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Financial Management Issues

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the results of our work examining weaknesses in the Forest Service's financial accounting and reporting systems reported by the United States Department of Agriculture's (USDA) Office of Inspector General (IG). The Forest Service has been plagued by continuing financial management problems as evidenced by the IG's adverse opinion on the Forest Service's fiscal year 1995 financial statements. Due to the severity of these problems, the Forest Service did not prepare financial statements for fiscal year 1996, but chose instead to focus its efforts on problem resolution. Financial statements were prepared for fiscal year 1997, and the audit of those statements is near completion; as of July 1, 1998, the USDA IG was finalizing its report. Today, I will focus primarily on the fiscal year 1995 audit results, which disclosed a number of serious weaknesses, most of which still exist today. I will also briefly discuss the Forest Service's plans to address these weaknesses. While some progress has been made, many hurdles still exist before the Forest Service will be able to achieve financial accountability.

History of Financial Shortcomings

In July 1996, the USDA IG issued an adverse audit opinion, thereby concluding that the Forest Service's financial statements for fiscal year 1995 were unreliable overall. The IG's findings represented a continuing pattern of unfavorable conclusions about the Forest Service's financial statements. For fiscal year 1992, the IG also issued an adverse opinion due to the overall unreliability of the 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. Thus, many of the shortcomings in the Forest Service's accounting and financial data and information systems that continue to plague the agency today are largely attributable to long-standing problems.

Among the more serious shortcomings cited by the IG in its report on the fiscal year 1995 financial statements 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 are discussed in greater detail below.

Errors in Financial Statements

The IG's report on the fiscal year 1995 financial statements and the notes to the financial statements identified numerous financial reporting errors. For example:

- An estimated $45 million due to the Forest Service from other federal agencies (accounts receivable) for reimbursable services provided was double counted on the Forest Service's financial records. This type of error called into question the validity of receivables and reimbursement activity reported by the Forest Service and potentially impaired meaningful analysis of such activity. Additionally, since these data were drawn from the same database used to produce budgetary information, misstatement of reimbursable services could have resulted 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 estimating 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 were not indicative of whether the Forest Service overobligated funds, they precluded the Forest Service from readily knowing costs it had incurred and amounts it owed on projects at any given point.

These errors in basic financial records demonstrated 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. Some of these financial reporting errors also indicated potential errors in budgetary data, particularly with regard to improperly reported reimbursements, which directly affect the amount of budgetary resources available. These errors also hampered 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 report 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. Without systems in place to accurately track these assets, the Congress had no assurance that Forest Service requests for additional funds to construct new roads and buildings and acquire new equipment were warranted.

For example, the Forest Service lacked a reliable system for tracking its reported 378,000 miles of roads,[1] which we determined exceeds the mileage of the national highway system. The Forest Service started performing inventory counts in fiscal year 1995 in an effort to capture the amount invested in roads it owns. These initial counts identified $1.3 billion of roads in one region alone that had not been previously recorded. At that time, Forest Service officials estimated that this process would take several years to complete nationwide.

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. The lack of adequate procedures to account for equipment substantially increased the risk that items could be stolen without detection or be misplaced and, consequently, not available when needed. Also, the Forest Service's inability to identify and locate certain equipment it owned could have hampered activities of the Forest Service that utilized that equipment. This situation could also have resulted in the Forest Service requesting additional appropriations to replace stolen or misplaced equipment.

Lack of Systems to Track Revenues and Costs

The IG also 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, our prior work disclosed the Forest Service's inability to capture the revenues and related costs of various programs and activities.[2] 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

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

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

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.

Corrective Actions

Forest Service officials determined that planned corrective actions could not be completed in time to improve the Forest Service's fiscal year 1996 financial data. As a result, the agency did not prepare financial statements for fiscal year 1996. Instead, the Forest Service, USDA's Office of the Chief Financial Officer , and the IG agreed to work together to address the problems identified in the fiscal year 1995 IG audit report.

The Forest Service's goal was to correct some of the deficiencies during fiscal year 1997 and to achieve financial accountability by the end of fiscal year 1999. In August 1997, we reported[3] that it was doubtful that the Forest Service could achieve financial accountability by the end of fiscal year 1999 if management and staff commitment wavered, planned tasks were not accomplished, and sufficient resources were not provided. Our most recent report in February 1998[4] concluded that while corrective measures were under way, few of the problems reported by the IG in the fiscal year 1995 audit report had been fully resolved. Thus, we reported that it was not yet clear whether the Forest Service would be successful in its efforts to resolve these problems by the end of fiscal year 1999.

The IG recently concluded its audit of the Forest Service's fiscal year 1997 financial statements and was preparing its report as of July 1, 1998. However, we understand that because of the continuing financial accounting and reporting shortcomings, the IG will issue an unfavorable report on the fiscal year 1997 statements.

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

[3]Financial Management: Forest Service's Progress Toward Financial Accountability (GAO/AIMD-97-151R, August 29, 1997).

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

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