



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-275735

December 20, 1996

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

This letter responds to your request that we analyze the U.S. Department of Agriculture (USDA) Inspector General's (IG) report based on the IG's audit of the Forest Service's financial statements for fiscal year 1995. As financial statements are a means to report how appropriated funds are spent, this analysis of the IG's report is important to gain an understanding about the reliability of reported financial information. Your request stemmed from your concerns about inadequate stewardship over taxpayers' money appropriated to the Forest Service. In July 1996, the USDA IG reinforced these concerns in concluding that the Forest Service's financial statements for fiscal year 1995 were unreliable.

Among the more serious shortcomings cited by the IG were that the Forest Service

- had significant reporting errors in its financial statements and the records that support those statements;
- could not demonstrate that its policies and procedures adequately safeguarded assets against unauthorized acquisition, use, or disposition; and
- lacked financial systems that could accurately track revenues and costs.

These shortcomings mean that the agency and the Congress do not have accurate financial statement data to help make informed decisions about future funding. Further, the inaccuracy of the financial statement data raises questions about program performance measures and certain budget data, such as reimbursements for services provided, that are drawn from the same database. The financial reporting issues resulting from these shortcomings, as well as the resulting significant program and budgetary repercussions, are discussed below.

GAO/AIMD-97-11R Forest Service

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ERRORS IN FINANCIAL STATEMENTS

The IG's report and the notes to the financial statements identified numerous financial reporting errors. For example:

- The Forest Service could not determine for what purposes \$215 million of its \$3.4 billion in operating and program funds were spent. As a result, its financial statements included \$215 million in expenses classified as "unidentifiable." This inability to classify expenditures by type diminishes the potential utility of financial statements as a tool to help the Congress and others determine how the Forest Service spent operating and program funds. It also impedes Forest Service managers' ability to utilize this data to monitor and control categories of costs, and to accurately report costs related to program performance measures.
- Estimated amounts of \$45 million due to the Forest Service from other federal agencies (accounts receivable) for reimbursable services provided were double counted on the Forest Service's financial records. This type of error calls into question the validity of receivables and reimbursement activity reported by the Forest Service and could impair meaningful analysis of such activity. Additionally, since these data are drawn from the same database used to produce budgetary information, misstatement of reimbursable services could result in misstatement of budgetary resources available to carry out program activities.
- The Forest Service did not have a system that allowed it to accurately track amounts it owed to others (accounts payable) for contracted services. While the system could determine the amount the Forest Service obligated, it could not readily determine the percentage of work completed or the amount owed to the contractor. As a result, Forest Service managers had to resort to estimation of these amounts based on statistical sampling and testing of year-end obligations incurred. Based on this testing, the Forest Service concluded that accounts payable were understated by approximately \$38 million, and it adjusted its records accordingly. While the Forest Service's weaknesses in accounting for payables are not indicative of whether or not the Forest Service overobligated funds, they preclude the Forest Service from readily knowing costs it has incurred and amounts it owes on projects at any given point.

These errors in basic financial records demonstrate that the Forest Service was not always able to determine the amount of funds spent, reimbursements it should have received, or the validity of recorded assets and liabilities. Certain of

these financial reporting errors also indicate potential errors in budgetary data, particularly with regard to improperly reported reimbursements, which directly impact the amount of budgetary resources available. These errors also hamper Forest Service managers' ability to accurately report program performance measures as well as monitor income and spending levels for various programs and activities.

LACK OF POLICIES AND PROCEDURES TO SAFEGUARD ASSETS

The IG reported that the Forest Service did not have adequate controls and procedures in place to ensure that firefighting costs were properly charged to the correct fund source within the agency. For example, one region improperly charged certain personnel and equipment costs against the national budget instead of its own budget allocation. The IG reported that when this error was detected and subsequently corrected—meaning that the expenditures were subsequently charged to the appropriate region—it was determined that the region overspent its operating plan of approximately \$54 million by about \$6.7 million. However, the Forest Service's overall appropriation was not overspent in this case.

The IG report also disclosed that the \$7.8 billion in property, plant, and equipment reported by the Forest Service was erroneous because records for these assets were not consistently prepared, regularly updated, or supported by adequate documentation. Therefore, the correct quantities and costs of these assets were not determinable. Until systems are put in place to accurately track these assets, the Congress cannot be assured that Forest Service requests for additional funds to construct new roads and buildings and acquire new equipment are warranted.

For example, the Forest Service lacked a reliable system for tracking its reported 378,000 miles of roads,¹ which GAO determined exceeds the mileage of the national highway system. The Forest Service started performing inventory counts in an effort to capture the amount invested in roads it owns. These counts identified \$1.3 billion of roads in one region alone that had not been previously recorded. According to Forest Service officials, this process will take several years to complete nationwide.

¹The miles of roads are reported in the Forest Service's 1995 Report of the Forest Service.

The IG also reported inadequate safeguarding policies and procedures for equipment. Equipment is susceptible to theft or misplacement because generally it can readily be moved from one location to another. In GAO's view, the lack of adequate procedures to account for equipment substantially increases the risk that items could be stolen without detection or be misplaced and consequently not available when needed. GAO also believes that the Forest Service's inability to identify certain equipment it owns and its location could hamper activities of the Forest Service that utilize that equipment. This situation could also result in the Forest Service requesting additional appropriations to replace stolen or misplaced equipment.

