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First Audit of the Forest Service's
Financial Statements

Statement of
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Before the
Subcommittee on Forests, Family
Farms, and Energy
Committee on Agriculture
House of Representatives



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Mr. Chairman and Members of the Subcommittee:

I am pleased to have this opportunity to discuss our report on our first audit of the Forest Service's financial statements. Our audit covered fiscal year 1988 and is the prototype for future statements and audits which are now required for fiscal years 1990 through 1992 by the Chief Financial Officers Act of 1990 (P.L. 101-576). Before I get into the specifics of that report, I would like to give you some background to place the report in perspective.

Since the early 1980s, we have been encouraging major federal agencies to develop auditable financial statements. We have assisted many departments and agencies in the preparation of the statements and have conducted the audits of the statements. We worked with such agencies as the General Services Administration (GSA), Department of Veterans Affairs, the Air Force, Federal Housing Administration and others, including major components of the Department of Agriculture.

These audits proved extremely beneficial in producing statements that could be relied upon to provide a picture of where an agency stands financially and in identifying problems in agency financial operations and reporting.

In general, annual audits of financial statements identify and report on

- whether there are significant weaknesses in internal controls intended to deter fraud, waste, abuse, and mismanagement,

- whether accounting systems adequately account for resources received and spent (this would include accounting for receivables, inventories, and other assets and liabilities),

- whether internal management reporting adequately informs management so that it can properly take action to control resources, protect assets, minimize liabilities, etc., and

- whether the financial reporting provides accurate and reliable information about the efficiency and effectiveness of operations and probable future resource needs.

Let me now turn to our audit of the Forest Service which is the last of the major agencies at Agriculture to prepare financial statements and have them audited. As you know, the Forest Service is a sizable operation. In 1988, the year covered by our audit, the Service reported land, timber and other assets valued at \$11.3 billion with revenues of \$1.5 billion and

operating expenses of \$2.5 billion. The first year preparation and audit of statements usually takes a long time to complete and it did so in the case of the Forest Service. Significant effort was required to develop and audit the 1988 statements.

During our audit, we found significant internal control weaknesses and system design problems that diminished the reliability of the Service's financial data and impaired its ability to prepare accurate and reliable internal reports, including its year end reports to the Department of the Treasury and the Office of Management and Budget. Reliable financial information is essential if Service officials are to effectively manage assets, such as property and timber, measure the results of operations, and control funds. I will now discuss a few of the major problems disclosed by our first audit.

IMPROVED RECORDS ARE NEEDED

TO CONTROL PROPERTY

Our financial audit disclosed that the Forest Service's financial information on the billions of dollars invested in its land, buildings, equipment, and roads is inaccurate. We found that the Service's information in its general ledger and subsidiary property system did not agree.

For example, we found a \$4.6 billion difference between the \$3.4 billion of fixed assets recorded in its general ledger and the \$8 billion reported to the GSA based on its property records, which are subsidiary records to the general ledger.

The Forest Service could not satisfactorily reconcile data between these systems and our audit work was not able to substantiate either figure. Compounding this problem is property that the Service has acquired over the years for which original cost information was unavailable.

As a result, we were unable to assure ourselves as to the value of the property owned by the Forest Service. Also, we could not rely on these records for assurance that financial information used to account for and control the Service's fixed assets were fairly stated.

IMPROVEMENTS NEEDED IN FUND CONTROL

One of the purposes of good internal controls is to provide assurance that an agency complies with applicable laws and regulations. The Service reported two violations of the Anti-Deficiency Act (31 U.S.C. 1341 and 1517) in fiscal year 1988. In the first case, the Service reported obligations in its National Forest System appropriation that exceeded budgetary resources by

\$4,348,805. In the second case, the Service reported that it overobligated the fiscal year 1987 allotment in the Job Corps account by \$582,550. Stronger controls over the reporting of obligations and year-end activities could have prevented these violations.

ACCURATE FINANCIAL INFORMATION IS
KEY TO MANAGING TIMBER PROGRAM

The Forest Service's timber sales program has long been scrutinized by the Congress, and we have issued several reports over the years on the below-cost timber sales issue. We believe that reliable financial information is an essential tool for managing the Service's timber program.

We have worked with the Service for several years in developing the basic design of a financial system to support its timber program and resolving timber related problems. The Service has now tested and implemented its Timber Sale Program Information Reporting System (TSPIRS).

Test information for fiscal year 1988 was available and used by us in auditing the Service's financial statements. We found that, as then designed, TSPIRS understated the cost of timber harvested. Further, it overstated the value of timber and related facilities.

The Forest Service recognizes that the concepts underlying TSPIRS financial information must be modified. Actions have been initiated to ensure that the system recognizes costs in accordance with generally accepted accounting principles.

IMPROVEMENTS NEEDED TO FACILITATE

EXTERNAL REPORTING

The Service's external reports did not contain information that accurately reflected the results of its operations or its financial position. We identified material errors in the Service's payables, receivables, and fixed asset accounts, which required thousands of adjustments in the Service's financial statements and reports to OMB, Treasury, and GSA. Also, in preparing its fiscal year 1988 financial statements, the Service had to compile information from alternative sources and make adjustments exceeding \$10 billion to eliminate redundancies, correct errors, and make information conform to accrual-based accounting requirements.

If the central management agencies are to make sound decisions regarding federal government operations, it is essential that they receive accurate reports from the other federal agencies.

IMPROVEMENTS NEEDED FOR
COMPLIANCE WITH CFO ACT

The Service's development of financial statements and subjecting them to audit will help it comply with the financial reporting requirements of the Chief Financial Officers Act of 1990. One of the act's major requirements is the annual preparation of financial statements, which are to be submitted to OMB by March of each year and subsequently audited.

Until the problems we identified in our 1988 audit are corrected, however, we believe that the Service will continue to have problems in producing accurate and complete financial information. The Service's accounting systems are not designed to support the development of financial statements in accordance with generally accepted accounting principles, and they do not contain the necessary internal controls that ensure accurate financial data and reports. Because the Service's systems are not integrated, some balances in the 1988 statements had to be manually developed based on data from disparate systems. Because of internal control weaknesses, auditors had to spend more time testing data accuracy than would have been needed if adequate controls had been in operation. In some cases the development and verification of needed data were impractical. Such data deficiencies caused us to qualify our opinion on the Service's fiscal year 1988 financial statements.

Our report contains a number of recommendations to correct the weaknesses we identified and, according to Forest Service officials, the Service is committed to their implementation.

In conclusion, Forest Service management has taken an important step forward in developing the Service's first set of financial statements and has been committed to improved financial management. However, I must underscore the importance of correcting the weaknesses I have just described and the need for continued management commitment to provide needed control over the financial management of Forest Service operations and to facilitate compliance with the financial reporting requirements of the Chief Financial Officers Act.

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Mr. Chairman, this concludes my remarks. I would be happy to answer any questions you or other subcommittee members have at this time.