

GAO

Report to the Subcommittee on Interior
and Related Agencies, Committee on
Appropriations, House of
Representatives

October 1999

FOREST SERVICE

**A Framework for
Improving
Accountability**



G A O

Accountability * Integrity * Reliability



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

**Resources, Community, and
Economic Development Division**

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October 13, 1999

The Honorable Ralph Regula
Chairman
The Honorable Norman Dicks
Ranking Minority Member
Subcommittee on Interior
and Related Agencies
Committee on Appropriations
House of Representatives

As agreed with your offices, this report discusses the status of the Forest Service's efforts to (1) achieve financial accountability, (2) become more accountable for its performance, and (3) better align its budget with its strategic goals and objectives. Appendix I provides information, in the form of a "desktop guide," on individual deficiencies and on the status of the Forest Service's actions to correct them.

As requested, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days after the date of this letter. At that time, we will send copies to the appropriate congressional committees; the Honorable Dan Glickman, Secretary of Agriculture; and the Honorable Mike Dombeck, Chief of the Forest Service. We will also make copies available to others upon request.

Please call me at (202) 512-3841 if you or your staff have any questions about this report. Major contributors to this report are listed in appendix IV.

Barry T. Hill
Associate Director, Energy, Resources,
and Science Issues

Executive Summary

Purpose

The Department of Agriculture's Forest Service, like any publicly financed agency, must account to the public for its use of the tax dollars appropriated to it to carry out its mission. To account fully for its use of these funds, the agency needs to provide accurate and timely information on how much it was authorized to spend on specific programs and activities, how it spent the funds, and what it accomplished with the money. Currently, however, the Forest Service cannot accurately report its expenditures and accomplishments, and its budgetary, financial, and performance systems and data are not linked.

The Forest Service is taking actions to correct known problems with its accounting and financial reporting, as well as with its performance-related data, measurement, and reporting. However, the agency's efforts to achieve accountability will take years. Furthermore, strong leadership within the Forest Service and sustained oversight by the Congress will be needed to ensure that the corrective actions are completed. To help in providing this oversight, the Chairman and Ranking Minority Member of the Subcommittee on Interior and Related Agencies, House Committee on Appropriations, asked GAO to monitor and periodically report on the agency's efforts to achieve accountability. As agreed with their offices, this report discusses the status of the Forest Service's efforts to (1) achieve financial accountability, (2) become more accountable for its performance, and (3) better align its budget with its strategic goals and objectives.

Results in Brief

Since the first audit of the Forest Service's financial statements, which covered fiscal year 1991, Agriculture's Inspector General has found serious accounting and financial reporting weaknesses, many of which continue today. For instance, the Forest Service lacks supporting records to substantiate, at a detailed level, the amounts it either owes or is owed by others. Additionally, the Forest Service has had significant problems implementing its new accounting system, which the agency has stated is key to correcting its financial management deficiencies and to attaining accountability over billions of dollars in taxpayer funds and investments. Furthermore, the independence afforded the agency's autonomous field structure has hampered efforts to correct accounting and financial reporting weaknesses. The Forest Service has completed several actions and begun others that, if successfully carried through, represent important steps toward achieving financial accountability. For example, it has created three new fiscal and business management positions.

Nevertheless, major barriers remain, and the Forest Service may take several years to achieve financial accountability.

To improve the effectiveness, efficiency, and accountability of its programs, the Forest Service has begun to implement a results-based performance accountability system. This effort includes clarifying its mission priorities and identifying its general goals. However, the agency has not been able to develop (1) quantifiable objectives and long-term and annual measures of its progress in achieving its broad, general goals or (2) strategies to achieve its goals and objectives. As a result, (1) the national forests cannot blend agencywide objectives and strategies with local priorities in revising their plans, (2) funds are being allocated to regions and forests on the basis of old criteria that often are not linked to the agency's new goals and objectives, and (3) line managers cannot be held accountable for achieving the goals and objectives.

The Forest Service's current budget structure is directly linked to the agency's resource-specific programs, which, in turn, are intended to fund program-specific projects and activities in the field. However, the link between the agency's budget structure and land management activities has weakened as the field offices have addressed issues or problems that are not aligned with the agency's resource-specific programs. As a result, there is often no clear link between the current budget structure and the way work activities are structured in the field. Although GAO believes that the Forest Service's budget structure should be revised to better link it to the agency's strategic goals and objectives, it also believes that any future revisions should coincide with actions required to correct known accounting and financial reporting deficiencies as well as problems with performance-related data, measurement, and reporting.

Principal Findings

Barriers to Financial Accountability Remain

The Inspector General's February 1999 audit report on the Forest Service's fiscal year 1998 financial statements—a disclaimer of opinion—shows that the agency remains unable to (1) reliably track major assets worth billions of dollars, (2) accurately allocate revenues and costs to its programs in its financial reports, and (3) accurately prepare its financial statements. The report also identifies numerous financial reporting errors and major internal control weaknesses. For example, the Forest Service still lacks

supporting records to substantiate, at a detailed level, the amounts it either owes or is owed by others. Not having reliable accounts receivable information severely impairs the agency's ability to collect money owed it by other agencies. Not having reliable accounts payable data impedes the agency's ability to readily determine the costs it has incurred and the amounts it owes at any given point.

The Forest Service has also had significant problems implementing its new accounting system—the Foundation Financial Information System—which the agency has stated is key to correcting its financial management deficiencies and to achieving financial accountability. For instance, GAO reported in February 1999 that the three Forest Service units that were implementing the system were unable to produce the critical budgetary and accounting reports that track the agency's obligations, assets, liabilities, revenues, and costs, in part because (1) ending balances could not be converted from the old accounting system to the new one and (2) the old accounting system was no longer functional for these units.

Among the factors that have hampered the Forest Service's efforts to correct accounting and financial reporting weaknesses and to implement the new accounting system has been the independence afforded the agency's autonomous field structure. According to an independent contractor retained by the Forest Service to analyze and report on the agency's financial management and organization, each Forest Service unit operates independently, whether it is executing budgets, developing financial plans, or accounting for reimbursable agreements. The contractor characterized the agency's organizational structure as a "chaotic financial environment" and stated that it creates inconsistent practices and credibility problems.

While major barriers remain, the Forest Service has completed several actions and begun others that, if successfully carried through, represent important steps toward achieving financial accountability. For example, in April 1998, the Chief of the Forest Service restructured the agency's management team, creating, among other things, three new fiscal and business management positions. In addition, the agency has (1) hired experienced staff to fill key financial management and systems positions, including several individuals who have implemented the new accounting system successfully at other agencies, and (2) consolidated its budgeting, financial management, financial systems development and operations, and related analytical and quality assurance functions into a new central office. Together, the Forest Service's new organizational structure and new fiscal

and business management team should help provide a nucleus around which financial accountability can be built. However, the new fiscal and business management team will first need to ensure that clear lines of responsibility and accountability for financial management extend throughout the Forest Service's highly decentralized and autonomous organizational structure.

The Forest Service's goal is to implement the new accounting system agencywide on October 1, 1999, and to obtain an unqualified audit opinion on its fiscal year 2000 financial statements. However, given the major accounting and reporting deficiencies that remain, the serious problems that the agency has experienced in implementing the new system, and the unresolved issue of how to ensure clear lines of responsibility and accountability for financial management throughout the organization, GAO believes that the Forest Service's goal of an unqualified audit opinion on its fiscal year 2000 financial statements is optimistic.

Establishing a System to Measure Performance Has Been Difficult

To comply with the requirements of the Government Performance and Results Act of 1993 (the Results Act), the Forest Service has made clear that, in keeping with its existing legislative framework, its overriding mission and funding priority is to maintain and restore the health, productivity, and diversity of the lands entrusted to its care to meet the needs of present and future generations. It intends to limit goods and services on the national forests to the types, levels, and mixes imposed by considerations of land health. The Forest Service's general goals—(1) ensuring sustainable ecosystems (land health), (2) providing multiple benefits for people within the capabilities of ecosystems (service to people), and (3) ensuring an effective organization (organizational effectiveness)—are consistent with its mission priorities.

Over the last several years, the Forest Service has worked at, but not succeeded in, developing quantifiable objectives and long-term and annual measures of its progress in achieving its mission priorities and general goals. In particular, the agency has not been able to develop specific and quantifiable objectives linking its broad, general goals and its long-term and annual performance measures. Although the agency uses terms like "healthy and diverse ecosystems," "ecological sustainability," "healthy forests," and "forest ecosystem vitality" to express its goals and objectives, these terms may mean different things to different people, and different people could use different measures to assess progress toward them. In addition, measuring long-term trends in land health requires

accurate baseline data, but the agency does not know the condition of many aquatic, forested, and rangeland ecosystems on its lands.

Moreover, some of the Forest Service's annual performance measures do not encourage progress toward its goals and objectives. For instance, hazardous fuels, which accumulated under the Forest Service's decades-old policy of putting out wildfires, now support larger, often catastrophic, wildfires, many of which threaten lives and property, especially along the boundaries of forests (wildland/urban interfaces) where population has grown significantly in recent years. Acres along these interfaces are among the costliest and most difficult to treat, yet they also pose the greatest hazards to lives and property. However, the agency's measure of progress in reducing hazardous fuels on the national forests and its basis for future years' funding—the number of acres treated—encourages a focus on quantity without reference to difficulty or safety. Thus, field offices have an incentive to select the easiest and least costly rather than the most hazardous and more costly acres to treat.

The Forest Service also has not established strategies that describe how it will achieve its goals and objectives and what operational processes and resources will be required. For example, to address the serious forest health problem of the increasing number of uncontrollable and often catastrophic wildfires, the Forest Service has agreed to develop, but currently does not have, a cohesive strategy for (1) reducing accumulated fuels on national forests nationwide and (2) maintaining these fuels at acceptable levels. Such a strategy, when developed, will, among other things, help the agency to quantify its objective of ensuring healthy and diverse forestlands and serve as a basis for establishing funding priorities and developing more meaningful performance measures.

As the Forest Service works to develop quantifiable objectives, implementable strategies, and measurable indicators of progress, many forest plans are being revised or are due for revision. In addition, funds continue to be allocated to regions and forests on the basis of old criteria that are often not linked to the agency's new strategic goals. And, although the agency intends to modify its managers' performance standards to reflect its goals and objectives, it cannot establish clear standards for holding these officials accountable until it develops appropriate objectives, strategies, and measures of performance.

The Forest Service's Budget Structure Is Not Clearly Linked to Its Land Management Activities

The Forest Service is an agency in transition. Over the past decade, it has refocused the mix of its activities, shifting from producing timber and other goods and services toward restoring or protecting land health and forest resources. Currently, it is attempting to identify where or under what circumstances it should restore degraded lands through active management rather than allow nature to take its course. These issues are controversial and represent significant changes in the agency's mission and funding priorities and management approaches. It is, therefore, important for the Forest Service to provide the Congress with a clear understanding of what is being achieved with the funds that are being spent. However, over time, the link between the agency's budget structure and land management activities has weakened.

The Forest Service's current budget structure is directly linked to its resource-specific programs, which, in turn, are intended to fund program-specific projects and activities in the field. However, the link between the agency's budget structure and land management activities has weakened as its districts, forests, and regions have addressed issues or problems that are not aligned with its programs. For example, a decade ago, the Congress could be reasonably assured that funds allocated to the Forest Service's Forest Management program for timber sales would be used primarily to produce commercially valuable timber to help meet the nation's demand for wood products. Today, however, timber sales are increasingly being used to restore degraded ecosystems, and approximately half of the timber being removed from the national forests is being removed for stewardship purposes—mostly to accomplish forest-health-related objectives. As a result, funds allocated to the agency's Forest Management program for timber sales must now be split to accomplish both commodity and stewardship objectives. The Forest Service's field offices must also use funds from two or more appropriations or budget line items to address problems or issues that exceed the scope of its resource-specific programs, such as protecting the habitats of the northern spotted owl and other wide-ranging species.

One purpose of the Results Act is to improve the link between allocating resources and achieving results with those resources. The Forest Service included as a separate component in its fiscal year 2000 budget justification a preliminary proposal to better link the National Forest System appropriation with its performance goals and objectives. In addition, in August 1999, the National Academy of Public Administration—a congressionally chartered, independent, nonpartisan, nonprofit organization—proposed changes to the National Forest System

appropriation as well as to the agency's Wildland Fire Management appropriation. As of August 1999, the Forest Service was working with its appropriations subcommittees, the Department of Agriculture, and the Office of Management and Budget to present a revised budget structure with its fiscal year 2001 budget request.

GAO has previously concluded that further changes to the Forest Service's budget structure seem to be warranted to facilitate the agency's management of the 155 national forests. In addition, GAO has recommended that the Forest Service's budget structure be revised to establish better links to the agency's strategic goals and objectives. However, GAO has also maintained that any future revisions should coincide with actions required to correct known accounting and financial reporting deficiencies as well as problems with performance-related data, measurement, and reporting. As discussed in this report, major barriers to financial accountability remain, and the performance measures needed to gauge the Forest Service's progress in achieving its goals and objectives have not been developed.

Agency Comments

GAO provided a draft of this report to the Forest Service for review and comment. The agency generally agreed with the report and said it accurately and fairly presents information on the Forest Service's efforts to achieve financial accountability, become accountable for its performance, and better align its budget with its strategic goals and objectives. The Forest Service stated, however, that the report should include some additional information on steps it has taken within the past year to improve its financial accountability. In response, GAO revised the draft report to mention some additional efforts that the Forest Service has undertaken. The Forest Service's comments appear in appendix III.

