

October 1998

# FOREST SERVICE

## Barriers to Financial Accountability Remain



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**Accounting and Information  
Management Division**

B-281061

October 2, 1998

Congressional Committees

Since December 1996, we have periodically reported<sup>1</sup> on the financial management problems of the Forest Service identified in the U.S. Department of Agriculture (USDA) Inspector General's (IG) audit report on the Forest Service's fiscal year 1995 financial statements. Specifically, our past reports have (1) discussed how the IG's adverse opinion raised concerns about the level of stewardship over taxpayer money appropriated to the Forest Service and (2) assessed the Forest Service's progress toward correcting its accounting and financial reporting problems. This, our fourth report, responds to your requests that we continue monitoring the Forest Service's progress in correcting its accounting and financial reporting weaknesses.

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**Background**

Since its first audit of the Forest Service's financial statements, which covered fiscal year 1991, the USDA IG has found serious accounting and financial reporting weaknesses. The IG issued an adverse opinion on the 1991 financial statements and also on the fiscal year 1992 financial statements, due to the overall unreliability of the financial 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, when the IG issued an adverse audit opinion in July 1996, concluding that the Forest Service's financial statements for fiscal year 1995 were unreliable, the findings represented a continuing pattern of unfavorable conclusions about the Forest Service's financial statements. 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.

The Forest Service's goal was to correct some of the deficiencies during fiscal year 1997 and to achieve financial accountability—which the agency defines as an unqualified audit opinion—by the end of fiscal year 1999. In

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<sup>1</sup>Forest Service: Status of Progress Toward Financial Accountability ([GAO/AIMD-98-84](#), February 27, 1998); Financial Management: Forest Service's Progress Toward Financial Accountability ([GAO/AIMD-97-151R](#), August 29, 1997); Letter dated December 20, 1996, to the Chairman, House Committee on the Budget ([GAO/AIMD-97-11R](#)).

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August 1997, we reported<sup>2</sup> 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 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. In addition, new hurdles with implementing the Forest Service's new accounting system had to be addressed. Thus, we reported, 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. Much work still remained to be done before this goal could be achieved.

Many of the Forest Service's long-standing accounting problems are the result of outdated accounting systems—a problem that exists USDA-wide. USDA's current financial accounting system, the Central Accounting System (CAS), is not U.S. Government Standard General Ledger compliant,<sup>3</sup> not well integrated, and is generally outdated. On December 23, 1994, the Office of the Chief Financial Officer (OCFO) purchased a new accounting system, the Foundation Financial Information System (FFIS), to replace CAS USDA-wide. The basic FFIS system is a commercial off-the-shelf package developed by American Management Systems and was acquired through the General Services Administration's Financial Management System Software Multiple Award Schedule. This system has been implemented in and is being used by a number of federal agencies. Because of the reported financial deficiencies at the Forest Service, it was decided that the Forest Service would be one of the first USDA agencies to implement FFIS.

The Forest Service implemented FFIS in three units, representing about one-third of all Forest Service transactions, on October 1, 1997. While the overall responsibility and oversight for implementing FFIS rests with the USDA OCFO, implementation at the Forest Service is a joint effort between the Forest Service and the USDA OCFO. In addition, OCFO uses Agriculture's National Finance Center (NFC) to help carry out its FFIS responsibilities. As a result of serious implementation problems, in January 1998, USDA retained an outside consultant<sup>4</sup> to independently review and assess FFIS

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<sup>2</sup>Financial Management: Forest Service's Progress Toward Financial Accountability (GAO/AIMD-97-151R, August 29, 1997).

<sup>3</sup>The U.S. Government Standard General Ledger provides a standard chart of accounts and standardized transactions that agencies are to use in all their financial systems.

<sup>4</sup>Logistics Management Institute, Independent Assessment of USDA's Foundation Financial Information System (AG801R1, March 1998).

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management and implementation and to report its findings to the Office of the Chief Information Officer and the Office of the Chief Financial Officer.

In addition, the Forest Service acquired a consultant to evaluate its financial management structure and workload requirements. Such an evaluation was needed to determine if its organizational structure and resources were sufficient to accomplish the remaining tasks required to achieve financial accountability.

