G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

September 21, 2001

The Honorable Cynthia McKinney
The Honorable George Miller
House of Representatives

Subject: Financial Management: Annual Costs of Forest Service's Timber Sales Program Are Not Determinable

Over the past several years, the Forest Service has reported the annual costs of its timber sales program in its *Forest Management Program Report*. Much of the information contained in this report is obtained from the Timber Sales Program Information Reporting System (TSPIRS); hence this report is commonly referred to as the TSPIRS report. For fiscal year 1997, the Forest Service reported the timber sales program lost $88.6 million. Concerned that this amount did not reflect the total federal costs associated with the timber sales program, and absent any information about the costs of the program for fiscal years 1998 and 1999, you asked us in March 2000 to attempt to determine the total net federal costs associated with the Forest Service's timber sales program for these fiscal years.[1]

We met with your respective staffs in May and September 2000 and advised them that our ability to perform the requested analysis would depend on the availability and reliability of the Forest Service's cost information and that we would proceed with this work as soon as the TSPIRS information was available. In July 2000, Forest Service officials told us that the fiscal year 1998 TSPIRS report had been drafted but not yet finalized for a number of reasons. As we discuss in more detail later in this letter, a draft of the fiscal year 1998 TSPIRS report was made available to the Congress and the public in February 2001. We ultimately received the final fiscal year 1998 TSPIRS report in June 2001, and in August 2001 Forest Service officials told us they were not going to prepare the fiscal year 1999 TSPIRS report. Accordingly, we are now addressing your question with the information we have at our disposal.

Results in Brief

While we deferred our response to your questions pending the Forest Service's completion of the fiscal years 1998 and 1999 TSPIRS reports, ultimately it was the serious accounting and financial reporting deficiencies that existed at the Forest Service during fiscal years 1998 and 1999 that precluded us from making an accurate

[1]Total net federal costs, as discussed in your request, would include the costs incurred by the Forest Service to carry out the program, as well as costs incurred by other federal agencies that either support the timber sales program or incur costs as a result of it, offset by timber sales revenue.

determination of the total federal costs associated with the timber sales program for fiscal years 1998 and 1999. These deficiencies rendered the Forest Service's cost information totally unreliable.

During these years, the Department of Agriculture's (USDA) Inspector General (IG) was unable to render an opinion on the Forest Service's annual financial statements because its financial systems did not produce timely and reliable financial management information.[2] This was due in large part to the Forest Service's use of two accounting practices to allocate costs to its programs that distorted program cost data, including the data used to prepare the annual TSPIRS reports. One practice allowed Forest Service employees to make changes to previously recorded cost information without creating any record of the changes (i.e., an audit trail). This, coupled with the large number of transactions processed each year, made it impracticable, if not impossible, for us or anyone to accurately determine the Forest Service's timber sales program costs.

USDA's IG and we have made numerous recommendations in the past aimed specifically at eliminating this accounting practice and improving the Forest Service's financial management and accountability. These recommendations, if properly implemented, would help address many of the underlying data reliability problems that have long plagued the Forest Service. We reported in September 2000 that the Forest Service has completed several actions and begun others that, if successfully carried through, represent important steps toward achieving financial accountability.[3] Therefore, we are not making any new recommendations to the Forest Service at this time.

We assessed the legal ramifications of the Forest Service's decision not to prepare the fiscal year 1999 TSPIRS report. Like the Forest Service, we concluded that while the Forest Service developed the TSPIRS and continued to produce TSPIRS reports in response to directions and expectations of certain committees in the Congress, there is no requirement in the law to continue to produce TSPIRS reports. However, there is a need for an accurate accounting of timber sales program costs to help ensure proper program management and accountability and to serve as a basis for estimating future costs when preparing budgets. The Forest Service recognizes this need and has pilot tested an activity-based managerial cost accounting system in one region. Forest Service officials expect this system, once fully implemented in fiscal year 2004, will provide for equivalent financial information across all programs and eliminate the need for stand-alone financial reporting systems like TSPIRS.

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[2]As a result of these and other financial management weaknesses, we designated Forest Service financial management as one of our "high risk" areas in January 1999 *(High-Risk Series: An Update*, GAO/HR-99-1, Jan. 1999) and continued this designation in January 2001 (*High-Risk Series: An Update*, GAO-01-263, Jan. 2001).

[3]*Financial Management: USDA Continues to Face Major Financial Management Challenges* (GAO/T-AIMD-00-334, Sept. 27, 2000).

On September 6, 2001, the Forest Service's Director of Financial Reports and Analysis informed us that the Forest Service concurred with our findings. He provided several technical suggestions, which we have incorporated as appropriate.