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Abbreviations

CAS	Central Accounting System
CFO	Chief Financial Officer
FFIS	Foundation Financial Information System
GAO	General Accounting Office
GPRA	Government Performance and Results Act
OMB	Office of Management and Budget
USDA	U.S. Department of Agriculture

Introduction

The Forest Service, an agency within the U.S. Department of Agriculture, is one of four major federal land management agencies.¹ The Forest Service manages about 192 million acres of land—nearly 9 percent of the nation’s total surface area and 30 percent of all federal lands. Laws guiding the management of the 155 national forests, 20 national grasslands, and 17 national recreation areas within the National Forest System require the agency to manage its lands to provide high levels of six renewable surface uses—outdoor recreation, rangeland, timber, watersheds and waterflows, wilderness, and wildlife and fish—to current users while sustaining undiminished the lands’ ability to produce these uses for future generations. In addition, the Forest Service’s guidance and regulations require the agency to consider the production of nonrenewable subsurface resources, such as oil, gas, and hardrock minerals, in its planning.²

How the Forest Service Is Organized

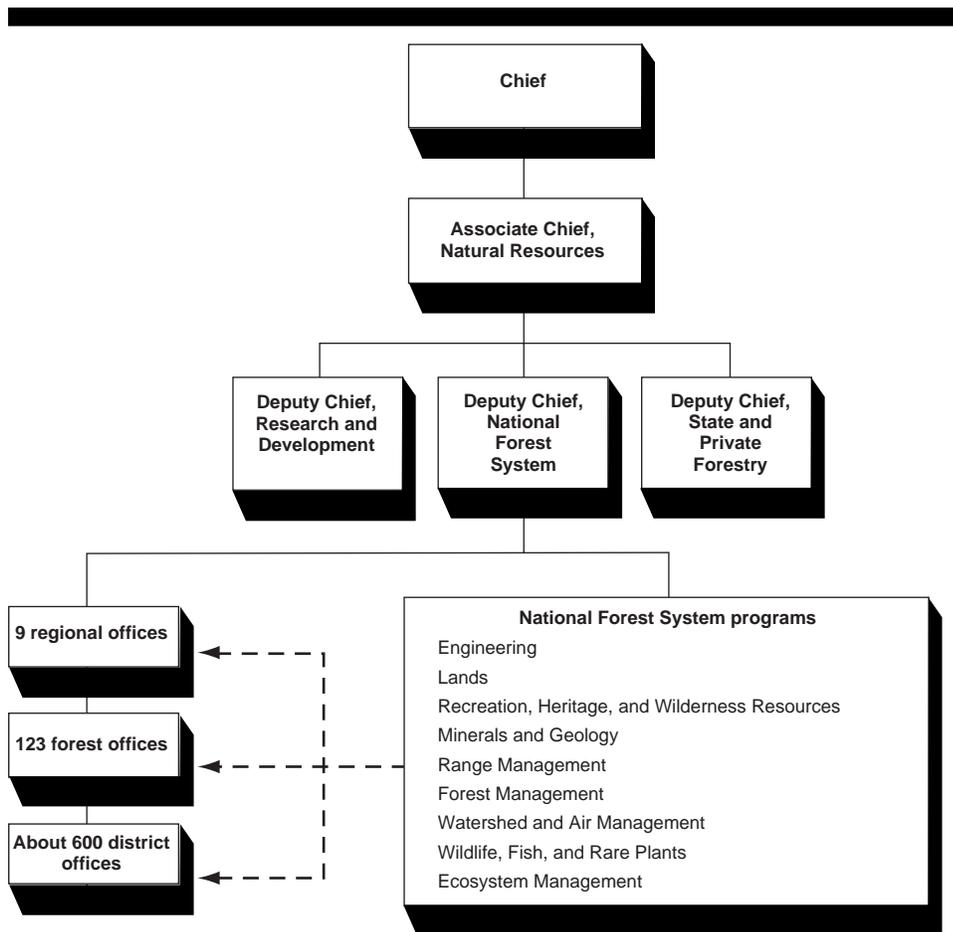
The Forest Service, created in 1905, is a hierarchical organization whose management is highly decentralized and whose managers have considerable autonomy and discretion in interpreting and applying the agency’s policies and directions. The Chief of the Forest Service heads the agency and, through Agriculture’s Under Secretary for Natural Resources and Environment, reports to the Secretary of Agriculture.

To carry out the agency’s multiple-use and sustained-yield mission, an Associate Chief for Natural Resources in headquarters (the Washington Office) has direct oversight of three major areas: (1) the National Forest System, (2) Forest and Rangeland Research and Development, and (3) State and Private Forestry. The National Forest System is composed of two organizational structures—a field structure comprising 9 regional offices, 123 forest offices, and about 600 district offices and a program structure consisting of nine separate resource-specific programs. (See fig. 1.1.) Among other things, program directors for each of the nine separate programs at the Forest Service’s Washington Office establish policy and provide technical direction to the National Forest System’s three levels of field management. Similar lines of program management exist at the regional, forest, and district office levels. However, because of budgetary constraints, the management of some of these programs may be combined.

¹The other three are the National Park Service, the Bureau of Land Management, and the Fish and Wildlife Service, all within the Department of the Interior. Together, the four agencies manage about 95 percent of all federal lands.

²Hardrock minerals include gold, silver, lead, iron, and copper.

Figure 1.1: The Forest Service's Organizational Structure for Natural Resources Programs



Source: Forest Service.

How the Forest Service Plans

In carrying out its mission, the Forest Service follows a planning process that is largely based on laws enacted during the 1970s. This process consists of a series of steps linking national, regional, forest, and district decision-making and becomes increasingly specific as planning progresses from the national level to the forest and district levels. The process includes (1) preparing a long-term strategic plan that maps the agency's course for the next decade and beyond; (2) developing regional guides that help link the agency's strategic planning at the national level with forests' and districts' planning at more local levels; (3) developing a land and resource management plan, commonly called a forest plan, for managing

each forest; and (4) reaching project-level decisions for implementing these plans. Forest plans blend national and regional demands with local forests' capabilities and needs and serve as a basis for developing future budget proposals. Forest plans must be revised at least every 15 years.

Weaknesses Identified in Prior GAO Products

In prior reports and testimonies, we have identified weaknesses and deficiencies in the Forest Service's financial data and statements, performance measures, and budget structure and observed that the agency cannot accurately account for its expenditures and results.³ Currently, the Forest Service budgets and the Congress appropriates funds on the basis of a budget structure that is not linked to the agency's performance goals and objectives. The Forest Service then allocates the funds to its field offices according to criteria that are also often not linked to its goals and objectives. The autonomous field offices, in turn, spend the money to accomplish what they have identified as their highest priorities, which may or may not be consistent with agencywide goals and objectives or with the purposes for which the funds were allocated. In addition, the Forest Service is unable to accurately track the cost of, and allocate revenue to, its various programs and activities or to ensure that field-level data are accurate. Without accurate financial data and statements, the agency is unable to, among other things, accurately report its performance, monitor the income and spending levels of its programs and activities, and make informed decisions about future funding. Also lacking objective and independently verifiable annual and long-term performance-based measures to assess relevant outputs, service levels, and outcomes, the Forest Service cannot hold its managers accountable for their performance, and the information that the agency produces tells very little about what is actually occurring on the national forests.

Objectives, Scope, and Methodology

To help in providing oversight of the Forest Service's progress toward achieving accountability, the Chairman and Ranking Minority Member of the Subcommittee on Interior and Related Agencies, House Committee on Appropriations, asked us to monitor and periodically report on the agency's efforts to achieve both financial and performance accountability. As agreed with their offices, this report discusses the status of the Forest

³See, for example, *Forest Service: Lack of Financial and Performance Accountability Has Resulted in Inefficiency and Waste* (GAO/T-RCED/AIMD-98-135, Mar. 26, 1998), *High-Risk Series: An Update* (GAO/HR-99-1, Jan. 1999), *Major Management Challenges and Program Risks: Department of Agriculture* (GAO/OCG-99-2, Jan. 1999), *Forest Service Management: Little Has Changed as a Result of the Fiscal Year 1995 Budget Reforms* (GAO/RCED-99-2, Dec. 2, 1998), and *Forest Service Decision-Making: A Framework for Improving Performance* (GAO/RCED-97-71, Apr. 29, 1997).

Service's efforts to (1) achieve financial accountability, (2) become more accountable for its performance, and (3) better align its budget with its strategic goals and objectives. Appendix I provides information, in the form of a "desktop guide," on individual deficiencies and on the status of the Forest Service's actions to correct them.

We conducted our work primarily at the Forest Service's Washington Office and at two national forests—the Willamette in Oregon (Region 6) and the Mark Twain in Missouri (Region 9). To obtain information on all of the objectives, we interviewed Forest Service budget, fiscal, and business management officials at the agency's Washington Office. We also interviewed forest supervisors, district managers, and other officials responsible for managing various programs and activities at the two national forests we visited. In addition, we interviewed the agency's budget team leader from Region 9 and strategic planning leader from Region 6. We also reviewed the Forest Service's budget justifications and annual performance plans for fiscal years 1999 and 2000; its September 1997 strategic plan; relevant agency reports, records, correspondence, speeches, news releases, and other documents; and prior GAO reports, testimonies, and workpapers.

To obtain additional information on the status of the Forest Service's efforts to achieve financial accountability, we reviewed relevant reports and testimonies by the Department of Agriculture's Office of Inspector General, including its audit of the Forest Service's fiscal year 1998 financial statements, and a study by a consulting firm that addressed the agency's financial management and organization.⁴ We also discussed the Forest Service's efforts with the agency's Chief Financial Officer and key members of her staff.

To address the agency's progress in becoming more accountable for its performance, we reviewed the requirements of the Government Performance and Results Act of 1993, identified the various components of a results-based performance accountability system, and obtained information on the Forest Service's efforts to address each component. In addition, we compared the agency's existing strategic objectives with its proposed outcomes, and its proposed outcomes with internationally recognized criteria for sustainable forest management. We also reviewed the agency's budget allocation criteria, its existing and proposed

⁴Modernizing Financial Management at the Forest Service: Financial Management & Organizational Analysis, Coopers & Lybrand Consulting (Mar. 18, 1998).

performance measures, and relevant studies, including a report by a Committee of Scientists that addressed the agency's planning process.⁵

In addition, we analyzed an alternative budget structure that the Forest Service identified in its fiscal year 2000 budget justification. We focused our analysis on determining the extent to which the proposed changes would better link the agency's budget with its strategic goals and objectives. We also reviewed a study by a natural resource policy research and education organization that addressed the agency's budget structure.⁶

We performed our work from December 1998 through August 1999 in accordance with generally accepted government auditing standards. In conducting our work, we did not independently verify the reliability of the financial data provided by the Forest Service or trace the data to the systems from which they came. Some of these systems have been included in audits of the agency's financial statement audits by the Department of Agriculture's Office of Inspector General. Since auditing the Forest Service's fiscal year 1991 financial statements, the Inspector General has reported serious internal control weaknesses in various accounting subsystems that result in unreliable accounting data. Despite these weaknesses, we used the data because they were the only data available and are the data that the agency uses to manage its programs.

We obtained comments on a draft of this report from the Forest Service. The agency's comments are presented in appendix III.

⁵Sustaining the People's Lands: Recommendations for Stewardship of the National Forests and Grasslands into the Next Century, U.S. Department of Agriculture, Committee of Scientists, Washington, D.C. (Mar. 15, 1999).

⁶Toward Integrated Resource Management on the National Forests: Understanding Forest Service Budget Reform, Pinchot Institute for Conservation, Washington, D.C. (Mar. 4, 1997).

Barriers to Financial Accountability Remain

Since the first audit of the Forest Service's financial statements, which covered fiscal year 1991, Agriculture's Inspector General has found serious accounting and financial reporting weaknesses, many of which continue today. Additionally, the Forest Service has had significant problems implementing its new accounting system—the Foundation Financial Information System (FFIS)—which the agency has stated is key to correcting its financial management deficiencies and to attaining accountability over billions of dollars in taxpayer funds and investments. Furthermore, the independence afforded the agency's autonomous field structure has hampered efforts to correct accounting and financial reporting weaknesses and to implement FFIS. These shortcomings mean that the agency and the Congress do not have accurate financial data to track the cost of programs and activities and to help make informed decisions about future funding. They also raise questions about the accuracy of programs' performance measures and of certain budget data drawn from the same database.

The Forest Service has completed several actions and begun others that, if successfully carried through, represent important steps toward achieving financial accountability. Nevertheless, major barriers remain, and the Forest Service may take several years to achieve financial accountability. Therefore, in January 1999, we designated the Forest Service's financial management as a high-risk area because of the serious and long-standing accounting and financial reporting weaknesses plaguing its operations.¹ This high-risk designation means that we will be giving sustained attention to monitoring the Forest Service's efforts to achieve financial accountability.

Major Accounting and Reporting Deficiencies Remain

The Inspector General's February 1999 audit report on the Forest Service's fiscal year 1998 financial statements—a disclaimer of opinion—shows that the agency remains unable to (1) reliably track major assets worth billions of dollars, (2) accurately allocate revenues and costs to its programs in its financial reports, and (3) accurately prepare its financial statements. Specifically, the report stated that

- continuing financial management deficiencies prevented the Forest Service from preparing complete, reliable, and consistent financial statements;

¹High-Risk Series: An Update (GAO/HR-99-1, Jan. 1999).

- the lack of an integrated accounting system and material weaknesses within the current system resulted in inaccurate and unreliable financial data; and
- internal controls were not sufficient to safeguard assets or to ensure that field-level data were accurate.

