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GAO

Report to the Chairman and Ranking Minority Member, Subcommittee on Forests and Forest Health, Committee on Resources, House of Representatives

May 2003

FOREST SERVICE

Year-end Financial Reporting Significantly Improved, but Certain Underlying Problems Remain

GAO
Accountability * Integrity * Reliability

GAO-03-538

GAO Highlights

Highlights of GAO-03-538, a report to the Chairman and Ranking Minority Member, Subcommittee on Forests and Forest Health, Committee on Resources, House of Representatives.

Why GAO Did This Study

Since 1996, we have periodically reported on Forest Service financial management problems that we, the U.S. Department of Agriculture's Office of the Inspector General, and other independent auditors have identified. We have designated the Forest Service financial management as a high-risk area since 1999. Because of these longstanding financial management deficiencies, the Subcommittee asked GAO to report on the Forest Service's progress in correcting its financial management problems and on remaining challenges and actions underway to address those challenges.

What GAO Recommends

We recommend that the Forest Service develop a comprehensive financial management strategy that

- defines financial management goals and objectives,
- specifies corrective actions,
- identifies target dates and resources needed,
- identifies responsible parties, and
- prioritizes and links improvement initiatives, including USDA financial management systems enhancements.

The Forest Service concurred with our recommendations and indicated that it is developing a strategic plan.

www.gao.gov/cgi-bin/getrpt?GAO-03-538.

To view the full report, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-6906 or williamsm1@gao.gov.

May 2003

FOREST SERVICE

Year-end Financial Reporting Significantly Improved, but Certain Underlying Problems Remain

What GAO Found

The Forest Service has made significant progress toward achieving financial accountability, receiving its first "clean" or unqualified audit opinion on its financial statements for fiscal year 2002. This was attained because top management dedicated considerable resources to address accounting and reporting deficiencies. We consider this a positive step; however, sustaining this outcome and achieving financial accountability will require more than obtaining year-end numbers for financial statement purposes.

The Forest Service continues to face several major challenges, many of which resulted in unfavorable audit opinions in the past. Specifically, the Forest Service's fiscal year 2002 financial statement audit report disclosed material internal control weaknesses related to its two major asset accounts—fund balance with the U.S. Department of the Treasury, and property, plant, and equipment—as well as for certain estimated liabilities, payroll processes, computer security controls, and software application controls related to its procurement and property systems. Further, the Forest Service has not addressed the challenges of replacing or enhancing legacy feeder systems and implementing a financial management field operation that supports efficient and effective day-to-day financial operations and routinely produces reliable and timely financial information.

The Forest Service has corrective actions underway or planned that are intended to resolve these problems, including a financial management strategic plan. If this plan is to serve as a "road map" toward financial accountability, the Forest Service needs to ensure that its plan is comprehensive, integrating and prioritizing the various corrective action initiatives underway and planned.

History of Forest Service Audit Reports

Fiscal year	Opinion	Material internal control weaknesses	Noncompliance with laws and regulations
1991	Adverse	X	X
1992	Adverse	X	X
1993	Qualified	X	X
1994	Qualified	X	X
1995	Adverse	X	X
1996	No Audit[a]	No audit	No audit
1997	Disclaimer	X	X
1998	Disclaimer	X	X
1999	Disclaimer	X	X
2000	Disclaimer	X	X
2001	Disclaimer	X	X
2002	Unqualified	X	X

Source: USDA Inspector General and KPMG audit reports.

[a]The Forest Service chose not to prepare financial statements in an effort to focus on correcting accounting and reporting weaknesses.

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

May 1, 2003

The Honorable Scott McInnis
Chairman
The Honorable Jay Inslee
Ranking Minority Member
Subcommittee on Forests
and Forest Health
Committee on Resources
House of Representatives

Since December 1996, we have periodically reported[1] on financial management problems identified by the U. S. Department of Agriculture's (USDA) Office of the Inspector General (IG) in its annual audits of the Forest Service's financial statements. In prior reports and testimonies, we discussed (1) how the lack of accountability raises concerns about the Forest Service's stewardship over billions of dollars of taxpayer money appropriated to it, (2) how its autonomous field structure hampers efforts to achieve financial accountability, and (3) its progress in correcting its financial accounting and reporting deficiencies. This report responds to your request that we continue to monitor the Forest Service's efforts to improve its financial management and determine

- whether the Forest Service has made progress in resolving previously reported financial management problems,
- challenges that the Forest Service faces in achieving financial accountability, and
- actions underway or planned by the Forest Service for resolving remaining problems.

[1]U.S. General Accounting Office, *Financial Management: Forest Service's Efforts to Achieve Accountability*, GAO/AIMD-99-68R (Washington, D.C.: Feb. 8, 1999); *Forest Service: Barriers to Financial Accountability Remain*, GAO/AIMD-99-1 (Washington, D.C.: Oct. 2, 1998); *Forest Service: Status of Progress Toward Financial Accountability*, GAO/AIMD-98-84 (Washington, D.C.: Feb. 27, 1998); *Financial Management: Forest Service's Progress Toward Financial Accountability*, GAO/AIMD-97-151R (Washington, D.C.: Aug. 29, 1997); and Letter to the Chairman, House Committee on the Budget, GAO/AIMD-97-11R (Washington, D.C.: Dec. 20, 1996).