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## Results in Brief

Major weaknesses in the Forest Service's accounting and financial reporting persist. While the Forest Service has made some progress in addressing financial management deficiencies, its ability to produce financial reports has deteriorated because of problems implementing FFIS. Until the agency is able to (1) correct its basic accounting records and (2) successfully implement FFIS to account for and report on its activities, it will not be in a position to achieve financial accountability. Moreover, the Forest Service's current autonomous field structure may further hamper those efforts.

The IG's recently completed audit of Forest Service fiscal year 1997 financial statements disclosed continuing major weaknesses in accounting and reporting, particularly for real property (land, buildings, and roads), accounts receivable, and accounts payable. Errors were also detected in the Forest Service's failure to reconcile its fund balance with the Department of the Treasury. As a result, the IG was unable to determine the reliability of the Forest Service's fiscal year 1997 financial statements and therefore issued a disclaimer of opinion.

For example, the IG could not verify the balance for the Forest Service's reported \$8.2 billion in real property because inventories and valuations of these assets had not been completed at the time of the audit. The IG also could not verify the accuracy of the reported \$119 million in accounts receivable because the Forest Service did not maintain centralized records of individual accounts. Additionally, the IG reported that adjustments to accounts receivable totaling about \$166 million could not be verified because the automated data files documenting the adjustments had been recorded over and therefore were no longer available. Similarly, the Forest Service continued to lack a system that provided detailed accounts payable balances, and relied instead on its obligations system to estimate accounts payable at year-end. This precluded the agency from knowing costs it had incurred and amounts owed to others at any given point

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throughout the year. These weaknesses mean that Forest Service managers' ability to effectively manage operations, monitor revenue and spending levels, and make informed decisions about future funding needs will continue to be hampered until corrective measures are completed.

The aforementioned problems are exacerbated by the Forest Service's new financial accounting system's inability to produce certain critical budgetary and accounting reports that track obligations, assets, liabilities, revenues, and costs for the units that converted to the new system. Since January of this year, we, the IG, and USDA's outside consultant have identified serious problems with the FFIS implementation process. These problems were caused by, among other things, not simplifying the Forest Service's business processes before FFIS was implemented, adding feeder systems to FFIS, implementing the system before it was fully tested, and inadequate oversight and management control over the project.

As a result of these problems, the outside consultant recommended that implementation of the system in the rest of the Forest Service not proceed on October 1, 1998, as planned. Instead, the consultant advised USDA to reexamine some of the key decisions that have caused problems experienced to date. In addition, the Forest Service and OCFO will face additional challenges to ensure that FFIS and related feeder systems comply with Year 2000 requirements. As a result, the Forest Service has decided to defer full implementation of the system until October 1, 1999. We believe this action is reasonable under the circumstances.

In order to address concerns about its autonomous structure, the Forest Service restructured its national office management team in April 1998 by creating functional lines for accountability for financial management that report directly to the Chief of the Forest Service. However, the agency has not mirrored this structure throughout its field organization, thus raising concerns about whether a sufficient linkage exists between the national office and field units for financial accounting responsibilities.

Although major barriers to financial accountability still remain, the Forest Service has begun and/or completed several actions that, if successfully carried through, represent important steps towards achieving financial accountability. For example, the Forest Service has substantially completed equipment inventories and is in the process of correcting the erroneous data recorded in its old accounting system. In addition, the Forest Service has issued an accounting desk guide for all staff that provides uniform accounting instructions. This guide, if consistently used,

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should help improve the accuracy of data entered into the new system. Further, Forest Service management continues to emphasize the importance of financial accountability to its line managers, has established a team to improve selected financial processes, and has obtained advice from outside consultants on how to improve its financial operations.

While the Forest Service has committed considerable resources and progressed in addressing some of its long-standing financial management deficiencies, much work remains. Also, the problems encountered in implementing FFIS have been a major setback. Thus, the Forest Service's current goal of achieving financial accountability by fiscal year 1999 does not appear feasible.

