
February 1998

FOREST SERVICE

Status of Progress Toward Financial Accountability





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

Accounting and Information
Management Division

B-279017

February 27, 1998

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

Dear Mr. Chairman:

This is our third report to you on the financial problems of the Forest Service initially 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. Due to the severity of the problems identified, you asked that we continue to monitor, and periodically report on, the Forest Service's effort to correct its accounting and financial reporting deficiencies. Specifically, you asked us to monitor the Forest Service's (1) implementation of a new financial accounting system, (2) correction of certain accounting deficiencies, (3) resolution of key staffing and financial management organizational issues, and (4) commitment to achieving financial accountability.

Background

In July 1996, the USDA IG concluded that the Forest Service's financial statements for fiscal year 1995 were unreliable. The IG's report cited numerous shortcomings in the Forest Service's accounting and financial data and information systems that precluded the agency from presenting accurate and complete financial information. For example, in reporting its fiscal year 1995 financial results, the Forest Service could not determine for what purposes \$215 million of its \$3.4 billion in operating and program funds were spent. In December 1996, we reported¹ on how the inaccuracy of the financial statement data precluded the agency and the Congress from using this financial data to help make informed decisions about future funding for the Forest Service and raised questions about the reliability of program performance measures and certain budget data.

Forest Service officials determined that corrective actions could not be completed in time to improve the Forest Service's fiscal year 1996 financial data. As a result, the agency did not prepare financial statements for fiscal year 1996. Instead, the Forest Service agreed to a three-party effort (the Forest Service, USDA's Office of the Chief Financial Officer

¹Letter dated December 20, 1996, to the Chairman, House Committee on the Budget (GAO/AIMD-97-11R).

(OCFO), and the IG) to correct the problems identified in the fiscal year 1995 IG audit report.

On December 23, 1994, the Office of the Chief Financial Officer purchased a new accounting system, the Foundation Financial Information System (FFIS), to implement USDA-wide. 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. 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. Forest Service management is responsible for the other corrective measures that are required to achieve financial accountability.

The Forest Service's goal was to correct some of the deficiencies during fiscal year 1997 and to achieve financial accountability by the end of fiscal year 1999. In August 1997, we reported to your Committee² that it is doubtful that the Forest Service can achieve financial accountability by the end of fiscal year 1999 if management and staff commitment waver, planned tasks are not accomplished, and sufficient resources are not provided.

Results in Brief

The Forest Service has taken some positive steps to address the accounting deficiencies cited in the IG's fiscal year 1995 audit report. For example, the Forest Service has completed its equipment inventories. However, much work remains. Most significantly, serious problems have been encountered in the initial implementation of the new financial accounting system. For example, while the OCFO and the Forest Service piloted the new financial accounting system, FFIS, in three units as scheduled on October 1, 1997, problems with FFIS processing data and transferring data between FFIS and other feeder systems have hampered the implementation efforts. Also, the pilot units have not been able to use FFIS to produce certain critical budgetary and accounting reports that track the Forest Service's obligations, assets, liabilities, revenues, and costs. These problems occurred because (1) while most individual components of the system were tested, a complete integrated test was not accomplished prior to implementation, (2) the FFIS reporting mechanism, which was not fully tested prior to implementation, was not functioning properly, (3) certain report specifications and calculations were incorrect,

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

and (4) budget balances had not yet been brought forward from the old accounting system, which is no longer functional for the pilot units.

Failure to correct these problems will jeopardize successful implementation of FFIS in the remaining Forest Service units. The Forest Service's ability to produce reliable financial reports hinges on successful operation of the new system. In addition, the version of FFIS purchased by the USDA OCFO in December 1994 is not Year 2000 compliant.³ Therefore, additional challenges exist for the OCFO and the Forest Service to ensure that FFIS, as well as all its mission critical computer systems, complies with Year 2000 requirements prior to the millennium.