Results in Brief

In fiscal year 2002, the Forest Service made significant progress toward achieving financial accountability, receiving its first unqualified or "clean" audit opinion on its financial statements. To achieve this milestone, the Forest Service's top management dedicated considerable resources and focused staff efforts to address accounting and reporting deficiencies that had prevented a favorable opinion in the past. We consider this a positive step toward achieving financial accountability. However, sustaining this outcome and achieving financial accountability requires more than obtaining reliable onetime year-end numbers for financial statement purposes.

The Forest Service still must overcome several major challenges before it can routinely produce reliable and timely financial information to effectively manage operations, monitor revenue and spending levels, and make informed decisions about future funding needs for its programs. The fiscal year 2002 financial statement audit report disclosed material internal control weaknesses[2] in several areas, including its two major asset accounts--fund balance with the U.S. Department of the Treasury (Treasury) and property, plant, and equipment--certain estimated liabilities, payroll processes, computer security controls, and application software controls related to its procurement and personal property systems. The audit report also discussed areas in which the Forest Service's financial management systems are not in substantial compliance with Federal Financial Management Improvement Act of 1996 (FFMIA)[3] requirements. These relate primarily to the above internal control weaknesses.

[2] A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties.

[3] P.L. 104-208, title VIII, 110 Stat. 3009-389 (1996).

As discussed in our prior reports and testimonies, the agency faces the challenge of replacing or enhancing certain antiquated financial subsidiary systems–called feeder systems–that transfer data to the Foundation Financial Information System (FFIS), its standard accounting system, and implementing a financial management field organization that supports efficient and effective day-to-day financial operations. In 1999, we designated Forest Service financial management as high risk on the basis of serious financial and accounting weaknesses.[4] Again in our January 2003 report,[5] we reiterated our concerns due to the serious deficiencies that remain.

The Forest Service has corrective actions underway or planned that are intended to resolve these problems, including a financial management strategic plan. If this plan is to serve as a "road map" toward financial accountability, the Forest Service needs to make sure its strategic plan is comprehensive--integrating and prioritizing the various corrective actions--and includes detailed steps for implementing these actions.

The independent auditor hired by the Forest Service made numerous recommendations to improve the internal control weaknesses identified during its audit of the fiscal year 2002 financial statements. We support these recommendations. In addition, we are recommending to the Chief of the Forest Service that the Budget and Finance Deputy Chief/Chief Financial Officer (CFO) develop a comprehensive financial management strategic plan to effectively manage the improvement efforts underway and planned. The Forest Service concurred with our recommendations and it is developing a strategic plan.

Background

The Forest Service, a component of the USDA is responsible for maintaining the health, diversity, and productivity of the nation's forests and grasslands to meet the needs of present and future generations. This mission is carried out through the use of several programs, the largest being the National Forest System. Through the National Forest System, the Forest Service manages about 192 million acres, comprising about 8.5

[4] U.S. General Accounting Office, *High-Risk Series: An Update*, GAO/HR-99-1 (Washington, D.C.: January 1999).

[5] U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

percent of the total surface area of the United States. On these lands, the Forest Service, among other things, supports recreation, sells timber, provides rangeland for grazing, and maintains and protects watersheds, wilderness, fish, and wildlife. In addition, the Forest Service provides financial and program support for state and private forests and undertakes research activities. The Forest Service, headed by a chief, conducts its activities through 9 regional offices, 6 research offices, 1 state and private forestry area office, the Forest Products Laboratory, and the International Institute of Tropical Forestry.   In addition, the National Forest System has 155 national forest offices and more than 600 ranger district offices.

The Chief of the Forest Service manages from the national office, headquartered in Washington, D.C., and provides national-level policy and direction to the field offices. The Forest Service has approximately 30,000 employees and a budget of over $5 billion to carry out its mission. The Forest Service Budget and Finance Deputy Chief/CFO is responsible for the financial accountability of funds appropriated by the Congress for Forest Service programs and reports to the Forest Service Chief.

The Chief Financial Officers Act of 1990 calls for CFO Act agencies, such as USDA, to have financial management systems, including internal control, that provide complete, reliable, consistent and timely information. The Government Management Reform Act of 1994 (GMRA) requires the CFO Act agencies to prepare and have audits of annual financial statements. FFMIA builds on the foundation laid by these acts by emphasizing the need for agencies to have systems that routinely generate timely, accurate, and useful information. Specifically, FFMIA requires that the auditor report on whether the agencies' financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U. S. Government Standard General Ledger* (SGL) at the transaction level[6] requirements. As authorized by GMRA, the Office of Management and Budget is responsible for identifying components of the designated CFO Act agencies that are required to have audited financial statements. OMB requires that the Forest Service, a major component of USDA, have audited financial statements.

[6] The SGL provides a standard chart of accounts and standardized transactions that agencies are to use in all their financial systems.

Since its first financial statement audit for the fiscal year ended September 30, 1991, the Forest Service has faced numerous serious accounting and financial reporting weaknesses that have prevented it from receiving a positive audit opinion. These are shown in table 1.