The Inspector General's report identified numerous financial reporting errors and major internal control weaknesses that had an impact on the following accounts and activities:

- The Forest Service's reported \$3 billion in Fund Balance Accounts with the U.S. Treasury,² maintained by Agriculture's National Finance Center, were not in balance with the amounts reported by the Treasury.³ The Center made a net adjustment of \$535 million to balance these accounts for all of Agriculture, an undetermined portion of which pertained to the Forest Service. In reality, the Center was simply transferring the differences to various suspense accounts and did not research the differences to determine which accounts were affected. Because most assets, liabilities, revenues, and expenses stem from, or result in, cash transactions, errors in these accounts may affect the accuracy of the Forest Service's financial reports, including the budget execution reports and other information reported to the Congress.
- The accuracy of the reported \$2.6 billion in net Property, Plant, and Equipment could not be determined because the Forest Service lacked procedures and controls for reporting real property and found discrepancies after most units had reportedly certified and validated their respective amounts of property, plant, and equipment. Additionally, the Forest Service did not complete physical inventories of personal property. Until a system of controls is put in place to accurately track the quantities, locations, and costs of these assets, the Congress cannot be assured that the Forest Service's requests for additional funds to acquire property, plant, or equipment are warranted.
- The Forest Service lacks supporting records (a subsidiary ledger system) to substantiate, at a detailed level, amounts the agency either owes or is owed by others (accounts payable and accounts receivable). Forest Service officials stated that when FFIS is implemented in all Forest Service units, the agency will have more reliable data. However, the accuracy of

²The Forest Service records its budget authority in asset accounts called Fund Balance Accounts with the Treasury and increases or decreases these accounts as it collects or disburses funds.

³For the last 8 years, the Inspector General has reported numerous material control weaknesses in the operations at National Finance Center. The Center processes the majority of the Forest Service's financial transactions, and the control weaknesses negatively affect the reliability of the Forest Service's data.

these accounts will be driven, to a great extent, by the reliability of the data entered at the field level. Not having reliable accounts receivable information severely impairs the Forest Service's ability to collect money owed it by other agencies. Not having reliable accounts payable data impedes the agency's ability to readily determine the costs it has incurred and the amounts it owes at any given point.

- The Forest Service did not properly allocate \$2.87 billion in reported net costs among the major components of the agency. This occurred because the team responsible for preparing the financial report (the Statement of Net Costs) was not trained to properly allocate revenues and costs to the units that generated those revenues or incurred those costs. The ability to properly match revenues and costs with the appropriate sources is especially important for the Forest Service because it conducts significant revenue-generating activities. Without such information, it is not possible to determine the extent to which taxpayers bear the costs of these activities. Additionally, proper cost information is necessary to assess how effectively and efficiently the agency has used its resources to achieve results.

In addition to the above deficiencies, the Inspector General also reported that the Forest Service's use of a vast and complex process to classify and allocate costs in its accounting system increases the risk of errors or irregularities and the potential for unauthorized use of appropriations or trust funds. According to the report, the Forest Service used at least 269,000 management codes during fiscal year 1997, most of which were unique to the local levels, to distribute costs to programs, and this practice continued during fiscal year 1998.

The Inspector General's report further stated that controls were not adequate to ensure that the shifting of costs from one account to another was authorized, approved, justified, or documented. Accordingly, the Inspector General concluded that there was insufficient assurance that the shifting of costs was done in a manner consistent with appropriations law.

Specifically, the Forest Service used a practice called "distribution/redistribution" to achieve or maintain specific levels of funding within accounts. The agency either (1) initially distributed the costs to accounts on the basis of the amounts budgeted rather than the actual costs of providing services to the programs or (2) retroactively changed accounting codes, object classes, and other accounting data after the data had been initially entered and processed to redistribute the costs among accounts.

The practices of “charging as budgeted and not as worked” and “retroactive redistribution” to achieve or maintain specific levels of funding within accounts often misstate a project’s costs by understating the costs to one account and overstating the costs to another account. In addition, they preclude the Forest Service from providing the Congress and other interested parties with meaningful, useful, and reliable information on the costs of its programs and activities.

Serious Problems Impede the New Accounting System’s Implementation

Successfully implementing FFIS agencywide is critical to the Forest Service’s efforts to achieve financial accountability. In reports issued since January 1998, the Inspector General, an outside consultant retained by Agriculture to independently review and assess FFIS’ management and implementation, and we have identified serious problems with the system’s implementation.

In February 1998,⁴ for example, we reported problems with FFIS’ processing of data and with transferring data between FFIS and its feeder systems that raised questions about FFIS’ implementation. In that report, we also noted that the three Forest Service units that are implementing FFIS were unable to produce the critical budgetary and accounting reports that track the Forest Service’s obligations, assets, liabilities, revenues, and costs, in part because (1) ending balances could not be converted from the old accounting system to FFIS and (2) the old accounting system was no longer functional for these units.

Agriculture’s outside consultant also identified numerous problems with FFIS’ implementation. For example, in March 1998,⁵ the consultant reported that the failure of the Forest Service to simplify its business processes had a significant negative impact on FFIS’ implementation. One major problem was the onerous process the agency used to classify and allocate costs in its accounting records for work performed, which led to greater operational costs. Furthermore, the process was virtually impossible to perform because of its demands on computer capacity.

The Forest Service must correct these implementation problems before it attempts to bring FFIS on-line agencywide.

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

⁵Independent Assessment of USDA’s Foundation Financial Information System, Logistics Management Institute (AG801R1, Mar. 1998).

Another critical issue that needs to be addressed is ensuring that the Forest Service has prepared and tested its Year 2000 business continuity and contingency plans. Like other federal agencies, the Forest Service is highly dependent on information technology to carry out its business, and Year 2000-induced failures of one or more mission-critical systems may have a severe impact on the agency's ability to deliver critical services. The Forest Service reported that as of April 9, 1999, all 17 of its mission-critical systems were Year 2000 compliant. However, the agency depends on information and data provided by other organizations, including other federal agencies and state and local governments. Therefore, the risk of failure is not limited to the agency's internal information systems, and one weak link anywhere in the chain of critical dependency could disrupt the Forest Service's operations. Given this interdependency and risk, it is imperative that the Forest Service develop continuity and contingency plans that identify, assess, manage, and mitigate Year 2000 risks and help ensure the continuity of its core business processes.

Current Field Structure Hampers Accountability

In February 1998, we reported that the Forest Service's autonomous organization may hinder top management's ability to gain the full participation of all regional fiscal directors in efforts to achieve financial accountability.⁶ In March 1998, an independent contractor retained by the Forest Service to analyze and report on the agency's financial management and organization also raised the issue of the agency's autonomous organizational structure.⁷ Specifically, the contractor noted that the Forest Service lacked a consistent structure for financial management practices. Furthermore, the contractor reported that whether the subject is executing budgets, developing financial plans, accounting for reimbursable agreements, or creating management codes, each unit operates independently. The contractor characterized the Forest Service's organizational structure 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 Washington Office. In addition, the contractor stated that the creation of a Chief Financial Officer and a consolidated financial management organization in headquarters would need to be mirrored throughout the agency's field

⁶Forest Service: Status of Progress Toward Financial Accountability (GAO/AIMD-98-84, Feb. 27, 1998).

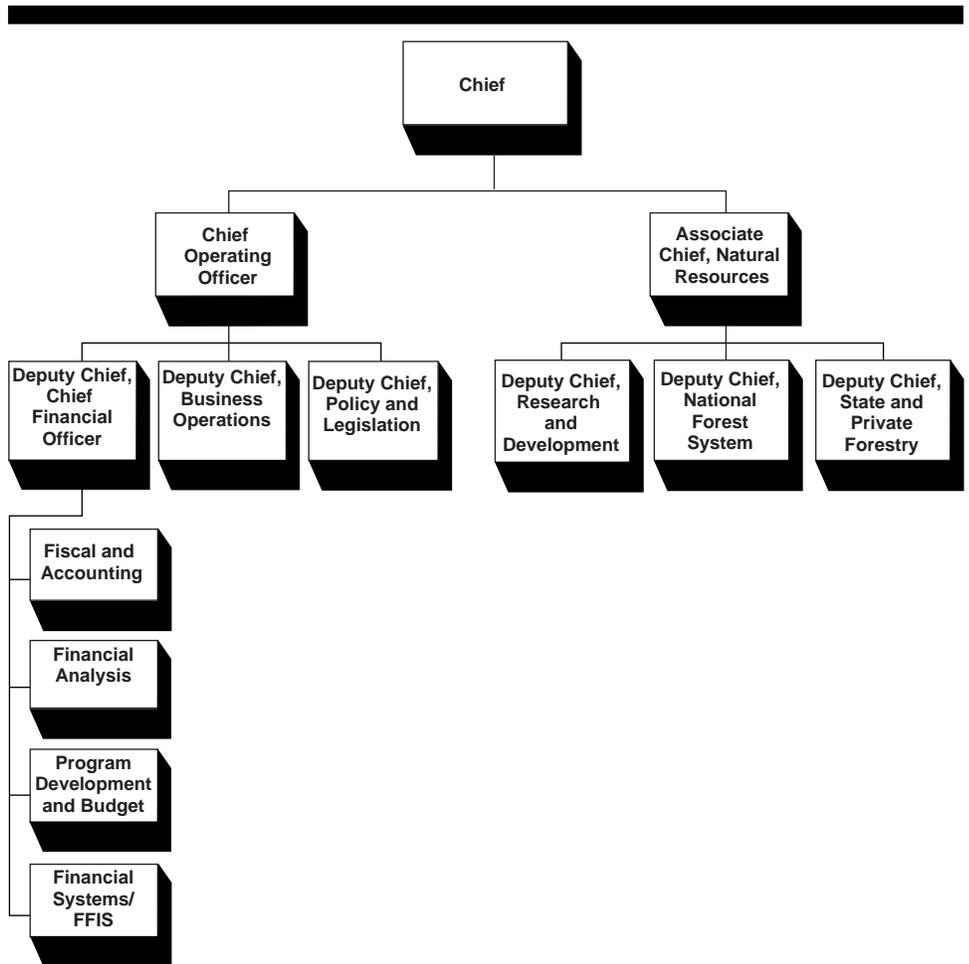
⁷Modernizing Financial Management at the Forest Service: Financial Management & Organizational Analysis, Coopers & Lybrand Consulting (Mar. 18, 1998).

organization. Accordingly, the contractor 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. As discussed below, the Forest Service has partially implemented this recommendation.

Corrective Measures Are Under Way

While major barriers remain, the Department of Agriculture and the Forest Service have completed several actions and begun others that, if successfully carried through, represent important steps toward achieving financial accountability. For example, in April 1998, the Chief of the Forest Service restructured the agency's Washington Office management team, creating three new fiscal and business management positions—a Chief Operating Officer, a Chief Financial Officer, and a Deputy Chief for Business Operations. Another new position—an Associate Chief for Natural Resources—was created to directly oversee the Forest Service's regional, forest, and district offices, as well as the agency's research and development and state and private forestry programs and activities. Both the Chief Operating Officer and the Associate Chief for Natural Resources report directly to the Chief of the Forest Service. (See fig. 2.1.)

Figure 2.1: Location of New Fiscal and Business Management Positions Within the Forest Service's Organizational Structure



Source: Forest Service.

In addition, Agriculture or the Forest Service took the following positive actions during or after fiscal year 1998:

- Agriculture's Office of the Chief Financial Officer established a project management office that has only one objective—developing and carrying out a strategic plan for implementing FFIS departmentwide. This office reports directly to Agriculture's Office of the Chief Financial Officer and

should provide the focused attention and independence that is needed to help successfully implement the system.

- The Forest Service has proposed reducing the number of management codes by more than 50 percent. The agency believes this reduction would simplify the tracking of expenditures and would standardize the codes throughout the agency.
- The three Forest Service units that initially implemented FFIS are no longer allowed to redistribute costs from one account to another after the fact in order to achieve or maintain specific levels of funding within accounts (“retroactive redistribution”). Other units using the old accounting system have been directed to substantially curtail the use of retroactive distribution. The agency believes that eliminating retroactive redistribution will help to ensure that expenditures are charged to the correct accounts.
- The Forest Service has hired experienced staff to fill key financial management and systems positions. Several of these newly hired individuals have implemented FFIS successfully at other agencies.
- The Forest Service has consolidated its budgeting, financial management, financial systems development and operations, and related analytical and quality assurance functions into a new central office headed by the Chief Financial Officer.

Furthermore, according to the Forest Service’s Chief Financial Officer, the agency has recently undertaken additional steps to improve its budget and financial processes, as well as the development of its financial statements. The Chief Financial Officer also stated that the Forest Service is working collaboratively with Agriculture’s Office of Inspector General to improve accountability over real and personal property.

Together, the Forest Service’s new organizational structure and new fiscal and business management team should help provide (1) the leadership needed by the Forest Service to correct its long-standing accounting and reporting deficiencies and (2) a nucleus around which financial accountability can be built. However, the new fiscal and business management team will first need to ensure that clear lines of responsibility and accountability for financial management extend throughout the Forest Service’s organizational structure. Key to resolving this issue is addressing the agency’s highly decentralized and autonomous field office financial management structure. A Forest Service official told us that a decision about hiring chief financial officers at the regional level will be made after FFIS is implemented agencywide.

The Forest Service's Accounting and Financial Reporting Has Been Designated as a High-Risk Area

Since 1990, we have reported at the start of each new Congress on government operations that we have identified as high risks because of their vulnerability to waste, fraud, abuse, and mismanagement. In our latest report,⁸ we designated the Forest Service's accounting and financial reporting as a new high-risk area. For us to remove the high-risk designation, the Forest Service will need to demonstrate sustained financial accountability. At a minimum, it will need to obtain an unqualified opinion on its financial statements for 2 consecutive fiscal years. To obtain an unqualified opinion, the Forest Service will need not only to correct previously identified financial management deficiencies but also to implement key accounting and financial reporting requirements that became effective in fiscal year 1998.

The Forest Service's goal is to implement FFIS agencywide on October 1, 1999, and to obtain an unqualified audit opinion on its fiscal year 2000 financial statements. Therefore, the earliest that we could remove the high-risk designation is 2003. However, given the major accounting and reporting deficiencies that remain, the serious problems that the agency has experienced in implementing FFIS, and the unresolved issue of how to ensure clear lines of responsibility and accountability for financial management throughout the organization, we believe that the Forest Service's goal of an unqualified audit opinion on its fiscal year 2000 financial statements is optimistic.