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## Objectives, Scope, and Methodology

Our objectives were to monitor and report on the Forest Service's efforts to achieve financial accountability, including any barriers to successfully resolving its financial and reporting weaknesses, and to analyze the USDA IG's audit report on the Forest Service's fiscal year 1997 financial statements. We focused on the critical tasks that we previously reported were necessary for the Forest Service to achieve financial accountability. Specifically, we examined the agency's progress in (1) correcting certain accounting deficiencies, (2) implementing its new financial accounting system, and (3) improving its financial management structure since we last reported on these issues on February 27, 1998.

To assess the agency's progress in correcting certain accounting deficiencies, we analyzed the IG's fiscal year 1997 financial statement audit of the Forest Service to identify accounting problems and their effect on the users of the financial statements; namely, the Congress, agency decisionmakers, and taxpayers. Further, we reviewed the IG's working papers from the fiscal year 1997 financial statement audit and determined the specific nature and cause of the cited accounting deficiencies. In addition, we interviewed the cognizant IG personnel responsible for monitoring the Forest Service's improvement efforts and obtained their perspective on the Forest Service's progress in correcting its accounting weaknesses. We also reviewed the IG's monitoring plan for assessing the Forest Service's progress in implementing its corrective action plan, and we interviewed Forest Service personnel about the status of the Forest Service's corrective actions.

To ascertain the Forest Service's progress in implementing its new financial accounting system, we reviewed a USDA consultant

report—Independent Assessment of USDA’s Foundation Financial Information System, Logistics Management Institute (AG801R1, March 1998)—which evaluated the management and implementation of FFIS. Further, we reviewed two IG audit reports—Material Control Weaknesses Will Continue to Impact Departmental Financial Operations Because of Delayed FFIS Implementation (50801-5-FM, June 1998) and Implementation of the Foundation Financial Information System - Changes Need to be Made (50801-4-FM, March 1998)—which evaluated implementation of FFIS. In addition, we interviewed Forest Service, OCFO, NFC, and IG personnel in the region, at headquarters, and at NFC about FFIS implementation problems and the project plan to implement FFIS.

To evaluate the Forest Service’s progress in improving its financial management structure, we reviewed a consultant report—Modernizing Financial Management at the Forest Service-Financial Management & Organizational Analysis, Coopers & Lybrand L.L.P. (#43-3187-7-0325, March 18, 1998)—and discussed pertinent findings and recommendations with Forest Service and IG officials.

We performed our review from May through September 1998 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Secretary of Agriculture and the Chief of the Forest Service. The Chief Financial Officer, USDA, and the Chief Financial Officer, Forest Service, provided us with oral comments on September 21, 1998, and September 18, 1998, respectively.

## Major Accounting and Reporting Deficiencies Remain

The IG recently concluded that because of continuing accounting and financial reporting weaknesses, he was unable to determine the reliability of the Forest Service’s fiscal year 1997 financial statements—the first statements the Forest Service has prepared since those covering fiscal year 1995. As a result, the IG issued a disclaimer of opinion on these statements. The primary reasons for the IG’s disclaimer were that the Forest Service

- lacked an integrated general ledger and supporting records (subsidiary records) without which a financial system is not readily auditable and
- had significant reporting errors in its financial statements and the supporting records involving its asset, liability, equity, revenue, and expense accounts.



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These weaknesses mean that Forest Service managers' ability to effectively manage operations, monitor revenue and spending levels, and make informed decisions about future funding needs will continue to be hampered until corrective measures are completed.

The IG's report and the notes to the financial statements identified numerous financial reporting errors, including the following examples.