Table 1: Forest Service History of Audit Opinions

Fiscal year	Opinion	Explanation
1991	Adverse	Major inaccuracies in the financial statements.
1992	Adverse	Major inaccuracies in the financial statements.
1993	Qualified	Pervasive errors in the field-level data supporting the land, buildings, equipment, accounts receivable, and accounts payable.
1994	Qualified	
1995	Adverse	Continuing pattern of unfavorable conclusions about the Forest Service's financial statements. Several shortcomings in accounting and financial data and information systems were identified.
1996	No Audit	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 resolving these problems.
1997	Disclaimer	Unable to reliably track and report on major assets worth billions of dollars, including accounts receivable, real property, and accounts payable. Also errors in records of fund balances with Treasury.
1998	Disclaimer	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 financial statements and supporting records.
1999	Disclaimer	Unable to determine accuracy of property, plant, and equipment and unable to verify fiscal year fund balance with Treasury because of lack of reconciliations and unsupported balances remaining from its old accounting system.
2000	Disclaimer	Material internal control weaknesses existed in the financial statement compilation process and in procedures for compiling the balances for fund balances with Treasury and general property, plant, and equipment. Because of these weaknesses, the agency was not able to provide timely, sufficient, and competent evidential matter to support amounts in the financial statements.
2001	Disclaimer	

Source: GAO Analysis.

In the past, we have reported and testified that the Forest Service's (1) unreliable financial data hampers the agency's and the Congress' decision-making ability, (2) lack of accountability exposes the agency to mismanagement and misuse of its assets, and (3) autonomous field structure hampers efforts to achieve financial accountability. In January 1999, due to the longstanding serious accounting and financial reporting problems, we designated Forest Service financial management as a high-risk area. We continued to designate financial management at Forest Service as high-risk in our 2003 report. Since 1997, the IG and independent auditors have continued to report instances of noncompliance with certain federal financial accounting and information system requirements and internal control weaknesses related to Forest Service financial computer systems.

The Forest Service, a component of USDA, uses and depends on many financial management systems and services provided by USDA, including the USDA National Finance Center (NFC). Therefore, efforts to improve controls over certain financial management computer systems and internal controls over accounting processes must be made in cooperation with USDA and NFC. For example, the Forest Service uses the USDA Foundation Financial Information System as its standard accounting system. In addition, NFC maintains and controls entry of many Forest Service transactions into FFIS. NFC also reports expenditures and collections it processes on the Forest Service's behalf to Treasury. FFIS also depends on and receives data from feeder systems used by the Forest Service to record its transactions. Many of the Forest Service's longstanding problems with regard to its accounting and information systems are a result of outdated technology of the financial feeder systems that transfer accounting data to FFIS.

Scope and Methodology

To address each of our objectives, we analyzed prior IG, consultant, and independent auditor reports including the audit report on the Forest Service's fiscal year 2002 financial statements that described several financial management weaknesses and their effect on the Forest Service's ability to properly account for assets worth billions of dollars entrusted to its care. Further, we examined the Forest Service's financial management policies, procedures, and processes, including completed, ongoing and planned activities and related implementation schedules to determine the Forest Service's progress, plans, and milestones for addressing financial management problems. We attended a Forest Service Budget and Finance planning conference and a financial statement training session conducted by the USDA CFO to gain a further understanding of Forest Service efforts to improve its financial statement compilation processes and overcome other financial management challenges. We analyzed reported financial management problems against the corrective actions taken to determine the remaining challenges. Further, we discussed the remaining challenges and the status of improvement efforts with officials from USDA and the Forest Service Office of the Chief Financial Officer, the USDA IG, and independent contractors working for the Forest Service.

We also visited and interviewed financial management staff at five Forest Service field locations. We visited the Intermountain Regional Office, the largest of the National Forest regions, because it processes a wide variety of financial accounting transactions. We also visited the Southern Regional Office, National Forest of North Carolina Supervisor's Office, Mt. Pisgah District Ranger Office, and North Carolina Research Station, each representing a different level of the financial management field organization. At each location, we interviewed staff and performed walk-throughs to obtain an understanding of accounting processes and procedures for certain accounts material to the financial statements, such as accounts receivable; property, plant, and equipment; other liabilities; and certain collections/revenues, such as timber sales.

We performed our fieldwork from July 2002 through March 2003 in accordance with generally accepted government auditing standards. We requested written comments on a draft of this report from the Chief of the Forest Service or his designee. The Chief of the Forest Service provided us with written comments, which are discussed in the "Agency Comments and Our Evaluation" section and reprinted in appendix I.

The Forest Service Has Made Significant Progress toward Achieving Financial Accountability

The Forest Service has made significant progress toward achieving financial accountability. For the first time since its initial financial statement audit that covered fiscal year 1991, the Forest Service received an unqualified or "clean" opinion on its fiscal year 2002 financial statements. To achieve this milestone, the Forest Service's top management dedicated considerable resources and focused staff efforts to address accounting and reporting deficiencies that had prevented a favorable opinion in the past.

Historically the Forest Service's financial management systems have not generated timely and accurate financial statements for its annual audit. In addition, the Forest Service has had long-standing material weaknesses with regard to its two major assets--fund balance with Treasury and property, plant, and equipment. In the past, such weaknesses prevented the IG from validating these two line items on both the Forest Service and the USDA departmentwide financial statements. In fiscal year 2002, the Forest Service reorganized the Budget and Finance Deputy Chief/CFO area and focused staff efforts to address reporting and accounting deficiencies identified in the fiscal year 2001 financial statement audit with the goal that the fiscal year 2002 financial statements would pass audit tests. To assist in these efforts, the Forest Service hired senior financial management officials, consultants and contractors and formed a financial reports team and several reconciliation “strike” teams to improve (1) the financial statement compilation process and (2) reconciliations of its major accounts, including fund balance with Treasury and property, plant, and equipment.