Moreover, achieving financial accountability goes beyond receiving an unqualified audit opinion. Major reforms, such as the Chief Financial Officers Act (the CFO Act), focus on maintaining a strong system of internal controls and systematically providing the accurate, timely, and relevant financial information needed for management decision-making and accountability throughout the year. Even if the Forest Service is able, through its efforts, to obtain reliable year-end data but does not back up its efforts through fundamental improvements in underlying internal controls, financial management systems, and operations that allow for the routine production of accurate, relevant, and timely data to support ongoing program management and accountability, the agency will not achieve the intended results of the CFO Act or meet our criteria for removal from the high-risk list.

⁸High-Risk Series: An Update (GAO/HR-99-1, Jan. 1999).

Establishing a System to Measure Performance Has Been Difficult

The Government Performance and Results Act of 1993 (the Results Act) seeks to improve the effectiveness, efficiency, and accountability of federal programs by establishing a system for agencies to set goals for their programs' performance and to measure results. To comply with the act's requirements, the Forest Service has begun to implement a results-based performance accountability system, including clarifying its mission priorities and identifying its general goals. However, the agency has not been able to develop (1) quantifiable objectives and long-term and annual performance measures to gauge its progress in achieving its broad, general goals or (2) strategies to achieve its goals and objectives. As a result, the national forests cannot blend agencywide objectives and strategies with local priorities in revising their plans. In addition, funds are being allocated to regions and forests on the basis of old criteria that are often not linked to the agency's new goals and objectives. Finally, line managers cannot be held accountable for achieving the goals and objectives.

The Requirements of the Results Act

Under the Results Act, federal agencies were required to submit strategic plans no later than September 30, 1997, to the Office of Management and Budget (OMB) and the Congress. Updates of the strategic plan are required at least every 3 years thereafter. The plan, covering not less than 5 years, must contain (1) a comprehensive mission statement for major functions and operations of the agency; (2) general and outcome-related goals; (3) a description of how the agency will achieve the goals and what operational processes and resources will be required; (4) a description of how the goals relate to annual performance plan goals; (5) an identification of key factors external to, and beyond the control of, the agency that could significantly affect the achievement of the goals; and (6) a description of program evaluations that the agency used in establishing and revising the general goals, with a schedule for future program evaluations.

Annually, beginning with fiscal year 1999, agencies must submit to OMB performance plans covering each program activity¹ in the agency's budget. Each agency's plan must (1) establish goals that define the level of performance to be achieved by a program activity; (2) express the goals in an objective, quantifiable, and measurable form unless an alternative form is approved by OMB; (3) describe the operational processes and resources required to achieve the goals; (4) establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and

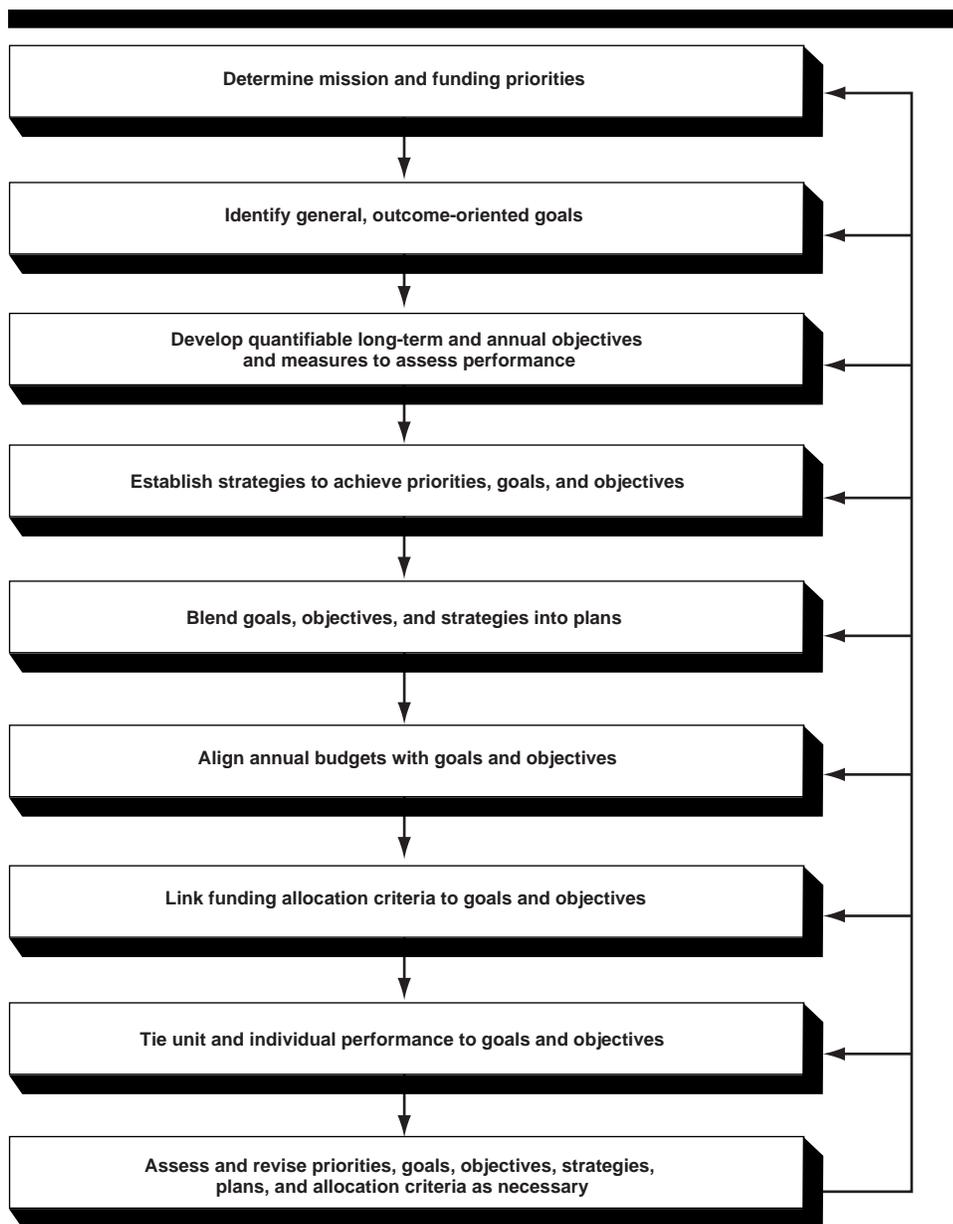
¹The term "program activity" refers to the listing of projects and activities in the appendix portion of the Budget of the United States Government. Program activity structures are intended to provide a meaningful representation of the operations financed by a specific budget account (appropriation).

outcomes of each program activity; (5) provide a basis for comparing actual program results with the established goals; and (6) describe the means to be used to verify and validate measured values.

Annually, beginning March 31, 2000, agencies must submit program performance reports covering performance for the previous fiscal year to the President and the Congress. Reports beginning in 2002 must include actual program performance results for the 3 preceding fiscal years. In each report, an agency is to compare its performance against its goals, summarize the findings of program evaluations completed during the fiscal year, and describe the actions needed to address any unmet goals.

The process of implementing the Results Act within the Forest Service can be portrayed as a number of interrelated steps. (See fig. 3.1.) A discussion of what the agency has done to implement each step provides a benchmark for measuring its future progress.

Figure 3.1: Steps in the Forest Service's Performance Accountability Process



Source: GAO's analysis of documents from the Forest Service.

The Forest Service Has Clarified Its Mission Priorities and Identified General Goals and Management Approaches

The statutory authorities intended to guide the management of the national forests provide little direction for the Forest Service in resolving conflicts among competing uses on its lands. However, the requirements in environmental laws and their implementing regulations and judicial interpretations do. Responding to these requirements and judicial interpretations, as well as to changing public values and concerns about the management of the national forests and to increased scientific understanding of the functioning of ecological systems and their components, the Forest Service has, over the past 2 decades, refocused the mix of its activities away from producing timber and other goods and services and toward restoring or protecting land health and forest resources.²

During the past 2 years, the Forest Service has clarified its mission priorities in several documents, including its September 30, 1997, strategic plan³ and its first two annual performance plans⁴ prepared under the Results Act. According to the agency, consistent with its existing legislative framework, its overriding mission and funding priority is to maintain and restore the health, productivity, and diversity of the lands entrusted to its care to meet the needs of present and future generations. It intends to limit goods and services on the national forests to the types, levels, and mixes imposed by considerations of land health and ecological sustainability.⁵ However, these priorities are still “de facto” in that they have evolved over many years, responding, in part, to many laws and judicial decisions, and the Congress has never explicitly accepted them or acknowledged their effects on the availability of timber, recreation, and other uses on the national forests.⁶

²Forest Service Priorities: Evolving Mission Favors Resource Protection Over Production (GAO/RCED-99-166, June 17, 1999).

³USDA Strategic Plan 1997-2002: A Healthy and Productive Nation in Harmony With the Land, Forest Service Strategic Plan, U.S. Department of Agriculture, Office of the Secretary (Sept. 30, 1997).

⁴FY 1999 USDA Forest Service Annual GPRA Performance Plan, U.S. Department of Agriculture, Forest Service (Feb. 4, 1998) and USDA Forest Service FY 2000 Annual Performance Plan, U.S. Department of Agriculture, Forest Service (Feb. 1, 1999).

⁵One definition of ecological sustainability is maintaining the composition (biological diversity of plants and animals), structure (biological and physical attributes, such as large trees, unconstrained rivers, and habitat patterns), and processes (including photosynthesis, water movement, and disturbance cycles) of biological and ecological systems (ecosystems).

⁶Forest Service Decision-Making: A Framework for Improving Performance (GAO/RCED-97-71, Apr. 29, 1997) and Forest Service Decision-Making: Greater Clarity Needed on Mission Priorities (GAO/T-RCED-97-81, Feb. 25, 1997).

Chapter 3
Establishing a System to Measure
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The Forest Service’s September 1997 strategic plan includes three very broad, general goals: (1) ensuring sustainable ecosystems, (2) providing multiple benefits for people within the capabilities of ecosystems, and (3) ensuring an effective organization (organizational effectiveness). In the agency’s fiscal year 2000 budget justification,⁷ the goal of ensuring sustainable ecosystems is also referred to as “land health,” and the goal of providing multiple benefits for people within the capabilities of ecosystems is also called “service to people.” (See table 3.1.) These goals capture the agency’s motto of “caring for the land and serving people,” are consistent with its mission priorities, and encompass all of its major functions and operations.

Table 3.1: The Forest Service’s General Goals

1997 strategic plan	Fiscal year 2000 budget justification
Ensure sustainable ecosystems	Land health
Provide multiple benefits for people within the capabilities of ecosystems	Service to people
Ensure organizational effectiveness	Organizational effectiveness

Source: The Forest Service’s September 1997 strategic plan and fiscal year 2000 budget justification.

To achieve its goals and objectives for land health and service to people and to accommodate the requirements of the Endangered Species Act and other environmental laws, the Forest Service has turned to a science-based, ecological approach for managing its lands and resources. This approach, called ecosystem management, is designed to ensure the sustained functioning and diversity of natural systems—such as watersheds, airsheds, soils, and vegetative and animal communities—by analyzing and planning along their boundaries rather than along the boundaries of national forests. The Endangered Species Act is then used as a “fine filter” to catch and support the special needs of species that otherwise would go unmet.

⁷FY 2000 Budget Justification for the Committee on Appropriations, U.S. Department of Agriculture, Forest Service (Feb. 1999).

The Agency Has Not Developed Quantifiable, Measurable Objectives and Strategies to Achieve Them

In March 1998, we reported that the Forest Service had not developed objective, verifiable accomplishment measures and criteria that focus on actual improvements and gauge longer-term (5- to 10-year) trends in the condition of specific resources or attributes of environmental quality, such as sediment loads in streams or the percentage of trail miles meeting a specific standard.⁸ In December 1998, we reported that the agency's performance measures often do not adequately reflect accomplishments or progress toward achieving strategic goals and objectives.⁹ In that report, we recommended that the Forest Service revise its performance measures to better link them to its strategic goals and objectives.

Over the last several years, the Forest Service has worked at, but not succeeded in, developing quantifiable objectives and long-term and annual measures to assess its progress in achieving its mission priorities and general goals. In particular, the agency has not been able to develop a cascading hierarchy, or layers of more specific and quantifiable objectives, between its broad, general goals and the long-term and annual performance measures that are intended to gauge its progress in achieving the goals.¹⁰ It has also worked at, but not finalized, various strategies to achieve its goals and objectives.

Quantifiable Long-Term and Annual Objectives and Measures

In its September 1997 strategic plan and first two annual performance plans, the Forest Service identified a number of objectives under each of its three general goals. In its fiscal year 2000 budget justification, the Forest Service aligns the goals with proposed outcomes and with criteria in the 1995 "Santiago Declaration" to sustain the world's forests.¹¹ Table 3.2. identifies the agency's existing goals and objectives, its proposed outcomes, and the Santiago Declaration's criteria. The fiscal year 2000 budget justification also aligns the agency's proposed outcomes with its

⁸Forest Service: Lack of Financial and Performance Accountability Has Resulted in Inefficiency and Waste (GAO/T-RCED-98-135, Mar. 26, 1998).

⁹Forest Service Management: Little Has Changed as a Result of the Fiscal Year 1995 Budget Reforms (GAO/RCED-99-2, Dec. 2, 1998).

¹⁰For examples of agencies that have used cascading hierarchies of goals, including the Bureau of Land Management, see Performance Budgeting: Initial Experiences Under the Results Act in Linking Plans With Budgets (GAO/AIMD/GGD-99-67, Apr. 12, 1999).