- Reliable account balances for the reported \$8.2 billion in land, buildings, and roads (real property) could not be established. This reported deficiency means that the Forest Service did not fully know what property it owned or its value. The inventory and valuation of these real property assets, which represent approximately 94 percent of the reported \$8.7 billion in total property, plant, and equipment and 69 percent of the Forest Service's reported \$11.8 billion in total assets, were scheduled for completion by July 31, 1998—past the July 13, 1998, completion date of the IG's audit. The Forest Service provided us with confirmation that 8 of 16 units<sup>5</sup> had completed the inventories and the valuations by the scheduled date. Two additional units subsequently completed these tasks. The Forest Service could not provide us with confirmation of completion for the remaining 6 units. Forest Service units had until September 30, 1998, to reaffirm the accuracy, completeness, and consistency of the inventory information. This information will then be reviewed by the IG as part of the audit of the fiscal year 1998 financial statements.
- The Forest Service's Fund Balance accounts with the U.S. Treasury, maintained by NFC, were not in balance with the amounts reported by Treasury. The Forest Service records its budget spending authority in asset accounts called Fund Balance with Treasury, and increases or decreases these accounts as it collects or disburses funds. A net adjustment of approximately \$826 million to Fund Balance with Treasury was made by NFC to balance these accounts for all of USDA, of which a portion pertains to the Forest Service. This net adjustment consisted of approximately \$1 billion in gross disbursements and \$174 million in gross receipts. Because USDA's true balances were not known, NFC adjusted its records for the difference without establishing or analyzing the causes of the difference or determining which one was correct.<sup>6</sup> Because most assets, liabilities, revenues, and expenses stem from or result in cash

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<sup>5</sup>The 16 units are comprised of 9 regions and 7 research stations.

<sup>6</sup>USDA has informed us that it recently determined that a large portion of the difference related to the misclassification of certain receipts as "negative disbursements." This misclassification has now been corrected, according to USDA officials.

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transactions, errors in the receipt or disbursement data affect the accuracy of various Forest Service financial reports, including budget execution reports and information reported to the Congress.

- The IG could not verify the accuracy of the reported \$119 million in accounts receivable because the Forest Service did not maintain centralized records of individual accounts. Also, the IG reported that adjustments to accounts receivable totaling about \$166 million could not be verified because the automated data files documenting the adjustments had been recorded over and therefore were no longer available. Inaccuracies in accounts receivable mean the Forest Service (1) may not collect all monies due the agency or (2) may anticipate receipt of funds that are not legitimately owed.
- Similar to its lack of an adequate system for accounts receivables, the Forest Service also continues to lack a system that provides detailed records of the reported \$263 million in accounts payable. The Forest Service relies on its obligations system as a basis to estimate accounts payable. However, there were numerous errors throughout the year in classifying obligations as accounts payable. As a result, Forest Service managers estimated the year-end accounts payable balance based on a statistical sample of year-end unliquidated obligations. Based on this testing, the Forest Service concluded that accounts payable were understated by about \$25 million and adjusted its records accordingly. As we have reported in the past, while this system deficiency is not indicative of whether or not the Forest Service overobligated funds, it precludes the agency from readily knowing costs it has incurred and amounts it owes on projects at any given point.

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## Serious Problems Plague FFIS Implementation

In reports issued since January of this year, we, the IG, and the USDA's outside consultant have identified serious problems with the FFIS implementation process. Specifically, problems have been encountered transferring data between FFIS and related feeder systems, maintaining oversight and management control, simplifying business processes prior to implementation, and fully testing the system before implementation. As a result of these problems, the outside consultant recommended that implementation of the system in the rest of the Forest Service not proceed on October 1, 1998, as planned. The consultant advised USDA to reexamine some of the key decisions that have caused problems. In addition, as discussed below, the Forest Service and OCFO will face additional challenges to ensure that FFIS and all feeder systems comply with Year 2000 requirements. The Forest Service has decided to defer

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implementation of the system in the remaining Forest Service units until October 1, 1999.

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## Implementation Process Has Been Flawed

In our February 1998 report, we noted problems with FFIS processing data and transferring data between FFIS and its feeder systems that raised questions about the FFIS implementation process. In that report, we also noted that the three units where FFIS was implemented were unable to produce certain critical budgetary and accounting reports that track the Forest Service's obligations, assets, liabilities, revenues, and costs, in part, because ending balances could not be converted from the old accounting system, which is no longer functional for the implementation units, to the new accounting system.