While the Forest Service has corrected some of the accounting deficiencies cited in the IG's 1995 audit report, it continues to have certain accounting problems, in addition to those related to the FFIS system, that will hamper its ability to produce reliable financial information and could expose the agency to mismanagement and misuse of its assets. For example, while some progress has been made, the Forest Service cannot yet establish reliable account balances for its land, buildings, and roads because it has not yet completed inventories and valuations of these assets. According to Forest Service officials, these inventories are scheduled to be completed by June 30, 1998.

In addition, the Forest Service still lacks supporting records (a subsidiary ledger system) to substantiate, at a detailed level, amounts the agency either owes or is owed by others. Moreover, an IG official told us in February 1998 that the Forest Service still lacks adequate controls to ensure that all billings for timber sales and other revenue-generating activities are submitted and accurately recorded and recognized as revenue in a timely manner. Forest Service managers' ability to accurately report program performance measures as well as monitor revenue and spending levels will be hampered until these shortcomings are addressed.

The Forest Service has not yet completed an evaluation of its financial management structure and workload requirements at all levels. Thus, it has no basis for determining if its current overall financial management organizational structure and resources are sufficient to accomplish the remaining tasks necessary to correct financial deficiencies and maintain

³Year 2000 compliant relates to how computers will handle the date change from December 31, 1999, to January 1, 2000. According to USDA's Acting CFO, at the time the system was purchased from the General Services Administration's Financial Management System Software Multiple Award Schedule, no Year 2000 compliant version was available.

accountability. Further, although the Forest Service has filled some key financial management positions, vacancies exist in other key positions.

The Forest Service's top management has taken some steps to correct the financial problems reported by the IG in the fiscal year 1995 audit report. However, the Forest Service's autonomous organizational structure may hinder top management from making needed improvements in all regions by fiscal year 1999. For example, one region has not demonstrated the level of commitment needed to effectively carry out planned corrective measures because of other priorities of the Regional Forester. Strong leadership and participation by all regions are key to ensuring that planned improvements are made by the end of fiscal year 1999.

Objectives, Scope, and Methodology

Our objectives were to monitor and report on the Forest Service's (1) implementation of a new financial accounting system, (2) correction of certain accounting deficiencies, (3) resolution of key staffing and financial management organizational issues, and (4) commitment to achieving financial accountability. We reviewed steps taken by the Forest Service, USDA OCFO, and USDA IG to correct deficiencies in the Forest Service's accounting and financial data and systems since we last reported to you on August 29, 1997.

To assess the status of the Forest Service's (1) effort to improve the reliability of its accounting and financial data and (2) its commitment to improvement, we reviewed the Forest Service's financial health monitoring reports, the Forest Service's Financial Management Strategy and Action Plan, project management plans, and other documents outlining improvement initiatives and their status. We also attended planning conferences where progress and critical tasks were identified, and interviewed regional and headquarters Forest Service officials. In addition, we reviewed two internal USDA assessments of FFIS implementation problems. We also interviewed IG officials and USDA's Acting CFO about the status of the Forest Service's corrective actions. We performed our review from September 1997 through February 1998 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Special Assistant to the Chief, Forest Service; the Acting Deputy Chief of Operations, Forest Service; the Acting Director of Financial Management, Forest Service; the Acting Chief Financial Officer, USDA, and his staff; and staff from the IG's office. These comments are discussed in the "Agency Comments and Our Evaluation" section.

Newly Piloted Accounting System Faces Major Hurdles

The new accounting system, FFIS, being implemented at the Forest Service is designed to be a fully integrated financial accounting and reporting system that the Forest Service is counting on to correct many of the agency's current financial shortcomings. FFIS was piloted at the Forest Service in three units, representing about one-third of all Forest Service transactions, as scheduled on October 1, 1997. However, the pilot units experienced many problems, primarily related to transferring data from other feeder systems to the new FFIS system. For example:

- FFIS initially rejected 45 percent of the data transferred to it from the procurement system, and the data had to be re-entered. These rejects occurred for various reasons, including the two systems maintaining inconsistent vendor data such as different purchase order numbers for the same item.
- The timber sales system could not transfer data to FFIS; therefore, sales data had to be entered into FFIS manually.
- About 1,200 outstanding travel orders had to be rekeyed because the data in the new travel system could not be automatically transferred to FFIS.