During fiscal year 2002, the financial reports team completed a number of efforts to improve the compilation process. For example, the team held a series of financial statement workshops for national office and field staff, updated the methodology for preparing the fiscal year 2002 financial statements, and provided the necessary information to complete the audit, such as account analyses and supporting documentation for sample transactions selected for testing.

Six reconciliation strike teams, consisting of contractors with expertise in reconciliation procedures and experienced Forest Service staff, performed financial statement account reconciliations and reviews to help ensure the accuracy and timeliness of recorded accounting data and that subsidiary ledgers were reconciled to general ledger accounts. The strike teams analyzed account data, identifying accounting errors and documenting adjustments to key asset, liability, and budgetary accounts in order to achieve accurate account balances. The fund balance with Treasury team focused on reconciling material fiscal year 2002 and prior-year cash transactions. The property, plant, and equipment reconciliation team analyzed transaction data to identify inaccurate records and reconciled the general ledger to its supporting detailed records. In addition, the property, plant, and equipment strike team, in cooperation with the USDA Office of the Chief Financial Officer, the USDA IG, and consultants, worked to ensure that property documentation supported property records, inventories were complete, and property was valued correctly.

Further, the property, plant, and equipment reconciliation team, worked with USDA on modifications and enhancements to certain property feeder systems. For example, in September 2002, USDA completed an automated interface with the Infrastructure Real Property Subsidiary System (INFRA) and FFIS. INFRA was revised to improve security by implementing controls such as user access restriction and password protection. Also, access to key data elements in the Personal Property System (PROP) and the Equipment Management Information System (EMIS) was restricted by September 2002 in order to address security weaknesses. At the same time, certain automated error checks were added to EMIS to help ensure data integrity.

While the primary focus of the reports and reconciliations teams was to help attain a clean fiscal year 2002 audit opinion, the teams have been institutionalized to work toward sustainable report compilation and reconciliation processes. Through these established account reconciliations and analyses, the teams are able to identify many of the underlying causes of inaccurate data and out of balance conditions. Specifically, according to the Forest Service CFO management, many of the problems are caused by improper recording of transactions, FFIS system problems, faulty interfaced and integrated feeder systems, lack of consistent formal policies and procedures, lack of staff training and manual accounting processes prone to human error. By understanding the root causes, the Forest Service has resolved some of the problems identified. For example, the strike teams coordinated with USDA to correct several programming errors[7] in FFIS that were causing inappropriate accounting. For instance, the fund balance with Treasury team found that fund transfers between Forest Service units for equipment usage, which are noncash transactions, were incorrectly recorded and reported to Treasury as cash collections. As result, the Forest Service's fund balance account at Treasury was being overstated by these amounts.

During fiscal year 2002, the Forest Service CFO management also issued new policies and procedures or revised existing ones to help ensure the quality and integrity of the financial data in FFIS and the feeder systems. To communicate these changes, the Forest Service CFO issued over 25 CFO bulletins to accounting staff as the need for accounting and reporting controls were identified. For example, the CFO issued several bulletins that provided guidance on the proper recording of transactions, such as the

[7] FFIS is programmed to debit or credit certain general ledger accounts based on identifiers, such as job code and transaction identification number and type, used to record the accounting event.

types of transaction codes to use when entering data into FFIS. The CFO also issued bulletins (1) requiring analysis of delinquent bills to determine their collectability and (2) to clarify documentation requirements for personal and real property transactions.

Further, Forest Service management continued to emphasize the importance of financial accountability to its line managers in the field. In April 2002, the Forest Service CFO implemented a set of financial performance indicators to monitor progress of the field staff in maintaining its accounts, including progress in clearing suspense account[8] items, monitoring collection of receivables, and compliance with CFO accounting guidance.

Despite Progress Made, Accountability Challenges Remain

Achieving financial accountability involves more than obtaining a clean audit opinion by producing reliable onetime year-end numbers for financial statement purposes. The Forest Service still must overcome many challenges to sustain this outcome and to reach the end goal of routinely having timely, accurate, and useful financial information. In its December 2002 report on the Forest Service's fiscal year 2002 financial statements, the auditor, KPMG Peat Marwick LLP (KPMG), continued to identify serious material internal control weaknesses and FFMIA noncompliance issues primarily related to weaknesses in controls over financial management computer systems that could adversely affect the Forest Service's ability to record, process, summarize, and report financial data in a timely manner.

The auditor attributed many of the deficiencies identified to lack of adequately trained staff; lack of manual internal control procedures, such as supervisory reviews; and poor automated controls, such as user access, system edits and system interfaces, within the FFIS and certain feeder systems that transfer the data to FFIS. As discussed in table 2, the auditor made several recommendations to address these conditions. We support these recommendations and are not making any new recommendations in these areas.

[8] Suspense accounts are used to temporarily hold collections and disbursements until disposition is determined and they can be properly classified in the applicable receipt or expenditure budget accounts.

In addition, the IG, Forest Service contractors, and we have reported long-standing problems regarding the Forest Service's financial management systems and its financial management organization. Many of the legacy feeder systems that transfer data to FFIS are antiquated technology and must be enhanced or replaced. The agency also faces the challenge of implementing a financial management field organization that supports effective and efficient day-to-day financial operations. Unless the Forest Service addresses these issues and moves to sustainable financial management processes, it will have to continue to undertake extraordinary, costly efforts, outside of its normal business processes, to sustain clean audit opinions. Further, management's ability to routinely obtain reliable financial information to effectively manage operations, monitor revenue and spending levels, and make informed decisions about future funding needs will continue to be hampered.