The USDA consultant also identified numerous problems with the FFIS implementation process. For example the consultant reported that:

- The program has suffered from insufficient oversight, undisciplined management control, conflicting goals, and a lack of clear lines of authority and accountability. This fragmentation of responsibility among OCFO, the Forest Service, and NFC left no one with an overall view of all the efforts needed to make the program succeed. The recent consolidation of NFC FFIS project staff under one senior executive in NFC is a good first step to regaining control of project cost, schedule, and performance, but it is occurring 3 years into implementation.
- Failure of the Forest Service to simplify its business processes had a significant negative impact on the successful implementation of FFIS. Although USDA is now modernizing or replacing many of its administrative processes and systems, the development of FFIS would have been markedly simpler if this process had taken place earlier. One major problem is the onerous process the agency uses to classify and allocate costs in its accounting records for work performed, which has led to greater operational costs.<sup>7</sup> Further, the process is virtually impossible to perform because of its demands on computer capacity.

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<sup>7</sup>The Forest Service uses a process called distribution/redistribution to change accounting codes, object classes, and other accounting data after the data have been initially entered and processed. The agency uses over 100,000 management codes agencywide, most unique to the local levels. Each management code may consist of up to 99 lines of accounting data and may be changed at any time without specific authorization, approval, or justification.

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Based on a consultant's<sup>8</sup> recommendation, the USDA OCFO subsequently established an FFIS Project Management Office that is responsible for managing the full implementation of FFIS across all USDA agencies. This office, which reports directly to OCFO, has FFIS implementation as its only objective and has been charged with developing a strategic plan for implementing FFIS and managing the execution of the plan. These actions, if accomplished, should provide the focused attention and independence that is needed to help successfully implement FFIS.

The Forest Service also established a team to review its budget and accounting activities and to recommend how to simplify and improve its business operations. This team submitted a report to the Chief of the Forest Service in July 1998 and made recommendations that were included in the agency's Financial Management and Accountability Plan. These recommendations included

- designing a new budget structure,
- designing a new structure for management and work codes,
- designing specific replacement procedures for retroactive redistribution,
- designing a specific set of financial management reports, and
- creating numerous other proposals to simplify business management.

The Forest Service has completed work on the design of a proposed new budget structure. According to the Forest Service, this proposed structure would reduce the number of budget line items (which contain funding specified for particular uses) and would allow for better tracking of expenditures and reporting on performance. With regard to the structure of management and work codes, the Forest Service proposes reducing the number of codes by more than 50 percent. The Forest Service believes this reduction would simplify the tracking of expenditures and would standardize codes throughout the agency.

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## Insufficient System Testing Contributed to FFIS Implementation Problems

As we reported in February 1998, the overall problems with the system implementation are due in large part to the lack of complete integrated testing of the system prior to implementation. The IG and a USDA consultant have similarly concluded that inadequate integrated system testing

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<sup>8</sup>PricewaterhouseCoopers, USDA Framework for the FFIS Project Management Office (Draft, July 29, 1998).

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contributed to extensive problems. Our prior work<sup>9</sup> at other agencies has shown that lack of adequate testing of systems before implementation is one of the primary causes of new system implementation failures.

The three units where the system has been implemented are continuing to encounter problems with the new system. For example, the units are experiencing reporting problems, data rejects, duplicate accounting entries, and poor internal controls over access to FFIS. In particular, the inability to produce certain critical budgetary and accounting reports for units that implemented FFIS erodes the integrity of the Forest Service's financial data. The units currently under FFIS represent about one-third of all Forest Service transactions. These reports, which have not been generated for fiscal year 1998, are essential to tracking the Forest Service's obligations, assets, liabilities, revenues, and costs.<sup>10</sup> Without them, the Forest Service increases the risk of over-obligation of budgetary funds and lacks accountability for funds spent to carry out these units' operations during fiscal year 1998. Also, the agency's ability to manage and track its financial activities in these units is seriously impaired, further complicating the existing problems in these areas.

As we noted in our February report,<sup>11</sup> the Forest Service revised the scheduled completion of FFIS implementation in the three initial units, including correction of identified reporting deficiencies, from February 23, 1998, to March 30, 1998. The scheduled completion was further revised such that the Forest Service expected the reports to be available by mid-June. However, as of September 23, 1998, the Forest Service was still unable to produce such reports. According to a Forest Service official, the agency recently provided the units currently under FFIS with some examples of internal reports showing how the financial data would be formatted. These reports, which were generated by the new system, did not contain complete accounting data because the Forest Service was not able to bring balances forward from the old accounting system, which is no longer functional for the units where FFIS has been implemented. On September 23, 1998, a Forest Service official told us that the agency

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<sup>9</sup>Defense IRM: Critical Risks Facing New Material Management Strategy (GAO/AIMD-96-109, September 6, 1996); Department of Energy: Poor Management of Nuclear Materials Tracking System Makes Success Unlikely (GAO/AIMD-95-165, August 3, 1995); and Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology (GAO/AIMD-94-115, May 1994).

