment are warranted.

[5]The Forest Service records its budget authority in asset accounts called Fund Balance with Treasury and increases or decreases these accounts as it collects or disburses funds.

[6]For the last 8 years, the IG has reported numerous material control weaknesses in the operations at NFC. The Center processes the majority of the Forest Service's financial transactions, and the control weaknesses negatively impact the reliability of Forest Service data. Our upcoming report on NFC will address computer security issues we identified at the Center.

- The Forest Service still lacks supporting records (a subsidiary ledger system) to substantiate, at a detailed level, amounts the agency either owes or is owed by others. Forest Service officials stated that when the new accounting system is implemented in all Forest Service units, the agency will have more reliable accounts receivable and accounts payable data. However, the accuracy of these accounts after the new system is implemented throughout the agency will be driven to a great extent by the reliability of the data entered at the field level. The lack of reliable accounts receivable information severely impairs the Forest Service's ability to collect money owed it by other agencies. Accounts payable data deficiencies impede the agency's ability to readily determine the costs it has incurred and amounts owed on projects at any given point.
- The Forest Service did not properly allocate $2.87 billion in reported net costs among the major components of the agency. This occurred because the team responsible for preparing the Statement of Net Costs was not provided the necessary training on how to properly allocate revenues and costs to the appropriate units that generated those revenues or incurred those costs. The ability to properly match revenues and costs with the appropriate sources is especially important in the case of the Forest Service, where significant revenue-generating activities occur. Without such information, it is not possible to tell the extent to which taxpayers bear the cost of these activities. Additionally, proper cost information is necessary to assess the effectiveness and efficiency with which resources are used to achieve results.

In addition to the above deficiencies, the IG also reported that the Forest Service's use of a vast and complex process to classify and allocate costs in its accounting system increases the risk of errors or irregularities and the potential unauthorized use of appropriations or trust funds. The report indicated that the Forest Service shifted costs through at least 269,000 management codes during fiscal year 1997, and that this practice continued during fiscal year 1998. The report further stated that controls were not adequately prescribed to ensure that the actions were properly authorized, approved, justified, or documented. Accordingly, the IG concluded that there was insufficient assurance that the shifting of costs from one account to another was done in a manner consistent with appropriations law.

Serious Problems Impede Accounting System Implementation

Successfully completing the implementation of FFIS agencywide is critical to the Forest Service's efforts to achieve financial accountability. In reports issued since January 1998, we, the IG, and USDA's outside consultant have identified serious problems with the FFIS implementation process. In our February 1998 report,[7] we noted problems with FFIS processing data and transferring data between FFIS and its feeder systems that raised questions about the FFIS implementation process. In that report, we also noted that the three operating units where FFIS was implemented were unable to produce critical budgetary and accounting reports that track the Forest Service's obligations, assets, liabilities, revenues, and costs, in part because ending balances could not be converted from the old accounting system, which is no longer functional for the implementation units, to the new accounting system.

USDA's outside consultant also identified numerous problems with the FFIS implementation process. For example, the consultant reported in March 1998 that:

- The program has suffered from insufficient oversight, undisciplined management control, conflicting goals, and a lack of clear lines of authority and accountability. This fragmentation of responsibility among OCFO, the Forest Service, and NFC left no one with an overall view of all the efforts needed to make the program succeed.
- Failure of the Forest Service to simplify its business processes had a significant negative impact on the successful implementation of FFIS. One major problem is the onerous process the agency uses to classify and allocate costs in its accounting records for work performed, which has led to greater operational costs. Further, the process is virtually impossible to perform because of its demands on computer capacity.

The Forest Service must correct these implementation problems before it attempts to bring the new system on-line agencywide on October 1, 1999.

Another critical issue that needs to be addressed is ensuring that FFIS and its feeder systems, as well as all of the Forest Service's mission-critical computer systems, are Year 2000 compliant. The Forest Service reported on March 3, 1999, that it expects to have all 17 of its mission-critical systems compliant by the end of the month. The Forest Service must also

[7] Forest Service: Status of Progress Toward Financial Accountability (GAO/AIMD-98-84, February 27, 1998).

take other actions, such as business continuity and contingency planning, to ensure that it can continue to carry out its core business functions after the century change.

Current Field Structure Hampers Accountability

In our February 1998 report, we stated that the Forest Service's autonomous organization may hinder top management's ability to gain full participation of all regional fiscal directors in efforts to achieve financial accountability. An independent contractor's report issued in March 1998, which addressed financial management and organizational analysis at the Forest Service, also raised the issue of the agency's autonomous structure. Specifically, the contractor noted that the Forest Service lacked a consistent structure for financial management practices. Further, the contractor reported that whether the subject is budget execution, financial plan development, accounting for reimbursable agreements, or creating management codes, each unit operates independently. The consultant characterized it as a "chaotic financial environment" and stated that it creates inconsistent practices and credibility problems.

The contractor recommended that the Forest Service establish a new position of Deputy Chief, Chief Financial Officer, at the national office in Washington, D.C. In addition, the contractor stated that the creation of a Chief Financial Officer and a consolidated financial management organization in the Washington, D.C., office needed to be mirrored throughout the field organization and recommended that a Deputy Regional Forester for Financial Management/Chief Financial Officer be established within each region. The contractor based this recommendation on the need to ensure clear lines of responsibility and accountability by having a single executive within each region who is in charge of financial management, including all accounting, budgeting, financial planning and analysis, and strategic planning.