LACK OF SYSTEMS TO TRACK REVENUES AND COSTS

The IG concluded that the Forest Service did not have adequate systems to track revenues and total program and operating costs agencywide. For example, the IG reported that the Forest Service could not calculate the costs of large fires without manually adjusting the accounting systems. Additionally, GAO's prior work has disclosed the Forest Service's inability to capture the revenues and related costs of various programs and activities.² In GAO's view, this capability is especially important because the Forest Service should have accurate historical revenue and cost data that can be used as the basis for determining the amount of money to request from the Congress to fund future projects and operations. The ability to track costs and revenue is also important for the Forest Service given its (1) relatively unique role in collecting revenues from timber sales and fees from activities, such as grazing and national forest use, and (2) authority and flexibility in using a portion of those revenues to carry out certain missions.

Current Forest Service financial systems do not allow related costs to be matched with specific revenue-producing activities. For example, because reforestation expenditures from the Knutson-Vandenberg Fund³ for an individual sale area are not to exceed the amounts collected by that sale area, it is critical that the Forest Service have the capability to capture timber sales and related

²Letter dated June 19, 1996, from GAO to the Chairmen of the House Committee on the Budget and the House Committee on Resources.

³Under the Knutson-Vandenberg Act, revenue from certain timber sales is to be deposited in the Knutson-Vandenberg Trust Fund, established by the act, where it is available for reforestation purposes.

costs on an individual sale-area basis. However, as we previously reported,⁴ the Forest Service's information systems do not offer the capability of measuring collections and expenditures at the individual sale-area level. Furthermore, the Forest Service does not have accurate data to use as a basis for billing or charging customers for activities, such as use of national forest land.

Forest Service managers cannot efficiently or effectively manage these revenue-generating activities without the proper systems in place to specifically track revenues and related costs. Further, the Congress does not have valid data for making decisions about whether to expand or scale back these types of activities.

ACTIONS TO CORRECT PROBLEMS

Forest Service officials said the agency is acting to correct these reporting deficiencies by implementing new accounting systems. It is critical that such systems are properly designed and implemented to integrate budgetary and cost information with external reporting to provide the Forest Service with the capability to accurately track assets, identify all costs associated with an activity, determine which costs should be recovered, and provide accurate data for charging or billing customers. Such systems would greatly enhance the information Forest Service managers and the Congress need in the decision-making process and for purposes of providing stewardship over appropriated funds and other financing sources.

A working committee has been established to address these accounting and financial reporting problems, most of which have been longstanding, with separate subgroups formed to address problems identified by the IG. This collaborative effort involving Forest Service management, Department-level and Forest Service chief financial officers, and the IG is scheduled to recommend and implement corrective actions by the end of fiscal year 1998. We will continue to monitor the progress of this working committee and periodically report back to you.

AGENCY COMMENTS

We obtained oral comments on a draft of this report from the Office of the Inspector General (OIG) and Forest Service officials. OIG officials generally agreed with our analysis of their report and provided some clarifying comments

⁴Forest Service's Reforestation Funding: Financial Sources, Uses, and Condition of the Knutson-Vandenberg Fund (GAO/RCED-96-15, June 21, 1996).

that we incorporated into our report where appropriate. While Forest Service officials agreed that their current accounting system has serious limitations in providing reliable financial reporting and performance data, they believe that the agency's budget system produces reliable obligation and expenditure data needed to manage the agency's resources. However, because the budget system is not subject to audit, the reliability of Forest Service budgetary reports has not been tested. In at least one case of financial reporting errors discussed in our report—incorrect reporting of reimbursements for services provided—budgetary system information may also be incorrectly reported.

Beginning in fiscal year 1998, an agency's financial statements must include a reconciliation of the budgetary resources it obligates to the audited statement of net cost of operations. This reconciliation should provide some level of audit assurance over budgetary numbers, if the financial statement numbers can be successfully audited. However, until the Forest Service can correct its financial reporting deficiencies, it will not be able to provide any level of audit assurance over the budgetary numbers through this reconciliation process.

Forest Service officials also disagreed with our discussion of the need to capture timber sales and related costs on an individual sale-area basis in order to comply with the Knutson-Vandenberg Act. They believed that the current procedures for accounting for Knutson-Vandenberg collections and expenditures, and the process currently used to annually determine the amount of excess Knutson-Vandenberg funding to return to the U.S. Treasury, are in full compliance with the statutory requirements of the act. However, as stated in our June 1996 report,⁵ we disagree that the current information systems and controls provide that level of adequate assurance that funds from a sale area are spent on projects in that sale area as required by law. While the current information systems can account for the collections at the sale level, comparable expenditure information is not available for a sale area.

Our analysis of the USDA IG report was conducted in Washington, D.C., and our Kansas City field office from July through mid-December 1996 in accordance with generally accepted government auditing standards.

We are sending copies of this letter to the Ranking Minority Member of your Committee; the Secretary of Agriculture; the Chief of the Forest Service; the

⁵See footnote 4.

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Forest Service Director of Fiscal and Accounting Services; the Director of the Office of Management and Budget; and other interested parties. Copies will also be made available to others upon request.

If you have any questions about this letter, please call McCoy Williams, Assistant Director, at (202) 512-6906.

Sincerely yours,

A handwritten signature in cursive script that reads "Linda Calbom".

Linda Calbom
Director, Civil Audits-Resources, Community,
and Economic Development Issues

(913757)

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