<sup>10</sup>Forest Service officials told us that informal records for these units were maintained at the field level during fiscal year 1998 in order to monitor spending levels.

<sup>11</sup>Forest Service: Status of Progress Toward Financial Accountability (GAO/AIMD-98-84, February 27, 1998).

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expected to have the needed balances and reports that contain complete accounting data by September 30, 1998.

USDA's consultant concluded that the rush to implement FFIS at the Forest Service in October 1997 resulted in bringing the system on line before adequate integrated testing of the system was completed. The consultant also concluded that most of the additional work required to bring the system on-line has come from the decision to add more feeder systems to FFIS, the underestimation of the complexity of this process, and the magnitude of work needed to transfer the data from the old system to FFIS.

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### Ensuring Year 2000 Compliance Is an Additional Challenge

Another critical issue that needs to be addressed is ensuring that FFIS and its feeder systems, as well as all the Forest Service's other mission-critical computer systems, are Year 2000 compliant. The Year 2000 problem is rooted in the way dates are recorded and calculated in many computer systems. For the past several decades, systems have typically used two digits to represent the year in order to conserve electronic data storage and reduce operating costs. With this two-digit format, however, the year 2000 is indistinguishable from the year 1900. As a result, system or application programs that use dates to perform calculations, comparisons, or sorting may generate incorrect results when working with years after 1999.

The version of FFIS purchased in 1994 and implemented in the three units in October 1997 was not Year 2000 compliant.<sup>12</sup> OCFO/NFC recently installed a Year 2000 compliant version of FFIS and is renovating related feeder systems that reside within NFC. OCFO is currently testing these systems to make sure they function as intended. A Forest Service official told us that the agency plans to have all FFIS feeder systems that reside within the Forest Service Year 2000 compliant by March 1999. Complete and thorough Year 2000 testing is essential to provide reasonable assurance that new or modified systems process dates correctly and will not jeopardize an organization's ability to perform core business operations after the millennium.

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### FFIS Is Not Ready to Be Implemented Agencywide

Given the nature and magnitude of the aforementioned problems, the IG and USDA's consultant opposed implementation of FFIS in additional Forest Service units until system implementation issues are resolved and

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<sup>12</sup>According to USDA's Acting CFO, at the time the system was purchased from the General Services Administration's Financial Management Software Multiple Award Schedule, no Year 2000 compliant version was available.

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recommended that implementation of FFIS throughout the Forest Service be postponed from October 1, 1998. The consultant advised USDA to reexamine some of the key decisions that have caused problems. According to the consultant, to correct fundamental flaws in its current implementation strategy for FFIS, USDA must establish a plan for modernizing its computer operations, make certain business process improvements, and improve its methods for setting schedules, testing systems, and collecting cost data. In spite of the identified flaws, however, the consultant agreed that FFIS is the key to an effective financial management system.

In April 1998, the Forest Service announced that FFIS implementation in the remainder of the Forest Service had been delayed another year to October 1, 1999. FFIS operations for the units where the system has been implemented will continue, with emphasis on correcting implementation problems and getting the system running smoothly. We concur that this delay is necessary to ensure that implementation issues are adequately addressed before proceeding further. However, this delay represents a serious setback in the Forest Service's efforts to achieve financial accountability by the end of fiscal year 1999.

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## Current Field Structure Hampers Accountability

In our February 1998 report, we stated that the Forest Service's autonomous organization may hinder top management's ability to gain full participation of all regional fiscal directors in efforts to achieve financial accountability. An independent contractor's report issued in March 1998, which addressed financial management and organizational analysis at the Forest Service, also raised the issue of the agency's autonomous structure.<sup>13</sup> Specifically, the contractor noted that the Forest Service lacked a consistent structure for financial management practices. Further, the contractor reported that whether the subject is budget execution, financial plan development, accounting for reimbursable agreements, or creating management codes, each unit operates independently. The consultant characterized it as a "chaotic financial environment" and stated that it creates inconsistent practices and credibility problems.