Remaining Internal Control and FFMIA Compliance Deficiencies Need to Be Resolved

Our *Standards for Internal Control in the Federal Government*[9] requires that agencies implement a strong internal control system that provides the framework for the accomplishment of management objectives, accurate financial reporting, and compliance with laws and regulations. It contains the specific internal control standards to be followed. These standards define internal controls as the policies, procedures, techniques, and mechanisms that enforce management's directives. They help ensure that actions are taken to address risks and are an integral part of an entity's accountability for stewardship of government resources. The lack of good internal controls puts an agency at risk of mismanagement, waste, fraud, and abuse. Further, without strong internal controls, an agency is unable to generate the consistent, reliable financial information needed to maintain ongoing accountability over its assets.

In its fiscal year 2002 audit report on the Forest Service's financial statements, the auditor continued to report serious internal control weaknesses with regard to the Forest Service's two major asset accounts--fund balance with Treasury and property, plant, and equipment. Also, KPMG reported material deficiencies related to certain estimated

[9] See U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999), which contains the internal control standards to be followed by executive agencies in establishing and maintaining systems of internal controls as required by 31 U.S.C. Section 3512(c), (d), commonly called the Federal Manager's Financial Integrity Act of 1982.

liabilities, payroll processes, general controls and certain application software computer controls. The following table provides a brief description of each of the reported deficiencies and recommendations for improvement.

Table 2: Forest Service Material Internal Control Weaknesses

Financial management area	Conditions and recommendations reported by auditor
Fund balance with the Treasury	While the Forest Service has progressed in fiscal years 2001 and 2002 in reconciling its fund balance with Treasury accounts, control deficiencies still exist in its reconciliation processes. The Forest Service had a large backlog of unreconciled items that needed to be researched and resolved. In order to bring the Forest Service's fund balance with Treasury accounts into balance with Treasury records as of September 30, 2002, the Forest Service recorded an adjustment of $107 million. The auditor recommended that the Forest Service document its reconciliation processes, establish a point of contact at the National Finance Center to assist in the reconciliation process, analyze and determine the proper disposition of its budget and clearing accounts, and allocate the necessary resources to complete monthly reconciliations in a timely manner.
Property, plant, and equipment	Material deficiencies in the controls related to the accurate recording of property, plant, and equipment transactions remain. For example, there were instances in which recorded amounts did not agree with supporting documentation and inappropriate payroll expenses were included in property values instead of being recorded as expenses, resulting in an overstatement of property and an understatement of expenses. Further, the Forest Service did not have effective controls over the initial recording of acquisition costs, in-service date, and useful life of property items. Because the Forest Service did not require reviews of data input for property transactions by a supervisor, another independent person or by system checks within property systems, certain property items were not recorded properly. The auditors recommended that the Forest Service train personnel on accurate transaction recording, require supervisory review of data input of property transactions, and design and implement a control methodology that verifies recording of acquisition costs, in-service date, and useful life and other critical elements, to ensure proper depreciation of capital assets.
Accrued liabilities	The Forest Service's proposed methodology for estimating certain liabilities, such as grants, was not accurate and did not substantially support the unpaid amount of services that had been delivered as of year-end. In addition, the proposed methodology did not consider payments to states, which are recorded as liabilities as of September 30. If the Forest Service had used its proposed methodology, both its accrued liabilities and associated expenses would have been understated for fiscal year 2002. As a result, sampling methodologies were used to project the year-end balance. The auditor recommended that the Forest Service develop a new methodology for estimating liabilities and maintain the supporting documentation used to determine the estimate.
Payroll process	Serious automated control deficiencies existed with the Forest Service's payroll time card entry system. For example, it allowed the Forest Service users to submit their time sheets for approval to an employee that was not the designated supervisor. In some locations, the employee could send the time sheet to him/herself for approval. In addition, deficiencies in manual controls over the payroll process existed, such as missing employee and/or supervisor signatures. The auditor recommended that the Forest Service implement controls to ensure that employees' supervisors appropriately review and approve their subordinates' time sheets, reinforce the requirement for time sheets to be signed by both the employee and supervisor, and reconcile and biweekly certify its payroll registers to its personnel listing.
General and software application controls	The Forest Service had material deficiencies in its general controls[a] environment. For example, controls for determining the trustworthiness of personnel, such as background checks, and limiting access to information systems needed improvement. Software application controls[b] related to procurement, and real and personal property feeder systems also needed improvement. Without sufficient application controls, the Forest Service is exposed to the risk of its property records being corrupted, lost, or altered, and errors and omissions not being prevented, detected, and corrected. The auditor recommended several actions for improving controls over user access, system interfaces, system edits, separation of duties, and data accuracy and completeness.[c]

Source: GAO analysis.

[a]General controls include the structure, policies, and procedures that apply to the agency's overall computer operations, for example: security management programs, access control, application software development and change, system software control, segregation of duties, and service continuity.

[b]Application controls covers the structure, policies, and procedures designed to help ensure the accuracy, completeness, authorization and validity of all transactions during the application process. Application controls play a crucial role in the auditability of these feeder systems.

[c]Due to the sensitive nature of the issues identified, the auditor provided the Forest Service with a separate limited-distribution report that contains the detailed findings and specific recommendations.