The agency is continuing to address these types of problems as they are identified during the implementation process. In addition, the agency's fiscal year 1998 first quarter budget execution reports that are required by the Office of Management and Budget contained estimated rather than actual amounts because FFIS could not generate actual information. Unforeseen problems also have precluded the pilot units from using FFIS to produce other critical budgetary and financial reports that the Congress and the agency need to track obligations, assets, liabilities, revenues, and costs.

These problems occurred, in part, because budgetary information had not yet been brought forward from the old accounting system, which is no longer functional in the pilot units. Also, the FFIS system generates accounting information at the detailed transaction level, but is currently unable to produce summary-level data needed to carry prior year balances forward as well as to determine current balances. The Forest Service subsequently discovered that its reports contained errors in the logic used to compute summary balances. These errors are being corrected. The overall problems with the system implementation are reflective of the lack of complete integrated testing of the system, including its reporting

capability, prior to implementation in the pilot units. Our prior work⁴ at other agencies has shown that the lack of adequate testing of systems before piloting and implementation is one of the primary causes of new systems implementation failures.

As a result of the reporting problems, the OCFO and the Forest Service are revising the scheduled completion of FFIS implementation in the pilot units from February 23, 1998, to March 30, 1998. The Acting Director of Financial Management has a team, including region and forest-level staff, at the National Finance Center working on correcting the identified reporting deficiencies. According to the USDA Acting CFO, the team plans to initially focus on monthly and quarterly reporting requirements and will address year-end and other reporting demands later in the fiscal year. If these problems are not resolved, FFIS cannot be successfully implemented in the remaining units as scheduled on October 1, 1998. Further, the inability to produce budget and financial reports for the three pilot units subjects the assets of these units to a high level of risk and vulnerability to misuse.

Another issue that must be addressed is to ensure that FFIS, as well as all other mission critical computer systems, is 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 on 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 piloted in October 1997 is not Year 2000 compliant. Forest Service officials and the USDA Acting CFO told us that the FFIS pilot would have been delayed up to 1 year if the agency had waited for the vendor to release a Year 2000 compliant version of FFIS.

We did not assess the decision-making process for procuring FFIS or the level of effort required to make the system Year 2000 compliant. The Office of Management and Budget reported that as of November 15, 1997,

⁴Defense 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).

USDA had demonstrated insufficient evidence of adequate Year 2000 progress. However, the USDA Acting CFO said that USDA is taking steps to ensure that FFIS, as well as all other mission critical financial systems, becomes Year 2000 compliant before January 1, 2000. He further stated that FFIS will be Year 2000 compliant by the summer of 1998. We are initiating another assignment which will examine Year 2000 issues in USDA.

Some Accounting Deficiencies Corrected but Others Remain

The Forest Service has corrected some of the accounting deficiencies identified in the IG's fiscal year 1995 audit report, but many of the serious shortcomings that we reported on in December 1996 still remain. The agency has implemented procedures and begun cleaning up some of the erroneous data recorded in its old accounting system, such as amounts other agencies owe to the Forest Service for work performed on a reimbursable basis. This process should help ensure that invalid data are not transferred to the new FFIS system. However, the reported \$7.8 billion in land, buildings, roads, and equipment is still questionable because reliable values and quantities for many of these assets have not been established. Therefore, as we reported in December 1996, the Forest Service continues to be exposed to mismanagement and misuse of these assets.

Each region was scheduled to complete equipment inventories verifying that all items are accounted for by July 31, 1997. Written certifications were due from the units to Financial Management staff by September 30, 1997. However, one of the Forest Service's 10 regions⁵ did not complete its certification until February 12, 1998. The remaining inventories of land, buildings, and roads are to be completed and certified by June 30, 1998. Until these counts are completed and recorded in the accounting records, the correct quantities and costs of these assets will not be determinable. Therefore, the Congress cannot be assured that Forest Service requests for funds related to roads and buildings are fully warranted.