¹¹"The Santiago Declaration, Criteria and Indicators for the Conservation and Sustainable Management of Temperate and Boreal Forests (The Montreal Process)," (Feb. 3, 1995). The nonlegally binding agreement has been signed by the United States and 11 other countries—Argentina, Australia, Canada, Chile, China, Japan, Mexico, New Zealand, the Republic of Korea, the Russian Federation, and Uruguay. The Forest Service is the lead agency for implementing the criteria and indicators in the United States and has committed to integrating and using them, to the extent possible, in planning, budgeting, and reporting.

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existing and planned long-term and annual performance measures. (See app. II.) An analysis of the table and the appendix helps highlight the problems that the agency has experienced in attempting to link long-term and annual performance measures to its general goals.

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Table 3.2: The Forest Service’s Existing Goals, Objectives, and Proposed Outcomes and the Santiago Declaration’s Criteria

Existing goals and objectives	Proposed outcomes	The Santiago Declaration’s criteria
<p>Ensure sustainable ecosystems (land health)</p> <ul style="list-style-type: none"> • Ensure healthy and diverse forestlands • Ensure healthy and diverse aquatic ecosystems • Ensure healthy and diverse rangelands • Respond to hazardous substance sites • Protect threatened, endangered, and sensitive species • Develop scientific and management information to support sustainable ecosystem management <ul style="list-style-type: none"> • Protect natural wilderness ecosystem values 	<p>Ensure sustainable ecosystems (land health)</p> <ul style="list-style-type: none"> • Healthy forests • Healthy grasslands • Clean water • Robust fish and wildlife populations (improved viability) • Clean air • Productive soils 	<p>Ensure sustainable ecosystems (land health)</p> <ul style="list-style-type: none"> • Maintenance of forest ecosystem health and vitality • Conservation of biological diversity • Conservation and maintenance of soil and water resources • Maintenance of forests’ contribution to global carbon cycles
<p>Provide multiple benefits for people (service to people)</p> <ul style="list-style-type: none"> • Provide quality recreation experiences • Provide for heritage resource education and use • Support improved urban environments • Support healthy and diverse rural communities • Provide for sustainable yield of wood and forest products • Provide for sustainable grazing use • Support ecologically sound minerals production • Develop scientific and management information to support improved natural resource management and use • Provide a safe environment for the public and employees on National Forest System lands • Provide safe infrastructure and access to National Forest System lands <ul style="list-style-type: none"> • Provide for special uses and protect National Forest System land title 	<p>Provide multiple benefits for people (service to people)</p> <ul style="list-style-type: none"> • Quality outdoor recreation and natural settings • Improved urban environments • Healthy rural communities • Continuing availability of goods and services • Safe public lands and facilities • Good neighbors 	<p>Provide multiple benefits for people (service to people)</p> <ul style="list-style-type: none"> • Maintenance of productive capacity of forest ecosystems • Maintenance and enhancement of long-term multiple socioeconomic benefits to meet the needs of societies
<p>Ensure organizational effectiveness</p> <ul style="list-style-type: none"> • Ensure a productive and diverse workforce • Improve customer service • Integrate information systems • Improve financial management and accountability • Ensure an effective and efficient administrative organization 	<p>Ensure organizational effectiveness</p> <ul style="list-style-type: none"> • Productive and diverse workforce • Improved customer service • Integrated information systems and management processes • Sound financial systems and management • Effective and efficient administrative organization • Improved knowledge and decision-making to support management and use 	<p>Ensure organizational effectiveness</p> <ul style="list-style-type: none"> • Legal, institutional, and economic framework for forest conservation and sustainable management

Source: The Forest Service’s fiscal year 2000 budget justification and annual performance plan.

First, the Forest Service has not made clear the link between its existing objectives, its proposed outcomes, and the Santiago Declaration's criteria. For instance, all three contain very similar goals relating to healthy forests, making it difficult to distinguish (1) an objective from an outcome and an outcome from a criterion and (2) how outcomes are linked to objectives or how the criteria will be used to measure the objectives and/or outcomes.

Second, some proposed outcomes appear to result from other proposed outcomes. For example, clean water, robust fish and wildlife populations, and productive soils are the outcomes of healthy forests and grasslands, yet they are all layered together as proposed outcomes.

Third, some proposed outcomes appear to be broad, general objectives, and some broad, general objectives appear to be outcomes or measures of performance. For example, one proposed "outcome" under the Forest Service's goal of providing multiple benefits for people is the continuing availability of goods and services—a very broad, general objective. Conversely, some existing "objectives" are more specific, quantifiable, and measurable outcomes relating to the continued availability of goods and services, such as providing a sustainable yield of wood and forest products, providing for sustainable grazing use, and supporting ecologically sound minerals production. In addition, these objectives are identified as annual performance measures under the proposed outcome of continuing the availability of goods and services. Thus, instead of a cascading hierarchy of objectives, outcomes, and measures, a very broad, general outcome is wedged between very similar objectives and measures of performance.

Fourth, although the Forest Service uses terms like "healthy and diverse ecosystems," "ecological sustainability," "healthy forests," and "forest ecosystem vitality" to express its goals and objectives, these terms may mean different things to different people, and different people could use different measures to assess progress toward them. For instance, the agency has identified the objective of ensuring healthy and diverse forestlands as an overriding priority in achieving its goal of land health.¹² However, despite widespread use of the term in recent years, forest health does not have a generally accepted definition. The Forest Service, in its strategic plan and annual performance plans, defines forest health as the "ecological integrity" of forested ecosystems. The agency defines ecological integrity as a forested ecosystem's structure, composition, and

¹²See, for example, the Report of the Forest Service, Fiscal Year 1997, U.S. Department of Agriculture (May 1998).

processes; ability to maintain biological and physical components, functions, and interrelationships; and capability for self-renewal. Nevertheless, many Forest Service staff and others with whom we have spoken say that, because of its vagueness and subjectivity, the concept of forest health is often difficult to use effectively.¹³ According to officials on the Arapaho and Roosevelt National Forests in Colorado, the definition of forest health as the ecological integrity of an ecosystem lacks management objectives. Therefore, national forests in the Rocky Mountain Region (Region 2) define forest health instead as a condition where influences on the forest, including pests, silvicultural treatments, and timber harvesting practices, do not threaten resource management now or in the future. They believe that this definition is quite clear in tying management objectives to forest health, has more meaning for the management of the forests, and is the only way to measure whether national forests are meeting their goals.

Fifth, to measure long-term trends in land health requires accurate baseline data. However, the agency does not know the current condition of many aquatic, forested, and rangeland ecosystems. For example, in its performance plans for fiscal years 1999 and 2000, the Forest Service acknowledges that inventories of 40 percent of the aquatic ecosystems on its lands are inadequate to determine their condition. Similarly, descriptions of the condition of forested ecosystems within the national forests are generally based on estimates, and the criteria for determining their condition and assigning priorities to needed actions have not been developed. Without these data, it is not possible to measure the impact of management actions on the lands and resources.

Sixth, some of the Forest Service's annual performance measures do not encourage progress toward its goals and objectives. For instance, hazardous fuels, which accumulated under the Forest Service's decades-old policy of putting out wildfires, now support larger, often catastrophic, wildfires, many of which threaten lives and property, especially along the boundaries of forests (wildland/urban interfaces) where population has grown significantly in recent years.¹⁴ Acres along these interfaces are among the costliest and most difficult to treat, yet they also pose the greatest hazards to lives and property. However, the agency's measure of progress in reducing hazardous fuels on the national forests

¹³Western National Forests: A Cohesive Strategy Is Needed to Address Catastrophic Wildfire Threats (GAO/RCED-99-65, Apr. 2, 1999).

¹⁴Western National Forests: A Cohesive Strategy Is Needed to Address Catastrophic Wildfire Threats (GAO/RCED-99-65, Apr. 2, 1999).

and its basis for future years' funding—the number of acres treated—encourages a focus on quantity without reference to difficulty or safety. Thus, field offices have an incentive to select the easiest and least costly rather than the most hazardous and more costly acres to treat.

Strategies to Achieve Goals and Objectives

To implement its stated goals and objectives and measure its performance, the Forest Service will also need to establish strategies that describe how it will achieve its goals and objectives and what operational processes and resources will be required. In particular, many types of active management—such as timber sales on lands in the Pacific Northwest inhabited by the northern spotted owl and other old-growth-dependent species—have threatened rather than contributed to the achievement of ecological goals over the past few decades. Therefore, the agency will need to identify where or under what circumstances it should intervene to restore or protect the health of ecosystems rather than allow nature to take its course.¹⁵

In March 1998, the Chief of the Forest Service identified a natural resource agenda for the next century.¹⁶ The agenda identifies four areas of emphasis: watershed health and restoration, sustainable forest management, the national forest road system, and recreation. Among other things, it (1) establishes watershed health and restoration as the overriding priority and/or concern in planning for and implementing resource management actions, (2) temporarily suspends new road construction into most roadless areas until the Forest Service can develop a long-term forest roads policy, and (3) commits the agency to providing superior customer service and to ensuring that the rapid growth of recreation on the national forests does not compromise the long-term health of the lands.

Although not directly linked to the Results Act, the agenda is intended to start a gradual unfolding of a national purpose for the agency, set the agency's priorities, and give strategic focus to its programs. However, much work remains to translate the agenda into implementable strategies. For example, to address the serious forest health problem of the increasing number of uncontrollable and often catastrophic wildfires, the Forest Service has agreed to develop, but currently does not have, a

¹⁵Review of Proposed Legislation to Reform Laws Governing Federal Forest Management in the United States, Testimony by Dr. K. Norman Johnson before the Subcommittee on Forests and Public Land Management, Committee on Energy and Natural Resources, U.S. Senate (Feb. 25, 1997).

¹⁶A Gradual Unfolding of a National Purpose: A Natural Resource Agenda for the 21st Century, Speech before Forest Service Employees, Chief of the Forest Service (Mar. 2, 1998).

cohesive strategy for (1) reducing accumulated fuels on national forests nationwide and (2) maintaining these fuels at acceptable levels.¹⁷ Such a strategy, when developed, will, among other things, help the agency to quantify its objective of ensuring healthy and diverse forestlands and serve as a basis for establishing funding priorities and developing more meaningful performance measures.

Field Offices Continue to Plan and Budget Without Quantifiable Objectives and Strategies

As the Forest Service works to develop quantifiable objectives, implementable strategies, and measurable indicators of progress, many forest plans are being revised or are due for revision. In addition, funds continue to be allocated to regions and forests on the basis of old criteria that are often not linked to the agency's new strategic goals. Finally, although the agency intends to modify its managers' performance standards to reflect its goals and objectives, it cannot establish clear standards for holding these officials accountable until it develops appropriate objectives, strategies, and measures of progress.

Forest Plans Are Being Revised

The last of the 123 forest plans covering all 155 forests in the National Forest System was approved in 1995. Twelve of the forest plans—costing an estimated \$3 million each, or a total of \$36 million—have already been revised, and 20 more plans—costing another \$60 million—are scheduled for completion in 1999 and 2000. However, the Forest Service has not determined how or if the national forests will blend agencywide objectives and strategies with local priorities in revising their plans.

The approach taken by Interior's National Park Service suggests some positive insights for the Forest Service in linking plans to results.¹⁸ The agency already requires the 376 separate units in the National Park System to develop strategic plans to address applicable agencywide goals, as well as goals specific to each unit's unique legislative and operating environments. Both the agency and individual parks and programs have prepared strategic and annual performance plans with measurable outcome-related goals.

¹⁷Western National Forests: Status of Forest Service's Efforts to Reduce Catastrophic Wildfire Threats (GAO/T-RCED-99-241, June 29, 1999).

¹⁸National Park Service: Efforts to Link Resources to Results Suggest Insights for Other Agencies (GAO/AIMD-98-113, Apr. 10, 1998).

Old Budget Allocation
Criteria Are Being Used

Since fiscal year 1996, the Forest Service has used criteria to allocate appropriated funds to its field offices. However, the criteria used by the agency often are not linked to its performance-based goals and objectives.

As the Forest Service noted in its fiscal year 2000 budget justification, a criteria-based approach for allocating funds (1) improves the objectivity and rationality of the budget as a process for establishing policy and program priorities and (2) establishes a visible and rational basis for allocating resources. According to the agency, it assigns annual funding to its field offices on the basis of their ability to achieve agencywide goals and objectives. However, the Washington Office’s criteria for allocating funds to the field offices continue to be linked primarily to resource-specific programs and activities, such as timber sales and controlled fires, rather than to goals and objectives, which increasingly require that these programs and activities be integrated to achieve broader stewardship objectives, such as reducing the risk of uncontrollable wildfires.¹⁹

For instance, about half of the funding for timber sales in fiscal year 2000 will be used to support the agency’s land health mission through activities designed to restore or protect the ecological integrity of forested ecosystems. However, all three of the budget criteria for allocating the \$197 million requested to manage timber sales in fiscal year 2000 relate to the cost-effectiveness of preparing and administering the sales, not to restoring or protecting forested ecosystems. (See table 3.3.)

Table 3.3: Fiscal Year 2000 Budget Allocation Criteria for Timber Sales Management

Criterion	Weight
Amount of green volume that could be produced at current service level	50 percent
Amount of green timber that could be produced with unlimited funding	25 percent
3-year average of green timber offered	25 percent

Source: Forest Service.

Similarly, under its goal of service to people, the Forest Service has singled out recreation for special emphasis and funding, and the Chief has committed the agency to providing superior customer service and quality settings and experiences. However, all five of the budget criteria for

¹⁹Forest Service Management: Little Has Changed as a Result of the Fiscal Year 1995 Budget Reforms (GAO/RCED-99-2, Dec. 2, 1998) and Western National Forests: A Cohesive Strategy Is Needed to Address Catastrophic Wildfire Threats (GAO/RCED-99-65, Apr. 2, 1999).

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allocating the \$145 million requested for recreation management in fiscal year 2000 relate solely to the quantity rather than the quality of recreational experiences on the national forests. (See table 3.4.)