The contractor recommended that the Forest Service establish a new position of Deputy Chief, Chief Financial Officer, at the national office in Washington, D.C. In addition, the contractor stated that the creation of a Chief Financial Officer and a consolidated financial management

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<sup>13</sup>Coopers & Lybrand L.L.P., Modernizing Financial Management at the Forest Service - Financial Management & Organizational Analysis (Job Order #43-3187-7-0325, March 18, 1998).

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organization in the Washington, D.C., office needed to be mirrored throughout the field organization and recommended that a Deputy Regional Forester for Financial Management/Chief Financial Officer be established within each region. The contractor based this recommendation on the need to ensure clear lines of responsibility and accountability by having a single executive within each region who is in charge of financial management, including all accounting, budgeting, financial planning and analysis, and strategic planning.

The Forest Service restructured its national office management team in April 1998 to create functional lines of accountability for fiscal management that report directly to the Chief of the Forest Service. Three new management positions were created: a Chief Operating Officer, Deputy Chief/Chief Financial Officer, and Deputy Chief for Business Operations. A Forest Service official told us that a decision about hiring chief financial officers at the regional level will be made in fiscal year 1999.

The national office restructuring addresses some of the concerns we have previously raised regarding management structure. However, the key issue regarding the autonomous field structure, as it relates to financial management, remains unresolved.

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## Corrective Measures Are Underway

While several of the conditions discussed in this report pose a major challenge to achieving financial accountability, the Forest Service has taken some positive steps toward resolving some of its long-standing financial management problems. For example, the agency has substantially completed its equipment inventories and is correcting the erroneous data recorded in its old accounting system in all units, such as amounts other agencies owe the Forest Service for work performed on a reimbursable basis. Further, the Forest Service issued an accounting desk guide for all staff that provides uniform accounting instructions for accounts receivable, accounts payable, real and personal property, and various other types of transactions. The Forest Service has also continued to emphasize the importance of financial accountability to its line managers. However, until functional lines of accountability are established in the regional as well as in the field units, where most of the transactions originate, there is no assurance that these new procedures and the desk guide will be consistently followed.

In addition to those actions mentioned above, the Forest Service and OCFO have used consultants to help the agency address some of the barriers it



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must overcome before it can achieve financial accountability and has implemented some of the consultants' recommendations. Revising the national office's financial management organizational structure, delaying full implementation of the new accounting system, and establishing an FFIS project management structure are three examples of consultants' recommendations that have been adopted by the Forest Service or USDA. Further, the Forest Service and USDA are developing a strategic plan to complete FFIS implementation in the Forest Service, which addresses the deficiencies reported by a contractor. Moreover, the Forest Service has decided to discontinue its practice of retroactively redistributing costs from one fund code to another in the three units where FFIS has been implemented. The agency has also instructed units using CAS to curtail this practice.

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## Conclusions

The Forest Service has committed considerable resources, including extensive use of consultants, to resolving its long-standing financial management deficiencies. However, while progress has been made, the Forest Service's financial management problems are deep seated, and therefore require significant time and effort to resolve. Also, the problems encountered in implementing FFIS have been a major setback. Thus, the Forest Service's current goal of achieving financial accountability by the end of fiscal year 1999 does not appear feasible.

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## Agency Comments

We requested comments on a draft of this report from the Secretary of Agriculture and the Chief of the Forest Service. On September 21, 1998, and September 18, 1998, respectively, we received oral comments from the Chief Financial Officer, USDA, and the Chief Financial Officer, Forest Service. They generally agreed with the findings and conclusions in this report. They also provided clarifying comments that we have incorporated into our report as appropriate.

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We are sending copies of this report to the Secretary of Agriculture; the Chief of the Forest Service; USDA's Chief Financial Officer; the Director of the Office of Management and Budget; and other interested parties. Copies

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will also be made available to others upon request. Major contributors to this report are listed in appendix I. If you or your staffs need further information, please contact me at (202) 512-8341.



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