Further the auditor reported that the Forest Service's systems did not substantially comply with the three requirements of the FFMIA--federal financial management systems requirements, applicable federal accounting standards, and the *U.S. Government Standard General Ledger* at the transaction level. One example of noncompliance with federal financial management systems requirements was that the Forest Service did not have required certification and accreditations of security controls performed timely on its procurement and property systems. Further, the Forest Service did not record revenue for certain collections, such as map sales and camp site reservation fees, when they were collected, as required by federal accounting standards.[10] Instead, collections and fees were recorded in a suspense account and revenue was recognized when the money was used for other operational needs instead of when the revenue was actually earned. This practice could result in revenues and related costs being misstated on the Forest Service's financial reports.

Financial Management Systems Remain an Obstacle to Achieving Sustainable Accountability

Weaknesses in the Forest Service's financial management systems continue to hamper its ability to achieve sustainable financial transaction processing and reporting. In the past, the IG and we have reported long-standing problems with the feeder systems that process and transfer financial information into FFIS. Several of the feeder systems that generate data used to support the financial statements predate FFIS and have antiquated technology. Because significant differences existed between the data in the FFIS general ledger and its supporting detail in the feeder systems, financial statements produced by FFIS could not be relied upon. For example, the Forest Service uses several feeder systems to support its multibillion dollar property, plant, and equipment line item in its financial statements, including (1) Infrastructure Real Property Subsidiary System (INFRA), (2) Personal Property System (PROP), and (3) Equipment

[10] Statement of Federal Financial Accounting Standard No. 7, *Accounting for Revenue and Other Financing Sources*, requires collections be recorded as revenue at the point of sale.

Management Information Systems (EMIS). These feeder systems also rely, in some cases, on data transferred from other lower level (subsidiary) feeder systems. In prior years, material internal control weaknesses in the compilation of the property, plant, and equipment balance contributed to a disclaimer of an opinion on the Forest Service's financial statements.

In preparation for the fiscal year 2002 audit, the Forest Service engaged a consultant to perform extensive procedures to arrive at an opening (October 1, 2001) property, plant, and equipment balance using statistical sampling of property records. The existing data was examined for erroneous and duplicate records through a variety of means, including checks for mathematical accuracy and comparisons with physical records and inventories. During this process, the consultant discovered that the lack of and/or faulty interfaces between these feeder systems and FFIS resulted in erroneous postings to the property, plant, and equipment account. Although the Forest Service has made certain improvements to its property feeder systems during fiscal year 2002, more needs to be done to improve the quality and integrity of financial data in FFIS and the feeder systems.

In its fiscal year 2002 report on Forest Service's Information Technology,[11] the auditor reported certain weaknesses in internal controls related to the feeder systems. For example, the auditor found duplicate and dropped records after data was transferred between PROP, the Purchase Order Normal Tracking and Inventory System, and the Purchase Order System. The auditor also reported that system data validation and error detection controls were ineffective in EMIS. Further, the auditor reported weaknesses related to the Automated Timber Sales Accounting System (ASTA). Specifically, there were no controls built into ASTA to prevent duplicate transactions from being recorded. As a result, field unit staff had to manually review the data to identify any transactions that were erroneously entered more than once.

We visited and interviewed financial management staff at five Forest Service field offices about the accounting processes and systems used to obtain a "field" perspective on financial management problems and the

[11] As part of the fiscal year 2002 financial statement audit of Forest Service's financial statements, the auditor conducted a review of the Forest Service's information and technology general and application controls. Due to the sensitive nature of the findings, the auditors issued a separate restricted report to Forest Service Management.

status of improvement efforts. At the field offices we visited, the financial management staff told us that system issues affect their operations. For example, one field office uses the Timber Information Management (TIM) system, an upfront system used to record the initial information and produce bills for timber sales and wood product permits. Since the system does not interface with FFIS, users have to manually enter the timber sale deposits and permit sales into FFIS. Lack of an automated interface between the systems increases workload as well as the risk of input errors.

Problems with the financial management systems continue to hamper the Forest Service's ability to move to sustainable processes. Until the Forest Service resolves its systems problems, the financial statements produced by FFIS cannot be relied upon without significant manual intervention to reconcile differences between FFIS and the feeder-systems. Resolving these differences consumes personnel and other resources and limits the Forest Service's ability to have reliable financial information on an ongoing basis for day-to-day management.

An Efficient and Effective Financial Management Organization Is Key to Achieving Financial Accountability

Among the other challenges that the Forest Service faces is establishing an efficient and effective organization to accomplish financial management activities. The highly decentralized organizational structure of the Forest Service's financial management presents significant challenges in achieving financial accountability. Under the current organization, financial activities are performed and recorded at the Forest Service national office, nine regional forest offices, six research stations and USDA NFC as well as at hundreds of forest and district ranger offices where many transactions originate. The decentralized financial management organization presents a significant challenge because the Forest Service's national office financial management team is tasked with ensuring that staff at hundreds of field locations are routinely processing accounting transactions accurately and consistently, in accordance with management directives.