Table 3.4: Fiscal Year 2000 Budget Allocation Criteria for Recreation Management

Criterion	Weight
Recreation use (in millions of visitor days)	31 percent
Developed site capacity (in persons at one time)	30 percent
Acres of nonwilderness national forests and grasslands	18 percent
Existing miles of nonwilderness trails	12 percent
Number of special use permits (for ski areas, resort lodges, marinas, guide services, private recreational cabins, etc.)	9 percent

Source: Forest Service.

Basing the allocation of funds for recreation management solely on the quantity rather than the quality of recreational experiences on the national forests could work counter to the agency's commitment to providing superior customer service and quality settings and experiences and could give forests an incentive to maintain substandard facilities and sites. For example, on the Mark Twain National Forest in Missouri, we visited one campground with numerous substandard facilities, including a water and sewer system that posed potential health and safety hazards. Another campground on the forest was not only substandard but also clearly inferior to other federal, state, local, and private campgrounds in the immediate vicinity. However, the forest's future years' funding for developed facilities and sites is based primarily on developed site capacity and the total number of visitor days rather than the quality of the sites and the recreational experience. Therefore, the forest is reluctant to close the campgrounds or turn their management over to another federal or nonfederal entity for fear that its future years' funding could be reduced.

According to the National Academy of Public Administration,²⁰ using a criteria-based approach for allocating funds does not result in budgets that reflect the Forest Service's changing priorities, nor does it allow the agency to hold field organizations and employees fully accountable for

²⁰The National Academy of Public Administration is an independent, nonpartisan, nonprofit organization chartered by the Congress to help federal, state, and local governments improve their performance.

expenditures or performance.²¹ The Academy observed that distributing budget resources on the basis of allocation criteria “is a poor substitute for making hard choices among alternatives given limited resources.” The Academy recommended replacing the Forest Service’s criteria-based approach with one based on the agency’s strategic plan and the level of resources needed to accomplish stated goals and objectives.

Managers’ Performance
Cannot Be Tied to
Strategic Goals and
Objectives

Integrating human resource management activities into an agency’s organizational mission rather than treating the activities as isolated support functions can improve the implementation of performance-based management.²² This sort of integration is particularly important in a highly decentralized and autonomous organization like the Forest Service and may include tying individual performance management, career development programs, and pay and promotion standards to the agency’s goals and objectives.

According to the Forest Service, it intends to link accountability for achieving its goals and objectives to the performance of individuals. Key performance measures and indicators will become part of the standards used to evaluate their annual performance. Toward this end, the agency has modified the performance standards for some of its managers to establish a link to its goals and objectives. The agency is also developing a communication plan for explaining the scope, approach, and importance of performance accountability to its employees and customers.

However, without quantifiable objectives, implementable strategies, and measurable indicators of progress, Forest Service officials cannot be held accountable for their performance. For instance, since the agency has not reached agreement on a definition of forest health, activities needed to achieve one definition of forest health, such as tree stand conditions, might conflict with activities needed to achieve another definition of forest health, such as the ecological integrity of forested ecosystems. Numerous administrative appeals and judicial actions have been filed by environmental groups out of concern that efforts to improve the health of tree stands—which would be implemented, in part, through timber harvesting—might exacerbate problems affecting species, habitat, or

²¹Restoring Managerial Accountability to the United States Forest Service, Report by a Panel of the National Academy of Public Administration for the United States Forest Service (Aug. 1999).

²²Transforming the Civil Service: Building the Workforce of the Future, Results of a GAO-Sponsored Symposium (GAO/GGD-96-35, Dec. 20, 1995).

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watersheds. Thus, depending on the operative definition of forest health, a manager could be rewarded or punished for the same action.

In addition, some of the Forest Service's annual performance measures do not adequately reflect accomplishments or progress toward achieving the agency's goals and objectives. For instance, if managers are held accountable for meeting the agency's acreage targets for reducing hazardous fuels, then they will continue to focus on areas where the costs of reducing fuels are low so that they can reduce fuels on more acres, rather than on those areas with the highest fire hazards, including especially the wildland/urban interfaces.

The Forest Service's Budget Structure Is Not Clearly Linked to Its Land Management Activities

As discussed in chapter 3, the Forest Service is (1) refocusing the mix of its activities, shifting from producing timber and other goods and services toward restoring or protecting land health and forest resources, and (2) attempting to identify where or under what circumstances it should restore degraded lands through active management rather than allow nature to take its course. These issues are controversial and represent significant changes in the agency's mission and funding priorities and management approaches. It is, therefore, important for the Forest Service to provide the Congress with a clear understanding of what is being achieved with the funds that are being spent. However, over time, the link between the agency's budget structure and land management activities has weakened.

As of August 1999, the Forest Service was working with its appropriations subcommittees, the Department of Agriculture, and OMB to present a revised budget structure with its fiscal year 2001 budget request. However, although we believe that the Forest Service's budget structure should be revised to better link it to the agency's strategic goals and objectives, we also believe that any future revisions should coincide with actions required to correct known accounting and financial reporting deficiencies as well as problems with performance-related data, measurement, and reporting. As discussed in this report, major barriers to financial accountability remain and the performance measures needed to gauge the Forest Service's progress in achieving its goals and objectives have not been developed.

How the Forest Service's Budget Is Currently Structured

Each year the President's budget proposes and the Congress appropriates moneys to fund the Forest Service's programs and activities as part of the appropriations act for the Department of the Interior and related agencies. For fiscal year 1999, the agency's budget included 10 discretionary appropriations (budget accounts). In committee reports, the House and Senate Committees on Appropriations allocated funds within 5 of the Forest Service's 10 discretionary appropriations to 21 "budget line items" and 34 "extended budget line items."¹ (See table 4.1.) These budget line items and extended budget line items are intended to provide a meaningful representation of the operations financed by the five appropriations. Within the agency's largest discretionary appropriation—National Forest System—budget line items and extended budget line items are generally

¹Among the four major federal land management agencies, budget line items and extended budget line items are unique to the Forest Service. For the Bureau of Land Management, the National Park Service, and the Fish and Wildlife Service, budget line items and extended budget line items are referred to as program activities and subactivities, respectively, in the agencies' respective budget documents.

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used to fund the system's nine resource-specific programs identified in figure 1.1.

Table 4.1: The Forest Service's Fiscal Year 1999 Budget Structure for Discretionary Appropriations

Appropriation (budget account)	Budget line item/extended budget line item	
National Forest System	Land management planning	
	Inventory and monitoring	
	Recreation use	
	<ul style="list-style-type: none"> • Recreation management • Wilderness management • Heritage resources 	
	Wildlife and fisheries habitat management	
	<ul style="list-style-type: none"> • Wildlife habitat management • Inland fisheries habitat management • Anadromous fisheries habitat management • Threatened, endangered, and sensitive species habitat management 	
	Rangeland management	
	<ul style="list-style-type: none"> • Grazing management • Range vegetation management 	
	Forestland management	
	<ul style="list-style-type: none"> • Timber sales management • Forestland vegetation management 	
	Soil, water, and air management	
	<ul style="list-style-type: none"> • Soil, water, and air operations • Watershed improvements 	
	Minerals and geology management	
	Landownership management	
	<ul style="list-style-type: none"> • Real estate management • Land line location 	
	Infrastructure management	
	<ul style="list-style-type: none"> • Facility maintenance (nonrecreation) • Facility maintenance (recreation) • Trail maintenance 	
	Law enforcement operations	
	General administration	
	State and Private Forestry	Forest health management
		<ul style="list-style-type: none"> • Federal lands
<ul style="list-style-type: none"> • Cooperative lands 		

(continued)

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Appropriation (budget account)	Budget line item/extended budget line item
	Cooperative fire protection <ul style="list-style-type: none"> • State fire assistance • Volunteer fire assistance
	Cooperative forestry <ul style="list-style-type: none"> • Forest stewardship • Stewardship incentives program • Forest legacy program • Economic action program • Pacific Northwest assistance programs • Urban and community forestry
Forest and Rangeland Research	None
Wildland Fire Management	Preparedness Operations
Reconstruction and Construction	Facilities <ul style="list-style-type: none"> • Research • Fire, administrative, and other • Recreation Roads and trails <ul style="list-style-type: none"> • Roads reconstruction and construction • Roads maintenance and decommissioning • Trails reconstruction and construction
Land Acquisition—Land and Water Conservation Fund	Acquisition management Land purchase
Acquisition of lands for national forests—special acts	None
Acquisition of lands to complete exchanges	None
Range Betterment Fund	None
Gifts, donations, and bequests—Forest Research	None

Source: The Forest Service's fiscal year 2000 budget justification (explanatory notes).

The Forest Service's
Budget Structure and
Land Management
Activities Are Not
Clearly Linked

One purpose of the Results Act is to improve the link between allocating resources and achieving results with those resources. However, over time, the link between the Forest Service's budget structure and land management activities has weakened. This weakening occurs when the Forest Service's regions, forests, and districts either (1) disaggregate funds within a budget line item or extended budget line item to accomplish multiple objectives or (2) consolidate funds from two or more

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appropriations and/or aggregate funds from various budget line items and extended budget line items within an appropriation to address problems or issues whose scope exceeds that of individual resource-specific programs.²

The Forest Service's current budget structure was developed over time to respond to specific needs. Budget line items and extended budget line items are directly linked to the agency's resource-specific programs, which, in turn, are intended to fund program-specific projects and activities in the field. While the Forest Service's needs have changed, its budget and program structures have not.

For example, a decade ago, the Congress could be reasonably assured that funds allocated to the Forest Service's Forest Management program for timber sales would be used primarily to produce commercially valuable timber to help meet the nation's demand for wood products. Today, however, timber sales are increasingly being used to restore degraded ecosystems, and approximately half of the timber being removed from the national forests is being removed for stewardship purposes—mostly to accomplish forest-health-related objectives.³ For instance, most of the trees that need to be removed to reduce accumulated fuels and lower the risk of catastrophic fires are small in diameter and have little or no commercial value.⁴ As a result, funds allocated to the agency's Forest Management program for timber sales must now be disaggregated to accomplish both commodity and stewardship objectives.

Conversely, the Forest Service's regions, forests, and districts must consolidate funds from two or more appropriations and/or aggregate funds from various budget line items and extended budget line items within an appropriation to address problems or issues that cut across the boundaries of resource-specific programs. These problems and issues

²The Results Act permits agencies to aggregate, disaggregate, or consolidate the program activities in their budgets (budget line items and extended budget line items) so that the activities are aligned with the goals presented in the performance plans. Aggregation combines program activities within one of an agency's budget accounts (appropriations). Disaggregation breaks a single program activity in one budget account into two or more activities. Consolidation combines some or all of the program activities in two separate budget accounts to form a single program activity that appears in the performance plan. See *Agencies' Annual Performance Plans Under the Results Act: An Assessment Guide to Facilitate Congressional Decisionmaking*, Version 1, (GAO/GGD/AIMD-10.1.18, Feb. 1998).

³Forest Service: Amount of Timber Offered, Sold, and Harvested, and Timber Sales Outlays, Fiscal Years 1992 Through 1997 (GAO/RCED-99-174, June 15, 1999) and *Forest Service Management: Little Has Changed as a Result of the Fiscal Year 1995 Budget Reforms* (GAO/RCED-99-2, Dec. 2, 1998).

⁴Western National Forests: A Cohesive Strategy Is Needed to Address Catastrophic Wildfire Threats (GAO/RCED-99-65, Apr. 2, 1999).

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include protecting the habitats of the northern spotted owl and other wide-ranging species,⁵ reducing the growing threat of catastrophic wildfires,⁶ mitigating sediment levels in streams to ensure safe drinking water,⁷ and preventing and suppressing damaging insect and disease infestations.

For example, the agency has agreed to develop a cohesive strategy to address the growing threat of catastrophic wildfires in the interior West. This strategy will involve most, if not all, of the 91 national forests in the region.⁸ According to the Forest Service, reducing this threat will require “a full range of tools,” including timber sales, thinning, watershed improvement projects, wildlife habitat treatments, prescribed fires, and mechanical treatments and will involve staff representing programs in fire management, forest health, forest management, watersheds, fire research and development, and wildlife and fish management. Such a strategy must consolidate funds from at least four discretionary appropriations—the National Forest System, which funds the national forests; State and Private Forestry, which funds special grants to communities at risk of wildfire; Forest and Rangeland Research, which funds fire-related research; and Wildland Fire Management, which funds programs for reducing hazardous fuels. Moreover, within the National Forest System appropriation, the strategy will need to aggregate funds from many budget line items, including those that support programs responsible for timber, wildlife and fish, recreation, and water and air quality.⁹

The lack of a clear link between the Forest Service's current budget structure and its performance goals and objectives is exemplified by the effort of the agency's Washington Office to link or crosswalk 3 of its 34 extended budget line items to 5 of its 23 performance objectives. (See fig. 4.1.) For example, for every dollar allocated for Forest Stewardship, the Forest Service estimates that \$0.05 will be spent to ensure healthy and

⁵Ecosystem Planning: Northwest Forest and Interior Columbia River Basin Plans Demonstrate Improvements in Land-Use Planning (GAO/RCED-99-64, May 26, 1999).

⁶Western National Forests: A Cohesive Strategy Is Needed to Address Catastrophic Wildfire Threats (GAO/RCED-99-65, Apr. 2, 1999).

⁷Oregon Watersheds: Many Activities Contribute to Increased Turbidity During Large Storms (GAO/RCED-98-220, July 29, 1998).