In addition, the Forest Service still lacks supporting records (a subsidiary ledger system) to substantiate, at a detailed level, amounts the agency owes to others (accounts payable) or is owed by others (accounts receivable). Also, an IG official told us in February 1998 that the Forest Service still lacks adequate controls to ensure that all billings for timber sales and other revenue-generating activities are submitted and accurately recorded and recognized as income in a timely manner.

⁵The Forest Service has 10 regions, including the Washington Regional Office, and 7 Research Stations.

Good internal controls over accounts payable and accounts receivable are critical to effective cash management. For example, if the Forest Service underbills a customer, does not bill a customer, or does not collect from a customer because of weak controls over its accounts receivable, it may have fewer funds to carry out its mission or it may require additional appropriations from the Congress. For fiscal year 1995, the Forest Service reported accounts receivable of \$192 million and accounts payable of \$298 million.

Further, until the Forest Service completes its asset inventories and valuations and implements better controls over receivables and payables, Forest Service managers' ability to accurately report program performance measures as well as monitor revenue and spending levels will be hampered.

Some Staffing Issues Resolved but Key Positions Still Vacant

The Forest Service has a designated staff person to direct Forest Service aspects of FFIS implementation activities on a full-time basis. This individual is responsible for working closely with the Forest Service, OCFO, and an outside contractor to oversee implementation of the new system.

In addition, key vacant financial management positions have been advertised and job offers have been made to some applicants. However, the Director and Deputy Director positions for Financial Management in Washington, D.C., have been vacant since October 3, 1997, and January 1, 1998, respectively, due to retirements. A Regional Fiscal Director is currently serving as Acting Director until this Senior Executive Service position, which is not within the exclusive hiring authority⁶ of the Forest Service, is filled. These positions require staff possessing a strong financial management background, including experience in accounting, budgeting, and financial systems. These positions are important to the implementation of FFIS as well as continuation of day-to-day Forest Service operations. Forest Service officials said they anticipate that all key financial management vacancies will be filled by March 1998.

The Forest Service still has not concluded its evaluation of the agency's overall financial management structure and workload requirements at all levels. Under the Forest Service's current financial management organizational structure, the budget office reports to the Deputy Chief for Programs and Legislation, while the financial management office reports

⁶According to a Forest Service official, Senior Executive Service positions must be recommended by a panel composed of Forest Service staff and representatives from other USDA agencies.

to the Deputy Chief for Operations.⁷ An accounting firm is currently evaluating the financial management organizational structure, workload, and staffing levels for the Forest Service. According to the Acting Director of Financial Management, this firm is scheduled to issue its report in March 1998. As we reported in August 1997, until this evaluation is completed, the Forest Service cannot determine if its current overall financial management organizational structure and resources are sufficient to accomplish the remaining tasks required to achieve financial accountability within established time frames.

Sustained Leadership and Commitment of All Key Staff Are Needed

Top management (Forest Service Chief, Special Assistant to the Chief, and Acting Deputy Chief of Operations) has taken several steps to make needed improvements. For example, Forest Service officials have dedicated resources to implement corrective measures, participated in numerous planning sessions where critical tasks were discussed and milestones were established, and emphasized to staff the need to establish financial accountability.

In addition, top management has initiated bimonthly meetings with Fiscal Directors from the 10 Forest Service regions and 7 Research Stations to monitor the overall financial management improvement effort, including FFIS implementation activities, and ensure that (1) initiatives are implemented as planned and (2) obstacles are identified and removed. Further, management has continued to stress the importance of financial management by including it as a performance rating element for both Fiscal Directors and Regional Foresters.