Background

Concerned about "below cost" timber sales and desiring better information on the benefits and costs of selling national forest timber, the Congress, in the Conference Committee Report on the 1985 Interior Appropriations Bill, directed that the Forest Service develop TSPIRS. The system was pilot tested in fiscal years 1987 and 1988 and officially implemented in fiscal year 1989. The annual TSPIRS reports have historically included three components—the Financial Account, which provides information about the revenues and costs of the timber sales program; the Economic Account; and the Employment, Income, and Program Level Account.

The Forest Service uses a series of complex management codes to capture the costs of its various programs, including those related to timber harvesting. These management codes are the basis for the cost information entered into the agency's general ledger accounting system, which during fiscal years 1998 and 1999 was a combination of the Central Accounting System (CAS) and the agency's new Foundation Financial Information System (FFIS). TSPIRS is programmed to identify those management codes that relate to the timber sales program and to extract and accumulate costs in order to produce the expense components in the TSPIRS Financial Account. During the years we were asked to review, the number of management codes used by the Forest Service normally exceeded 100,000 annually.

TSPIRS Cost Data Are Unreliable

Serious accounting and financial reporting deficiencies at the Forest Service raised significant doubts about the reliability of information included in the fiscal year 1998 TSPIRS report. These same deficiencies would have also affected the fiscal year 1999 TSPIRS report had the Forest Service prepared that report. The USDA IG was unable to render an opinion on the reliability of the Forest Service's financial statements for fiscal years 1998 and 1999, due to a number of significant financial management issues, including major deficiencies with the general ledger systems used by the Forest Service. These same deficiencies led us to designate Forest Service financial management as one of our "high-risk" areas in January 1999. One other reason cited by the IG for its fiscal year 1998 disclaimer of opinion was that the audit was hampered by difficulties in tracing transactions through the Forest Service's vast and complex management code system into the general ledgers. The cost data presented in the fiscal year 1998 TSPIRS report were extracted from these general ledger systems.

In October 1999, we reported[4] on two problematic accounting practices employed by the Forest Service that could materially distort the cost data included in the fiscal year 1998 TSPIRS report. The first practice was known as "charged as budgeted."

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[4] *Forest Service: A Framework for Improving Accountability* (GAO/RCED/AIMD-00-2, Oct. 13, 1999).

Under this practice, staff time was charged to a program (through the use of management codes) based on the amount of time that an employee was budgeted to spend on that program, regardless of the time actually spent working on that program. For example, if an employee was budgeted to work 100 percent of his or her time on the timber sales program but actually only spent 40 percent of his or her time on that program and the remaining time working on another program, such as minerals management activities, the Forest Service still charged 100 percent of the employee's time to the timber sales program. This practice could have potentially misstated project and program costs and precluded the Forest Service from providing the Congress and other interested parties with useful and reliable cost information and performance measures.

The second practice was known as "retroactive redistribution." Under this practice, expenditures, although possibly recorded correctly to one of the Forest Service's timber sales program management codes initially, were later reassigned to a different program management code depending on, among other things, the availability of funds. For example, costs associated with harvesting timber may have initially been charged to a management code under the Timber Sales Management program, later backed out, and then redistributed to another code falling under any of the Forest Service's 20 or more other programs, such as Recreation Management. When this occurred, no record of the change, i.e., an audit trail, was created, thus making it difficult, if not impossible, to identify where changes occurred. Given the large number of transactions and lines of accounting and the detail involved, accountability was lost and any information related to the cost of the timber sales program was rendered totally unreliable. According to Forest Service officials, implementation of FFIS, the agency's new general ledger system, has curtailed this practice. However, FFIS was not fully implemented by all Forest Service components until the start of fiscal year 2000.

Because the foundation upon which we would have added other identified net federal costs related to the timber sales program was unreliable, we did not contact the Department of Justice or other federal agencies we believed might have incurred significant costs in support of the timber sales program in order to determine the costs they incurred related to the program.

TSPIRS Cost Information Was Not Timely

While a draft of the fiscal year 1998 TSPIRS report was made available to the Congress and the public in February 2001, a copy of the final fiscal year 1998 TSPIRS report was not provided to us until June 2001—more than 2 and a half years after the end of fiscal year 1998. The Forest Service attributes the delays in completing the fiscal year 1998 TSPIRS report to two factors. First, the Forest Service stated that time was needed to analyze and respond to our January 1999 study, which concluded that the Forest Service had not properly accounted for the cost of roadbeds constructed and used for timber purposes. More time was then needed to analyze and restate prior year financial results so that they would be consistent with the newly adopted accounting methodology of depreciating roadbed costs over their useful life.