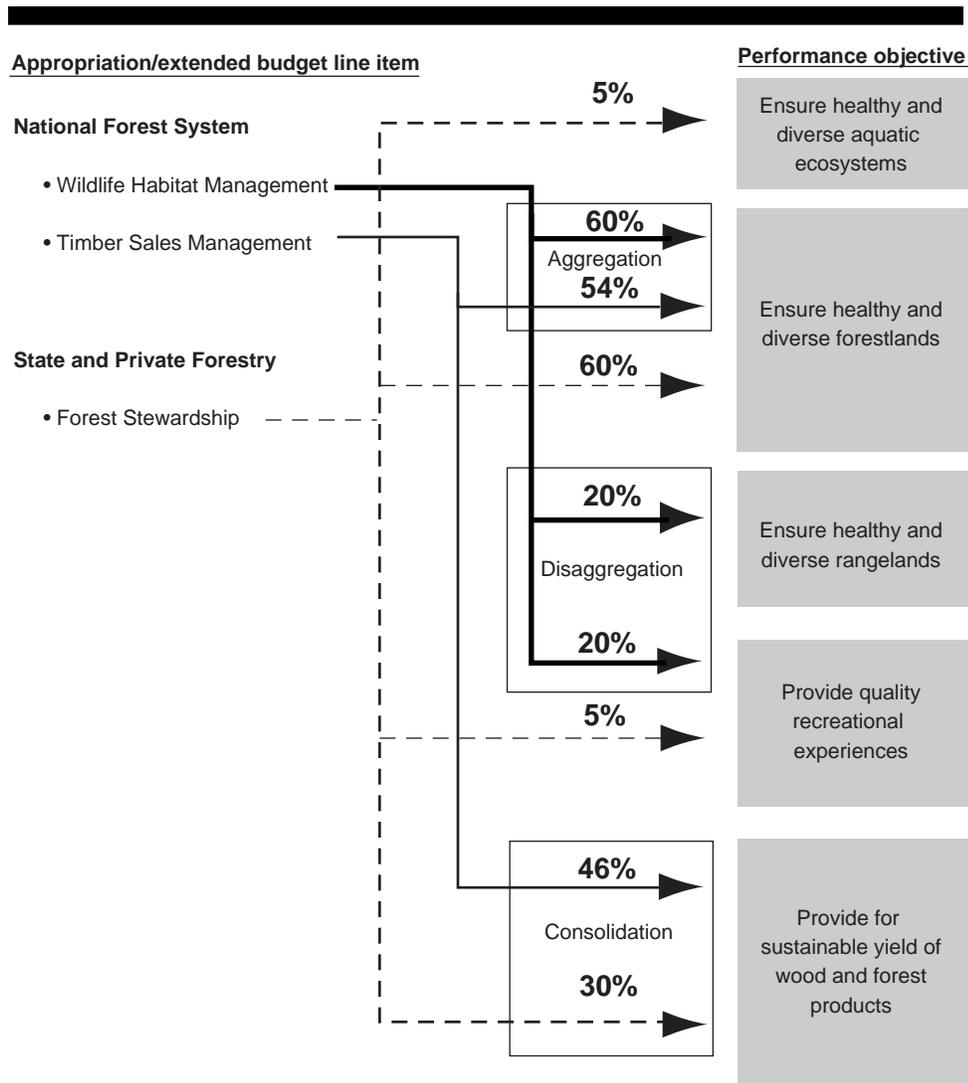
⁸Western National Forests: Status of Forest Service's Efforts to Reduce Catastrophic Wildfire Threats (GAO/T-RCED-99-241, June 29, 1999).

⁹Western National Forests: Status of Forest Service's Efforts to Reduce Catastrophic Wildfire Threats (GAO/T-RCED-99-241, June 29, 1999).

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diverse aquatic ecosystems, \$0.60 will be spent to ensure healthy and diverse forestlands, \$0.05 will be spent to provide quality recreational experiences, and \$0.30 will be spent to provide for a sustainable yield of wood and forest products.

Figure 4.1: Linking Three Extended Budget Line Items to Five Performance Objectives



Source: GAO's analysis of Forest Service data.

The link between the Forest Service's current budget structure and its performance goals and objectives becomes even less clear and more complex as more appropriations, budget line items, and extended budget line items are crosswalked to more performance objectives. Moreover, the Forest Service's regions, forests, and districts currently have no way to track or report how actual spending compares with planned spending by performance goal and objective. Faced with a similar situation, the National Park Service designed an entirely separate information system to report each park's estimates of spending by performance goal and objective.¹⁰ However, where such record-keeping is simply informational and not a matter of fund control, the accuracy and completeness of the information could come into question, according to the Pinchot Institute.¹¹

The Forest Service Is Attempting to Link Its Budget Structure With Its Performance Goals and Objectives

Ultimately, any changes to the Forest Service's budget structure must be cleared by OMB and will result from negotiations between the agency and its appropriations subcommittees. All the parties have indicated their willingness to better link the Forest Service's budget to its performance goals and objectives.

In its circular on the Results Act (A-11), OMB encourages agencies to consider changes to their budget account structure that would "lead to more thematic or functional presentations of both budget and performance information, thereby enhancing the understanding of programs and measures of performance." According to OMB, current differences between the program activities structure in an agency's budget and the program activities structure in its performance plans should eventually diminish as the agency modifies either its budget structure or its performance goals and objectives.

In its report on the fiscal year 2000 appropriations for the Department of the Interior and related agencies (S. Rep. No. 106-99), the Senate Committee on Appropriations stated that the Forest Service's current budget structure "does not accurately reflect current programs and does not provide an adequate linkage to a performance measurement process that will improve accountability and performance." The Committee believes that it is important for the Forest Service to present a revised

¹⁰National Park Service: *Efforts to Link Resources to Results Suggest Insights for Other Agencies* (GAO/AIMD-98-113, Apr. 10, 1998).

¹¹"Toward Integrated Resource Management on the National Forests: Understanding Forest Service Budget Reform," Pinchot Institute for Conservation, Washington, D.C. (Mar. 4, 1997.)

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budget structure with its fiscal year 2001 budget request that “reflects the agency mission; provides a strong linkage to the Government Performance and Results Act strategic goals; incorporates annual performance measures; and improves overall accountability.”

According to the Forest Service, the annual performance plans it prepares under the Results Act (see ch. 3) are intended to be the basic management tool for directing resources and budgets to programs and activities that move the agency toward accomplishing its long-term goals and outcomes. In its fiscal year 2000 budget justification, the agency recognizes the need to link its budget structure and accounting information with its performance information to ensure accountability and improve management.

In its report on the fiscal year 1999 appropriations for the Department of the Interior and related agencies (H.R. Rep. No. 105-609), the House Committee on Appropriations directed the Forest Service to contract with the National Academy of Public Administration to assess the restructuring of the Forest Service's budget. In the interim, the Forest Service included as a separate component in its fiscal year 2000 budget justification a preliminary proposal to change its budget structure to one that it believes is better linked to its proposed objectives. The proposed changes were confined to 2 of the agency's 10 discretionary appropriations—Reconstruction and Construction and the National Forest System. (See table 4.1.) For fiscal year 2000, the Forest Service proposed, and the Committees accepted, a new appropriation—ultimately titled Reconstruction and Maintenance—to consolidate and restructure (1) the Reconstruction and Construction appropriation and (2) the infrastructure management budget line item and extended budget line items within the National Forest System appropriation. The Forest Service also presented a preliminary proposal to replace the remaining 11 budget line items and 15 extended budget line items within the National Forest System appropriation with 4 budget line items and 7 extended budget line items. (See table 4.2.)

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Table 4.2: The Forest Service's Preliminary Proposal to Consolidate and Restructure the National Forest System Appropriation

Budget line items	Extended budget line items
Forest and rangeland health	None
Fish and wildlife conservation	None
Conservation of soil, water, and air resources	None
Public benefits	Recreation use management Grazing use management Timber sales management Minerals and geology management Landownership management Law enforcement operations Planning, inventory, and monitoring

Source: The Forest Service's fiscal year 2000 budget justification.

The Forest Service's preliminary proposal to revise its budget structure would have better linked the National Forest System appropriation with the performance goals and objectives in the agency's September 1997 strategic plan and first two annual performance plans prepared under the Results Act.

The Committees did not accept the Forest Service's preliminary proposal to make further changes to the National Forest System appropriation, choosing instead to await the results of the study by the National Academy of Public Administration. In its August 1999 report, the Academy proposed changes to the National Forest System appropriation as well as to the agency's Wildland Fire Management appropriation.¹² As of August 1999, the Forest Service was working with its appropriations subcommittees, the Department of Agriculture, and OMB to present a revised budget structure with its fiscal year 2001 budget request.

In a December 1998 report on Forest Service management,¹³ we concluded that further changes to the Forest Service's budget structure seemed to be warranted to facilitate the agency's management of the 155 national forests, and we recommended that the agency's budget structure be revised to establish better links to the Forest Service's strategic goals and objectives. However, we also maintained that any future revisions should coincide with actions required to correct known accounting and financial reporting deficiencies as well as problems with performance-related data, measurement, and reporting. As discussed in this report, major barriers to

¹²Restoring Managerial Accountability to the United States Forest Service, Report by a Panel of the National Academy of Public Administration for the United States Forest Service (Aug. 1999).

¹³Forest Service Management: Little Has Changed as a Result of the Fiscal Year 1995 Budget Reforms (GAO/RCED-99-2, Dec. 2, 1998).

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financial accountability remain, and the performance measures needed to gauge the Forest Service's progress in achieving its goals and objectives have not been developed.

Desktop Guide to the Forest Service's Management Deficiencies and Corrective Actions

Accounting Weaknesses

According to the February 1999 report of the Department of Agriculture's Inspector General on his audit of the Forest Service's fiscal year 1998 financial statements—a disclaimer of opinion—the Forest Service remains unable to reliably keep track of major assets worth billions of dollars, cannot accurately allocate revenues and costs to its programs, and made significant errors in preparing its financial statements. Specifically, the report stated that continuing financial management deficiencies prevented the Forest Service from preparing complete, reliable, and consistent financial statements. In addition, the agency lacks an integrated accounting system, and problems within the current system resulted in inaccurate and unreliable financial data. Finally, internal controls were not sufficient to safeguard assets or to ensure that field-level data were accurate.

Status of Corrective Action

The Forest Service has made some improvements, but significant work is still needed. Forest Service personnel conducted real property inventories for the first time in many years in fiscal year 1998. The Forest Service established a team to review its budget and accounting activities and to recommend ways of simplifying and improving its business operations. The Forest Service also implemented sweeping changes in its management structure to improve accountability and reform its financial systems. The Forest Service restructured its Washington 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. The agency has also consolidated its budgeting, financial management, financial systems development and operations, and related analytical and quality assurance functions in a new central office headed by a Chief Financial Officer. This new organization and management team should help provide the strong management and leadership needed by the Forest Service to correct its long-standing accounting and reporting deficiencies.

Implementation of a New Accounting System

The Department of Agriculture's current financial accounting system, the Central Accounting System (CAS) is not in compliance with the U.S. Government Standard General Ledger,¹ is not well integrated, and is generally outdated. In 1994, the Department's Office of the Chief Financial Officer purchased a system, the Foundation Financial Information System (FFIS), to replace CAS departmentwide. Because of financial deficiencies at the Forest Service, the Department decided that the Forest Service would

¹The 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.

be one of the first of its agencies to implement FFIS. However, the system failed to operate properly at the three operating units where it was installed, (e.g., it could not produce certain critical budgetary and accounting reports that track obligations, assets, liabilities, revenues, and costs) because the Forest Service did not simplify its business processes before implementing FFIS, added feeder systems to FFIS, implemented the system before it was fully tested, and exercised inadequate oversight and management control over the project.

Status of Corrective Action

Because of these difficulties, the Forest Service has deferred the full implementation of FFIS in all of its units until October 1, 1999. The Forest Service has established two teams to manage the FFIS project—a functional team responsible for implementing FFIS agencywide, providing training, and integrating accounting standards, new business practices, and policies and procedures with financial systems; and a technical team responsible for providing technical input, ensuring that infrastructure exists to support FFIS, monitoring performance, and preparing and maintaining system and application documentation. Heading the project is the Forest Service's new Chief Financial Officer, who has experience with the FFIS software package. Forest Service officials told us that implementation is on schedule for release to the remainder of the agency at the beginning of fiscal year 2000.

The Forest Service's
Field Structure

The Forest Service's largely autonomous field organization may hinder top management's ability to gain the full participation of all regional fiscal directors in efforts to achieve financial accountability.

Status of Corrective Action

A consultant hired by the Forest Service recommended that the agency establish a new position of Deputy Chief, Chief Financial Officer, who would consolidate all of the financial management functions within the Washington Office. In addition, the consultant advised the replication of the national financial management structure at the regional level, recommending that a Deputy Regional Forester for Financial Management/Chief Financial Officer be established within each region.

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, a

Deputy Chief/Chief Financial Officer, and a Deputy Chief for Business Operations. The agency will decide whether to hire chief financial officers at the regional level after it has implemented FFIS agencywide.

This restructuring addresses some of the concerns we have previously raised about the Forest Service's management structure. However, the key issue about the autonomous field structure, as it relates to financial management, remains unresolved.

Retroactive Redistribution

According to the Forest Service, expenditures are often correctly recorded to the management codes worked but are then reassigned to different codes, depending upon the availability of funds, through a practice known as retroactive redistribution. However, retroactive redistribution leaves no record of changes in expenditures, making it difficult if not impossible to identify where changes occurred. Given the number of transactions and lines of accounting and the detail involved, accountability is lost.

Status of Corrective Action

For fiscal year 1999, retroactive redistribution is not an option for units using the new accounting system, FFIS. Other units still using the old accounting system, CAS, have been directed to substantially curtail the use of retroactive redistribution. Unavoidable changes must be properly authorized, approved, justified, and supported with documentation to provide an audit trail of retroactive redistribution activities under CAS.

The Forest Service has said that regional foresters, station directors, area directors, the International Institute of Tropical Forestry director, and the Deputy Chief, Chief Financial Officer, will be responsible for establishing controls to ensure that the authorizations and documentation take place.