Fiscal Directors or other key fiscal staff from 9 of the 10 regions participated in a recent planning meeting where the three pilot units presented information on implementation problems and provided advice on how the remaining regions could better prepare for successful FFIS implementation. Participants also reviewed the agency's FFIS implementation plan, identified and discussed remaining activities, and discussed ways to address staff shortages. Given the importance of this meeting to the success of implementing FFIS agencywide, the absence of one region—which accounts for 12 percent of the Forest Service's budget—raises concern about the region's commitment and top management's ability to effectively lead this effort toward financial accountability.

⁷USDA as a whole has the same financial management organizational structure.

The Forest Service's autonomous structure may hinder top management's ability to get all Regional Fiscal Directors to participate. Regional Fiscal Directors are under the direct authority of their respective Regional Foresters, who report to the Chief of the Forest Service rather than to the Deputy Chief of Operations. The Deputy Chief of Operations, located in the national office, oversees implementation of FFIS for the Forest Service. We were told that the Fiscal Director from the one region—the same region that was about 5 months late certifying equipment inventories—was absent due to other priorities of the Regional Forester.

Strong leadership in resolving the remaining obstacles and participation by all regions are required throughout the effort for the Forest Service to achieve and sustain financial accountability by the end of fiscal year 1999 and thereafter.

Conclusions

While corrective measures are underway, few of the problems reported by the IG in the fiscal year 1995 audit report and that we analyzed in our initial report to you have been fully resolved. In addition, new hurdles such as FFIS' current inability to generate budgetary and financial reports and the need to satisfactorily resolve the Year 2000 issue must be addressed. It is not yet clear whether the Forest Service will be successful in its efforts to resolve these problems by the end of fiscal year 1999. Much work still remains to be done before this goal can be achieved.

Agency Comments and Our Evaluation

We received oral comments from the Special Assistant to the Chief, Forest Service; the Acting Deputy Chief of Operations, Forest Service; the Acting Director of Financial Management, Forest Service; the Acting Chief Financial Officer, USDA, and his staff; and staff from the IG's office. The following issues were raised during our discussion.

- Forest Service and OCFO officials stated that, as with any major system implementation, they anticipated problems with implementing FFIS in the pilot units and stated they are moving to deal with problems identified.
- Forest Service officials did not agree with our assessment of the agency's autonomous structure and how that might hinder top management's ability to ensure that all Regional Fiscal Directors participate in the financial management improvement effort. The Acting Deputy Chief of Operations said that the current structure does not prevent him from achieving his financial management goals because he works very closely with all the Regional Foresters on these issues. Also, he stated that discussions have

been held with the Regional Forester and Fiscal Director of the region that has not fully participated in the financial improvement efforts. He added that this region will fully participate from now on.

- Forest Service and OCFO officials believed that more emphasis on the progress they have made in correcting the identified financial management deficiencies should have been included in the report.

Regarding the first issue, the number and nature of problems encountered during the FFIS pilot indicate that additional testing was needed. Such testing should have identified many of these problems, which could have been resolved before FFIS was piloted. Second, we believe that for this effort to be successful the Deputy Chief for Operations must take whatever action is necessary to ensure that Regional Fiscal Directors focus their priorities on correcting the identified financial management deficiencies. Finally, we agree that some progress has been made in correcting financial management deficiencies and revised certain sections of the report to better reflect this.

These officials also provided clarifying comments that we incorporated into our report as appropriate.

We are sending copies of this report to the Ranking Minority Member of your Committee; the Secretary of Agriculture; the Chief of the Forest Service; the Special Assistant to the Chief; USDA's Acting Chief Financial Officer; the Acting Deputy Chief of Operations; the Acting Director of Financial Management; the Director of the Office of Management and Budget; and other interested parties. Copies will also be made available to others upon request.

We will continue to monitor the Forest Service's effort and report to you. If you have any questions about this report, please call me at (202) 512-8341 or McCoy Williams, Assistant Director, at (202) 512-6906. Major contributors to this report are listed in appendix I.

Sincerely yours,

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

Linda M. Calbom
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