Using the new accounting methodology, the Forest Service reported in the fiscal year 1998 TSPIRS report that its national forest timber sales program lost $125.9 million. Additionally, as a result of the change in accounting methodology, the Forest Service reported the restated fiscal year 1997 loss increased from $88.6 million to $116 million. However, because of the serious data reliability issues discussed previously, we did not attempt to verify the accuracy of the fiscal year 1998 loss or the restated amounts for fiscal year 1997.

The second factor that agency officials stated caused the delay was the higher priority placed on agencywide implementation of its new FFIS general ledger system. Effective October 1, 1999, all Forest Service components began using FFIS. FFIS is a cornerstone of the Forest Service's continuing financial reform initiatives. Accordingly, Forest Service officials stated that activities related to implementing FFIS took precedence over those related to TSPIRS when staffing resources were limited.

In addition, in August 2001, Forest Service officials informed us that the Forest Service will not prepare TSPIRS reports for fiscal year 1999 or subsequent years. Forest Service officials stated that due to marked declines in the size of the timber sales program, shifts in program objectives, and changes in the types of products being harvested, much of the information now being reported in TSPIRS is only marginally relevant to today's timber program. Also, Forest Service officials stated, among other things, that they felt it was inappropriate to continue to produce financial statements that are not required when it is known that the agency's financial data are unreliable. In addition, the Forest Service indicated that much of the financial information currently provided in the TSPIRS report is, or eventually will be, available through other agency reports. The Forest Service has pilot tested an activity-based managerial cost accounting system in one region and believes that this system, when fully implemented agencywide in fiscal year 2004, will provide for equivalent financial information for all its programs and eliminate the need for stand-alone financial reporting systems like TSPIRS. Forest Service officials have not yet determined how or if the economic and other information historically reported in the TSPIRS reports will be reported.

In conducting our review, both we and the Forest Service analyzed pertinent legislation related to the timber sales program to determine if the Forest Service is statutorily required to prepare the annual TSPIRS reports and, if so, whether the Congress had mandated a deadline for issuing the reports. Based on our respective analyses, we determined that no statutory requirements exist for the TSPIRS reports. Therefore, the Forest Service's decision to not prepare TSPIRS reports for fiscal year 1999 or subsequent years and the untimely issuance of the fiscal year 1998 report have not violated any statutory requirements. However, there is still a crucial need for an accurate accounting of timber sales program costs to ensure proper program management and accountability and to serve as a basis for estimating future costs when preparing budgets.

Agency Comments

We received oral comments on September 6, 2001, from Forest Service's Director of Financial Reports and Analysis expressing the agency's concurrence with our findings. He also provided additional technical comments, which we incorporated as appropriate.

Scope and Methodology

To obtain information about the costs reported by the Forest Service for its timber sales program, we requested a copy of the Forest Service's fiscal year 1998 TSPIRS report and inquired about the Forest Service's time frames for completing the fiscal year 1999 TSPIRS report since as of July 2000 preparation of this report had not begun. The Forest Service provided an initial draft of the fiscal year 1998 TSPIRS report in August 2000, a revised draft in February 2001, and the final report in June 2001. In August 2001, Forest Service officials informed us that the Forest Service would not prepare TSPIRS reports for fiscal year 1999 or subsequent years.

To obtain evidence about the reliability of Forest Service's net cost information, we reviewed the USDA IG's financial audit reports for fiscal years 1998 and 1999 and prior IG and GAO reports discussing Forest Service financial management issues. We interviewed IG staff members familiar with TSPIRS and coordinated with members of our staff who conducted previous reviews of the Forest Service's timber sales program. We also interviewed the Forest Service officials responsible for preparing the fiscal year 1998 TSPIRS report and obtained and reviewed information about how TSPIRS data were accumulated. We did not attempt to validate TSPIRS data because of the serious financial management weaknesses in the systems from which TSPIRS extracts cost data. We also did not attempt to contact or obtain cost information from other federal agencies that play a role in the sale or harvesting of National Forest timber due to our determination that TSPIRS data, upon which we would have added other federal costs, were unreliable.

We conducted our review from July 2000 through August 2001 in accordance with U.S. generally accepted government auditing standards. We requested comments on a draft of this letter from the Chief of the Forest Service.

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As agreed with your office, unless you publicly announce the contents of this letter earlier, we plan no further distribution until 30 days from the date of this letter. At that time we will send copies to the Secretary of Agriculture, Chief of the Forest Service, and interested congressional committees. The letter will also be available on GAO's home page at http://www.gao.gov. If you or your staffs have any questions about this letter, please contact me at (202) 512-9508 or McCoy Williams, Acting Director, at (202) 512-6906. Phillip McIntyre was also a key contributor to this assignment.

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