The Forest Service restructured its national office management team in April 1998 to create functional lines of accountability for fiscal management that report directly to the Chief of the Forest Service. Three new management positions were created and filled–a Chief Operating Officer, Chief Financial Officer, and Deputy Chief for Business Operations. A Forest Service official told us that a decision about hiring chief financial officers at the regional level will be made after the implementation of FFIS is completed agencywide.

The national office restructuring addresses some of the concerns we have previously raised regarding management structure. However, the key issue regarding the autonomous field structure, as it relates to financial management, remains unresolved.

High-Risk Designation

Since 1990, we have periodically reported on government operations that we have identified as high risk because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement. Our high-risk status report is now provided at the start of each new Congress. The latest, High -Risk Series: An Update (January 1999, GAO/HR-99-1), was recently issued. Because of the severe weaknesses in the Forest Service's accounting and financial reporting, we designated it as a new high-risk area in that update report.

We used specific criteria in making that designation. First, we identified agencies that are material to the government's financial statements and have been unable to produce auditable financial statements for the agency as a whole. USDA, with reported assets of $121.7 billion, met this criteria, since it has received disclaimers of opinions on its departmentwide financial statement audits for the last 2 years. However, while USDA as a whole has been unable to produce auditable financial statements, significant parts of the organization have been able to do so, while other major components have not.[8] Thus, our next step was to identify the problem component of USDA that is most vulnerable to waste, fraud, abuse, and mismanagement and that is not likely to correct its financial management deficiencies in the near future. The Forest Service met this criteria.

In order to be removed from the list, the Forest Service will need to demonstrate sustained financial accountability. At a minimum, it will need to obtain an unqualified opinion on its financial statements for 2 consecutive years. In order to achieve this, the Forest Service will not only need to correct previously identified financial management deficiencies, but also implement key accounting and financial reporting requirements which became effective in fiscal year 1998. Achieving financial accountability also goes beyond receiving an unqualified audit opinion.

[8] USDA prepares financial statements for its mission areas, agencies, and corporations. The Food and Nutrition Service, Federal Crop Insurance Corporation, and Rural Telephone Bank received unqualified audit opinions on their fiscal year 1998 financial statements.

Consequently, the Forest Service will need to address material internal control weaknesses that adversely affect its ability to maintain accountability over its assets on an ongoing basis. For example, it needs to implement a system of controls to properly record, track, and depreciate property and equipment from acquisition to disposition, which is essential to properly safeguarding these assets.

Major reforms, such as the Chief Financial Officers Act, focus on maintaining a strong system of internal controls and providing accurate, timely, and relevant financial information needed for management decision-making and accountability, on a systematic basis, throughout the year. If the Forest Service's efforts result in obtaining reliable year-end data, but are not backed up by fundamental improvements in underlying internal controls, financial management systems, and operations that enable the routine production of accurate, relevant, and timely data to support ongoing program management and accountability, the agency will not achieve the intended results of the CFO Act or removal from the high-risk list.

Assuming that the Forest Service meets its revised goal of correcting its financial management deficiencies by fiscal year 2000, which we believe is optimistic, the earliest it could be removed from the high-risk list--given our requirement that it must receive two consecutive unqualified audit opinions--is 2003.

Corrective Measures Are Under Way

While major barriers remain, the Forest Service has begun and/or completed several actions, that, if successfully carried through, represent important steps towards achieving financial accountability. The following specific positive actions were taken during fiscal year 1998 or thereafter.

- The USDA OCFO established an FFIS Project Management Office that is responsible for managing the full implementation of FFIS across all USDA agencies. This office, which reports directly to OCFO, has FFIS implementation as its only objective and has been charged with developing a strategic plan for implementing FFIS and managing the execution of the plan. These actions, if accomplished, should provide the focused attention and independence that is needed to help successfully implement FFIS.
- The Forest Service has completed work on the design of a proposed new budget structure. According to the Forest Service, this proposed structure, if approved by the Congress, would reduce the number of

budget line items (which contain funding specified for particular uses) and would allow for better tracking of expenditures and reporting on performance. With regard to the structure of management codes, the Forest Service proposes reducing the number of codes by more than 50 percent. The Forest Service believes this reduction would simplify the tracking of expenditures and would standardize codes throughout the agency.

- The practice of shifting incurred costs from one account to another has been discontinued for the three units currently using FFIS.
- The Forest Service has recently hired experienced staff to fill key financial management and systems positions. Several of these newly hired individuals have experience successfully implementing FFIS at other agencies.
- The Forest Service is in the process of consolidating its budgeting, financial management, financial systems development and operations, and related analytical and quality assurance functions into a new central office headed by the Chief Financial Officer. This new organization and management team should help provide the strong management and leadership needed by the Forest Service to correct its long-standing accounting and reporting deficiencies.

Corrective measures are under way, but few of the problems reported by the IG and GAO have been fully resolved. These problems have been embedded in the Forest Service's basic way of doing business for many years, and correcting them is no easy task. Additionally, the problems the Forest Service encountered in implementing FFIS have cost valuable time. Forest Service senior management states that they are committed to correcting the agency's financial management deficiencies; however, much work remains to be done before the Forest Service is able to reduce the risk of waste, fraud, abuse, and mismanagement caused by its current lack of financial accountability.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions that you or the Members of the Subcommittee may have.

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