Since February 1998, we have reported that the Forest Service's autonomous and decentralized organizational structure could hinder management's ability to achieve financial accountability. In March 1998, an independent contractor, hired by the Forest Service to assess the agency's financial management and organization, also raised the issue of the agency's autonomous organizational structure. The contractor reported that the Forest Service lacked a consistent structure for financial management practices and that each field unit was operating independently. In response to these concerns, the Forest Service conducted a Financial Management Field Operation Assessment (FOA), which was completed in March 2001. As part of the assessment, the FOA project team evaluated the current level of accountability for financial management and made six recommendations to strengthen lines of responsibility and accountability. Specifically, the team recommended that the Forest Service (1) ensure that appropriate delegation of authority is in place, (2) finalize performance measures for financial management, (3) appoint field directors as responsible financial accountability officers for their respective units, (4) appoint deputy chiefs in the national office as responsible financial accountability officers for their units, (5) provide training and develop core competencies, and (6) establish policies and guidelines addressing the development, implementation, and financing arrangements for shared services agreements related to financial activities.

The Forest Service has taken several actions to address the FOA recommendations related to the autonomous field structure to improve accountability for financial management in the field and throughout the organization. For example, the agency restructured its national office financial management team to create functional lines of accountability for Budget and Finance management, under the leadership of the deputy CFO, who reports directly to the Chief of the Forest Service. The Forest Service also appointed field directors (regional foresters, research station directors, etc.) to serve as the responsible financial accountability officers for their units. Further, beginning in 2001, the Forest Service began to restructure its regional offices to mirror the national office's financial management structure. Currently, six of the nine regional offices have consolidated budget and finance functions, under the direction of a financial director who is responsible for financial management activities in the region. Another regional office is in the process of restructuring its financial management organization. The two remaining regional offices have no definite plans to change their financial management structure. While this is a good first step in resolving the autonomy of the Forest Service field offices, the Forest Service has not determined how best to structure the regions and related suboffices to create an efficient and effective organization to accomplish financial management activities.

At the five field offices we visited, the financial management field staff told us that, although progress is being made, more needs to be done to move to sustainable financial transaction processing and reporting in the field. For example, staff reported that they need more training on FFIS and updated policy and procedure manuals. They also stated that the national office needs to improve communication with the field to obtain better understanding of field business processes and to solicit more input from the field staff in developing accounting and reporting policies and procedures.

The Forest Service CFO management acknowledges that creating an effective and efficient organizational structure is critical to establishing sustainable processes and addressing many of the financial management issues and challenges that Forest Service faces, including

- improving internal controls over its accounting functions, such as adequate supervisory review, and over other areas of weakness noted by the auditors;
- providing training programs and on the job training opportunities for accounting field staff; and
- providing adequate oversight to ensure accurate and consistent processing of accounting transactions.

In 1999, we designated financial management at the Forest Service to be high risk because of serious financial and accounting weaknesses that had been identified and not corrected, in the agency's financial statements for a number of years. We continued to designate financial management at Forest Service as high risk in our 2003 report. In order to be removed from the high-risk list, the Forest Service, at a minimum, will need to demonstrate sustained accountability over its assets on an ongoing basis.

Corrective Actions Are Underway or Planned to Resolve Remaining Problems

While the conditions discussed above present a major challenge to achieving financial accountability, the Forest Service has several efforts underway or planned, that if implemented, should help to resolve many of its financial management problems and to move toward sustainable financial management business processes. Such efforts are designed to address internal control and noncompliance issues identified in the fiscal year 2002 audit report as well as address feeder system and organizational issues. To assist in its efforts, the Forest Service CFO management is developing a financial management strategic plan intended to provide direction for continued improvement efforts and a mechanism to monitor and evaluate performance. To be effective, this plan should be comprehensive–providing a detailed road map of the steps, resources, and time frames for achieving the end goal of sustainable financial management.

To address the fiscal year 2002 internal control and FFMIA audit findings, the fund balance with Treasury reconciliation team has documented its reconciliation procedures and is working with NFC to develop a fund balance with Treasury reconciliation process to assist in timely research and resolution of reconciling items related to fund balance with Treasury activities that are processed by NFC on the Forest Service's behalf. According to Forest Service CFO management, the reconciliation process should be in place by August 2003. The property, plant, and equipment reconciliation team has started a project to update existing policies and procedures and plans to issue revised property, plant, and equipment manuals during fiscal year 2003. The property, plant, and equipment team is also continuing to analyze property data files and reconcile data in property feeder systems to data in FFIS monthly. In January 2003, CFO management developed and implemented an automated system to track and monitor the status of issues identified by the reconciliation teams to help ensure timely resolution. They also hired a training coordinator to develop standardized training programs and two additional staff to update all financial policy and procedure manuals.

The Forest Service is also continuing to work with USDA to enhance or replace the feeder systems in an effort to resolve data transfer problems between feeder systems and FFIS. For example, it is currently exploring an option for replacing the Forest Service's three property feeder systems with a single USDA-wide property system. A decision on the system will be made by December 2003. The Forest Service expects to begin implementing the system in fiscal year 2004. Also, the Forest Service is scheduled to pilot the Integrated Acquisition System (IAS) by fiscal year 2004. IAS is a procurement system that will replace the current purchase order system and will link to FFIS. IAS will support three major procurement processes: requisitioning, purchasing, and contracting.

In addition to the efforts mentioned above, the Forest Service is evaluating options for a more efficient financial management organization. In November 2002, it formed the Financial Management Efficiency Team to assess financial management roles and responsibilities and evaluate models for an efficient financial management organization. In January 2003, the team submitted a draft proposal for financial management roles and responsibilities throughout the organization and is scheduled to submit its recommendation for a financial management organization in June 2003. According to CFO management, the team is expected to make a detailed recommendation for a consolidated accounting and fund control organization either at each regional office or within multiregional shared services centers located at selected regional offices.