According to the Forest Service, retroactive redistribution will no longer be feasible after the agency fully implements FFIS on October 1, 1999.

Charging "as Budgeted" and Not "as Worked"

Under the benefiting function concept embodied in the fiscal year 1995 budget reforms, programs (such as Forest Management and Recreation, Heritage, and Wilderness Resources) are expected to pay the costs of support services provided by other programs. However, staff from programs providing support services may not always charge their costs to the benefiting program if the program primarily benefiting from the work has not been clearly identified, defined, or understood. In addition,

individual programs that underestimate the costs of a project or otherwise do not have the funds needed to pay for a project's support services may require other programs to absorb the costs of the services. This practice of charging "as budgeted" and not "as worked" circumvents the requirements established by the appropriations committees and the agency for moving funds between line items and understates a project's costs. It also precludes the Forest Service from providing the Congress and other interested parties with meaningful, useful, and reliable information on the costs and the accomplishments of programs.

Status of Corrective Action

Several regional and forest offices have issued guidance to managers that explains how to identify the benefiting program and stresses the importance of charging work to it. However, agency officials informed us that charging "as budgeted" and not "as worked" was sometimes more acceptable than not doing the project, requesting the brokering of funds between offices or regions, or requesting a time-consuming and possibly uncertain reprogramming of funds. They further stated that, if reasonably final budgets are distributed to the field in a timely manner, managers may be better able to plan projects within their program's available funding levels. Guidance reinforcing the need for reliable information on the costs of projects is also required.

Budget Allocation
Criteria

The Forest Service has developed agencywide criteria to allocate appropriated funds to its regions to improve the objectivity and rationality of the budget as a process for establishing policy and program priorities. However, the budget allocation criteria are often not linked to the agency's strategic goals and objectives. Rather than develop new criteria or improve existing ones to better align them with its mission and funding priorities, the agency has been trying to use old resource-specific allocation criteria with its new integrated-resource goals and objectives.

Status of Corrective Action

The Forest Service has reported that, given the complexity of managing natural resources, no set of criteria will yield the optimal allocation. Management review will still be required to ensure the proper distribution of funds. Agency officials informed us that, while efforts to improve the budget allocation criteria were ongoing, no specific changes to the fiscal year 1999 budget allocation criteria were made to assist in planning the fiscal year 2000 budget.

Inadequate Performance Measures

Currently, there is no clear link between the Forest Service's strategic goals and objectives and its performance measures. The agency's performance measures often do not adequately reflect the agency's accomplishments or progress toward achieving its goals and objectives. In addition, the Forest Service's existing indicators often measure quantity and outputs when they should be measuring quality and outcomes, do not measure outputs consistently, and are not reliable. For instance, the agency counts facilities and miles of Forest Service-managed roads as accomplishments toward its strategic objective of improving customer satisfaction even when the facilities are not maintained "to standard" and the roads are "less than fully maintained."

Status of Corrective Action

Over the last year, the Forest Service has made some progress in identifying long-term performance measures and in reducing the number of annual indicators in its performance plan. For instance, in its fiscal year 2000 budget justification, the Forest Service proposed a set of long-term measures for its proposed objectives. During an April 7, 1999, consultation between Forest Service and congressional staff, the agency identified a subset of these measures that it intends to implement agencywide in fiscal year 2000.

Indirect Costs

Indirect costs (overhead) have risen over time; however, accounting inconsistencies make it difficult to ascertain specifically why. An essential step for controlling indirect costs is establishing clear definitions for them and applying the definitions consistently over time and across locations.²

Status of Corrective Action

As directed by Public Law 105-277, the Omnibus Consolidated and Emergency Supplemental Appropriations Act for Fiscal Year 1999, the Forest Service submitted proposed definitions of indirect costs in its fiscal year 2000 budget justification to the appropriations committees. The agency reported that these definitions were consistent with standards developed by the Federal Accounting Standards Advisory Board and will be used consistently within the agency's cost accounting system to display the full cost of activities. In addition, the Forest Service included in its budget submission a spreadsheet displaying estimates of indirect costs by extended budget line item for the Forest Service's regions, stations, and

²Forest Service: Better Procedures and Oversight Needed to Address Indirect Expenditures (GAO/RCED-98-258, Aug. 28, 1998).

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Washington Office. The Forest Service estimates indirect costs at about 19 percent of total funding.

The Forest Service’s Proposed Outcomes and High-Priority Long-Term and Annual Performance Measures for Its Land Health and Service to People Objectives

Proposed outcome	Long-term performance measures	Annual performance measures
Clean water	<ul style="list-style-type: none"> • Trends in miles of streams and acres of lakes meeting state water quality standards • Trends in miles of riparian areas that are properly functioning, functionally at risk, nonfunctional, and not assessed • [Trends in watersheds where the timing and magnitude of flow regimes are within the range of natural variability] • [Trends in road and trail mileage that meet environmental standards/best management practices] 	<ul style="list-style-type: none"> • Miles of riparian areas and acres of wetlands restored • Miles of roads and trails reconstructed, maintained, and decommissioned to improve soil, water, and air quality • Number of hazardous material and abandoned/inactive mine sites reclaimed
Healthy forests and grasslands	<ul style="list-style-type: none"> • Trends in acres at risk from native insects and diseases • Trends in acres at risk from invasive plants and/or exotic insects and diseases • Trends in acres at risk from wildland fires • Trends in number of endangered rare plant species • [Trends in ecological integrity ratings by ecoregion] • [Trends in achieving land-ownership patterns that promote or improve desired forest and grassland conditions] 	<ul style="list-style-type: none"> • Acres of forests and grasslands treated to reduce unacceptable risk from native insects and diseases • Acres of forests and grasslands treated to reduce unacceptable levels of invasive plants and exotic insects and/or diseases • Acres of forests and grasslands treated through prescribed fire and mechanical treatments to reduce unacceptable levels of hazardous fuels • Feet of fireline constructed to protect firefighting capability • Trends in firefighter resources available for wildland fire suppression • Dollar value of federal excess personal property equipment for fire suppression loaned to states • Number of volunteer fire departments assisted • Acres acquired and/or exchanged in support of desired ecological conditions or land patterns (specifics to be added later) • Acres of land acquired through the forest legacy program • Number of forest legacy state-level needs assessments completed • Number of forest stewardship plans completed • Acres of land in stewardship management plans • Acres of multiresource practices implemented through stewardship incentives practices

(continued)

Appendix II
The Forest Service's Proposed Outcomes
and High-Priority Long-Term and Annual
Performance Measures for Its Land Health
and Service to People Objectives

Proposed outcome	Long-term performance measures	Annual performance measures
Robust fish and wildlife populations (improved viability)	<ul style="list-style-type: none"> • Trends in number of endangered fish and wildlife species • Population trends for selected species • Habitat trends for selected species 	<ul style="list-style-type: none"> • Number of conservation agreements signed • Number of recovery and conservation actions taken • Acres and miles of habitat improved
Clean air	<ul style="list-style-type: none"> • Trends in the percentage of air quality monitoring sites meeting or moving toward attainment of air quality objectives 	<ul style="list-style-type: none"> • None
Productive soils	<ul style="list-style-type: none"> • Trends in acres meeting soil quality standards 	<ul style="list-style-type: none"> • None
Quality outdoor recreation and natural settings	<ul style="list-style-type: none"> • [Trends in recreation quality and use of recreation capacity] • Trends in acres and constructed features meeting scenic integrity objectives • [Trends in deferred recreation facility maintenance] • [Trends in recreation user satisfaction by use and geographic region] 	<ul style="list-style-type: none"> • Percentage of estimated capacity used for dispersed recreation, developed recreation, and congressionally designated areas • Percentage of acres meeting scenic quality and land ownership pattern objectives • Number of heritage sites protected • Acres inventoried for heritage sites • Acres of wilderness condition inventoried • Percentage of scheduled measures implemented for congressionally designated areas • Number of facilities and miles of roads and trails constructed, reconstructed, and maintained
Improved urban environments	<ul style="list-style-type: none"> • Proportional range between growth in population and land use; retention and/or enhancement of green infrastructure • Adoption of new technology by urban policymakers to reduce infrastructure costs and improve environmental quality 	<ul style="list-style-type: none"> • [Number of communities implementing urban natural resource assessments/projects] • Number of participating communities • Number of technical assists to communities • Hours of volunteer assistance generated
Healthy rural communities	<ul style="list-style-type: none"> • [Trends in selected indicators of community vitality] 	<ul style="list-style-type: none"> • Number of rural communities working under broad-based local strategic plans • [Percentage of participating communities using outcome measurement systems based on strategic plans] • Number of rural communities using outcome measurement systems based on local strategic plans • Number of tribal and minority communities receiving assistance • Number of research studies focused on solving resource problems

(continued)

**Appendix II
The Forest Service's Proposed Outcomes
and High-Priority Long-Term and Annual
Performance Measures for Its Land Health
and Service to People Objectives**

Proposed outcome	Long-term performance measures	Annual performance measures
Continuing availability of goods and services	<ul style="list-style-type: none"> • Trends in the quantities and/or values of a wide variety of goods and services provided from the national forests and grasslands, consistent with maintaining ecological integrity • Trends in employment and income sustained from the national forests and grasslands • Development and application of new knowledge to ensure the availability of goods and services • [Acres of nonindustrial private forestlands managed with landowners' understanding of options and consequences related to the production of commodities, amenities, services, sustainability, and residual conditions] 	<ul style="list-style-type: none"> • Forest and grassland products provided, including (1) volume of wood fiber sold, (2) revenue from and number of special forest products sold, (3) number of months of grazing use, and (4) number of minerals operations • Number of special use applications processed and number of permits administered to standard • Number of land and access cases resolved to protect or provide public and private access • Miles of boundary marked/maintained to standard • Number of livestock grazing allotments administered to standard • Number of energy and nonenergy minerals' operations administered to standard • [New technology adopted by public and private land managers]
Safe public lands and facilities	<ul style="list-style-type: none"> • Trends in criminal activity on national forests and grasslands • Trends in the percentage of miles of roads and trails and the number of facilities and services meeting public safety standards • [Trends in customers' perceptions of personal security on national forests and grasslands] 	<ul style="list-style-type: none"> • Number of serious safety incidents investigated and corrected • Number of marijuana plants eradicated • Number of incident, violation, and warning notices issued • Number of investigations completed • Number of patrol hours provided through cooperative agreements with other law enforcement agencies • Miles of roads and trails and number of facilities reconstructed, maintained, and decommissioned to meet safety standards • Percentage of special use permits administered to meet safety standards • [Customers' perception of personal security on national forests and grasslands]
Good neighbors	<ul style="list-style-type: none"> • [Trends in public perceptions of the quality of relationships with national forests and grasslands managers] 	<ul style="list-style-type: none"> • Number of partners and value of partners' contributions • Number of people contacted through conservation education programs • Number of Forest Service volunteer hours

(continued)

Appendix II
The Forest Service's Proposed Outcomes
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Proposed outcome	Long-term performance measures	Annual performance measures
Improved knowledge and decisionmaking to support management and use	<ul style="list-style-type: none"> • Percentage of total acres of forest, [grassland, and aquatic] ecosystems covered by forest inventory and analysis, forest health monitoring, or other nationally consistent monitoring systems • [Assessments of capacity and accomplishments of the research and development program by peer review] • [Trends in acres meeting forest plan goals for composition, structure, and function and percentage of forests' and regions' monitoring reports consistent with national protocols] 	<ul style="list-style-type: none"> • Number of reports and data sets for forest inventory and health monitoring activities provided to public and private land managers that characterize resource status, conditions, and trends • Average inventory cycle length for updating state-level data in the forest inventory and analysis monitoring system • Percentage of plots measured • Development of new inventory technology • Scientific knowledge provided by research that assists public and private land managers in meeting existing legal and regulatory requirements • [Research capacity (scientist years, publications, etc.)] • Number of technology transfer activities • Number of technologies developed and transferred to users • Acres of landscape-scale and watershed assessments completed • Acres of soil, water, riparian area, forests, and grasslands inventoried and monitored • Percentage of scheduled water quality monitoring tasks implemented • Percentage of scheduled air quality sites monitored • Acres monitored for soil quality improvements • Amount (acres and miles) of fish, wildlife, and rare plant habitat inventoried and monitored

Note: Bracketed measures [] have been identified, but not developed, by the Forest Service.

Source: The Forest Service's fiscal year 2000 budget justification.

Comments From the Forest Service



United States
Department of
Agriculture

Forest
Service

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File Code: 1420

Date: SEP 23 1999

Mr. Barry T. Hill, Associate Director
Energy, Resources, and Science Issues
Resources, Community and Economic Development Division
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Hill:

In response to the General Accounting Office's (GAO) draft report to Congressional requesters entitled Forest Service: A Framework for Improving Accountability (GAO/RCED/AIMD-00-2), the Forest Service has reviewed and generally concurs with the report. The draft report accurately and fairly presents the information collected concerning the Forest Service's efforts to (1) achieve financial accountability, (2) become accountable for its performance, and (3) better align its budget with its strategic goals and objectives. However, the draft report does not mention any of the improvements the Forest Service has made during the fiscal year toward achieving an unqualified audit opinion.

This fiscal year we began business process reengineering efforts in order to improve the current budget and financial processes and provide better service, and implemented the Primary Purpose Principle to more accurately reflect how to plan and spend the agency's budget. Significant improvement has also been made in assuring an accurate and complete inventory and valuation of real and personal property. Specifically, in the area of real property, we are working collaboratively with the USDA Office of Inspector General to develop a methodology for developing historical costs for pre-1995 roads. Additionally, a major risk assessment was conducted to more specifically identify improvements in the development of financial statements. The report should include a reference to these accomplishments.

If you have additional questions, please contact our External Audit Liaison, Linda Washington on (202) 205-1784.

VINCETTE L. GOERL.
Chief Financial Officer
Deputy Chief, Office of Finance



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