The Forest Service has several strategic plans that include many of the financial management improvement efforts. For example, the Forest Service prepares agencywide strategic plans and annual performance plans as required by the Government Performance and Results Act. Also, the Forest Service's Budget and Finance Deputy Chief units prepare annual project plans. However, the agencywide strategic and performance plans are broad in scope and focus on high-level goals and objectives. The annual project plans are narrowly focused on specific short-term projects. These plans are not an adequate substitute for a comprehensive financial management implementation strategy because they do not integrate all the improvement efforts and do not include the critical elements needed to effectively manage an overall strategy that will succeed in achieving and sustaining financial accountability.

Forest Service CFO management is developing a financial management strategic plan intended to provide direction for continued improvement efforts and a mechanism to monitor and evaluate performance. This plan is designed as a working tool, evolving over 3 to 5 years, which will be reviewed and updated annually. In January 2003, the plan was introduced at the Forest Service's Budget and Finance planning conference. According to Forest Service CFO management the initial plan will be completed by June 30, 2003.

To be effective, the Forest Service's plan should combine all the financial management improvement efforts into an overall comprehensive financial management implementation strategy. Such a strategy is a critical tool for the Forest Service, serving as a road map to help in resolving financial management problems. An effective plan includes long-term and short-term plans with clearly defined goals and objectives and specific corrective actions, target dates, and resources necessary to implement those actions. A comprehensive plan also prioritizes projects and assigns accountability by identifying responsible offices and staff responsible for carrying out the corrective actions. Without such a plan, it will be difficult to fix accountability for its many efforts and effectively monitor progress against its end goals.

Conclusion

The Forest Service has demonstrated strong leadership and commitment to reach its goal of obtaining an unqualified opinion on its fiscal year 2002 financial statements. At the same time, many of the financial management improvement efforts implemented to date are outside of normal business processes and focus mainly on obtaining reliable year-end numbers for financial statement purposes. The Forest Service still must overcome several major challenges before it can move to sustainable processes that can routinely provide accurate, relevant, and timely information to support program management and accountability. The Forest Service is at a critical juncture. If the Forest Service is to achieve and sustain financial accountability, it must fundamentally improve its underlying internal controls, including financial management computer system controls, and financial management operations. The Forest Service has various efforts underway or planned, that if successfully carried through, will be important steps toward addressing the financial management challenges it faces. However, to date, several problems identified by the IG, KPMG, and us remain. Some of Forest Service problems are deep-seated and therefore will require sustained leadership and commitment of significant resources and time to resolve. The number and significance of the issues still facing the Forest Service emphasizes the need for a comprehensive strategy to manage the various initiatives underway or planned.

Recommendations for Executive Action

To help ensure sustained commitment and timely implementation of financial management improvement efforts, we recommend that the Chief of the Forest Service direct the Chief Financial Officer to develop a comprehensive financial management strategic plan that

- clearly defines long-term and short-term financial management goals and objectives;
- specifies corrective actions to address financial management challenges, including internal control weaknesses, FFMIA compliance deficiencies, system problems and organization issues;
- includes target dates and resources necessary to implement corrective actions;
- identifies the responsible parties for carrying out corrective actions; and
- prioritizes and links the various improvement initiatives underway and planned, including USDA financial management systems enhancement efforts.

Agency Comments and Our Evaluation

In written comments on a draft of this report, the Forest Service concurred with our recommendations to develop a comprehensive financial management strategic plan that defines financial management goals, specifies corrective actions, identifies target dates and resources needed, identifies responsible parties, prioritizes and links improvement initiatives, and provides details on financial management systems enhancements. Forest Service's response (see appendix I) stated that preparation of a financial management strategic plan is in process.

As agreed with your office, unless you publicly announce its contents earlier, we will not distribute this report for 30 days. At that time, copies of this report will be sent to the congressional committees with jurisdiction over the Forest Service and its activities; the Secretary of Agriculture; and the Director of the Office of Management and Budget. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO web site at http://www.gao.gov.

If you or your staff have any questions please contact me at (202) 512-6906. Key contributors to this report were Alana Stanfield, Suzanne Murphy, Martin Eble, and Lisa Willett.

McCoy Williams

McCoy Williams
Director, Financial Management
and Assurance

Comments from the Forest Service

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File Code: 1310/1930
Date: APR 24 2003

Mr. McCoy Williams
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Dear Mr. McCoy:

Thank you for the opportunity to review and comment on the draft General Accounting Office (GAO) Report, GAO-03-538, "Forest Service: Year-end Financial Reporting Significantly Improved, But Certain Underlying Problems Remain." The report effectively recognizes the progress the Forest Service made toward achieving financial management accountability in FY 2002. The report also identifies the necessity for the Agency to develop a comprehensive financial management strategic plan that defines financial management goals; specifies corrective actions; identifies target dates and resources needed; identifies responsible parties; prioritizes and links improvement initiatives; and provides details on financial management systems enhancements. Thus, the Forest Service concurs with the audit findings and recommendations. Preparation of the financial management strategic plan is in process.

Sincerely,

Dale N. Bosworth

DALE N. BOSWORTH
Chief

cc: Mary S Matiella, Sandy T Coleman

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