

Committee on Resources

Testimony

Testimony of

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on Forest Service Financial Management

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Thank you, Mr. Chairman and members of the Committee. I am pleased to be here to provide testimony about the Forest Service's financial management. With me today is Robert Young, Deputy Assistant Inspector General for Audit.

Reliable financial data is essential to provide the basis for informed decision-making and program assessment. USDA has made significant strides in improving its financial management systems since the advent of the CFO Act in 1990, but much remains to be done, particularly with the Forest Service.

The Forest Service's financial statements are not reliable. Reliability is defined by the Financial Accounting Standards Board as "the quality of information that assures that information is reasonably free from error and faithfully represents what it purports to represent." Our annual financial statement audits, which we have performed since 1991, have only disclosed a limited correlation between the Forest Service's accounting numbers they report and the resources or events those numbers are to represent.

The weaknesses in the agency's financial management 'systems are long-standing and very significant. The deficiencies are prevalent throughout the accounting process, from the rudimentary recording of accounting transactions through to material internal control weaknesses at the National Finance Center (NFC). I will briefly describe these problems to provide you with a sense of the lack of reliability of the financial data and the pervasiveness of the problems. I will try to avoid a lot of detail; I know the subject of accounting is one which generally does not trigger the release of endorphins.

Accounting at the Field Level

The lack of accountability which besets the Forest Service's financial data begins at the entry level. Transactions historically have not been adequately documented and supporting records have not been maintained. A prime example of this rudimentary problem is the property, plant, and equipment account. The Forest Service is required to account for its real property, which consists of land, roads, buildings, and structures, and personal property, which are all other fixed assets, from the time of acquisition through to disposal. The most recent Forest Service financial statement in 1995 disclosed that the agency had property, plant, and equipment, referred to as PP&E, with a book - meaning depreciated - value of almost \$8 billion. The Forest Service does not, however, rely on NFC's general ledger to account for PP&E. Instead, amounts reported to the General Services

Administration in the Annual Report of Real Property Owned or Leased are considered by the agency to be its most reliable source of real property values. The GSA report is updated every year by the Forest Service units.

The asset values in the GSA report do not reconcile to the general ledger, nor do the manual real property summary records, in turn, reconcile to the ledger sheets for each property item. In addition, inventories of real property have not been routinely performed. As a result, no reasonable determination can be made as to what the real property balance should be. Personal property balances are also questionable. Our financial statement audits have found that property had not been recorded, property was recorded at erroneous values, and disposed of property still remained on the books.

Inadequate internal controls at the field level also impair the reliability of what the Forest Service reports as accounts payable. Specifically, the operating level has been unable to differentiate between an undelivered order, which represent a budgetary recognition of an obligation setting aside equity to eventually pay for an order, and an accounts payable, which is the financial recognition that a liability has been incurred. Put another way, an undelivered order is established at the time the Government obligates a purchase whereas the accounts payable is recorded when the goods procured are actually received. Our audits have found erroneous misclassifications as high as 76 percent. The Forest Service has been unable to rectify this problem at the field level and now attempts to compute its accounts payable balance by statistically sampling obligations, projecting the amount classified in error, and adjusting the balance.

Financial Statement Compilation Process

Our last financial statement audit in 1995 was impeded by the lack of quality information presented to us for audit by the Forest Service. Personnel were assigned to the process only on a parttime basis and had little or no experience preparing financial statements and management oversight was not adequate to ensure the statements were properly and accurately prepared. As a result, we identified many errors, inconsistencies, inadequate disclosures, and departures from applicable federal financial accounting principles. Completion of the statements was not timely and numerous corrections had to be made.

Management Codes

The Forest Service accounts for expenditures through a vast, complex, and nearly unauditible network of "management codes." Management codes are established as prestructured budgets; an operating plan is developed at the beginning of the year which sets forth the prospective distribution of expenditures. The methodology used to develop these allocations are based on empirical data and generally are not adequately documented. The Forest Service uses about 100,000 management codes which can contain up to 99 lines of accounting each. Though some codes are centrally prescribed, the preponderance are locally developed and are unique to each venue. The accounting distribution for each management code contains multiple fields, each of which contain innumerable options. For example, one field is called the fund code, which equates to an expanded budget line item. Another is the work activity code. There are hundreds of work activity codes to choose from, spanning program areas, such as wildlife, to functional areas, such as planning, to administrative areas, such as human resources. The Central Accounting System is ill-equipped to process the morass of management code activity. When transactions are initially posted, only the first line of what might be 99 lines of accounting on the record is input to the system. Periodically thereafter, usually monthly, the original transactions are reversed and distributed over all of the detailed accounting lines. This process is called the management code "explosion." All

semblance of accountability is greatly impaired, however, through the capability to modify the management codes at any time during the year. This process, referred to as retroactive redistribution, provides the capability to change, for example, the predetermined percentages of expense allocation or even the appropriation account. For example, the Forest Service may have prescribed that 20 percent of a regional forester's salary would be charged to the National Forest Treasury symbol, the fund code of Rangeland Management, and the remainder allocated to other program areas. Every two weeks when the payroll is run, the employee's salary equating to that percentage is charged accordingly. At any time this percentage or the impacted programs can be changed. When the retroactive redistribution occurs, all preceding transactions are reversed and reposted according to the revised criteria. It is difficult to identify where changes occurred and all record of prior activity can be potentially retrieved only after arduous reconstruction. Given the amount of transactions and the number of lines of accounting and detail involved, accountability is lost. The Forest Service informed NFC's contractor developing its new system that the capability to perform retroactive redistribution is needed, in part, because Congress sometimes retroactively rescinds appropriations. Our contact with USDA's Budget Officer disclosed, however, that the Forest Service has been the subject of rescissions only 4 times in the past 10 years, representing about 13 percent of the total USDA funds rescinded during that time. Further, all rescissions have been Governmentwide to offset supplementals and have featured adequate notice which allowed for sufficient planning. Our reviews have disclosed the vulnerabilities associated with the management code process. For example, we found that "office equipment repairs" at one location were to be charged on the basis of the extent to which employees worked on the programs. We found, however, that 47 percent of the expenses were charged to the Salvage Sale program even though only 20 percent of the employees were assigned in that area. At another location, the forest supervisor's salary was charged almost exclusively to reforestation, and no other program or administrative activity, which does not appear reasonable. At another location, the salary costs of the personnel and financial management staffs, telephone, costs, and computer maintenance expenses were disproportionately charged to reforestation (40 percent) and salvage sales (29 percent). Another recent audit we performed on the Wildlife and Fisheries Habitat Management Program disclosed that incurred costs were shifted from wildlife to another program to avoid overspending wildlife funds. We concluded that the process provides the latitude to charge costs to fund codes based upon the availability of funding rather than where funds are actually expended.

Accounting Systems Not Integrated

The Forest Service utilizes the NFC's Central Accounting System, or CAS, to account for many, but not all of its financial accounts. Since 1993, the Forest Service has used NFC's general ledger accounts to compile its statements. Although adopting the general ledger represented a significant improvement in the agency's financial management, numerous problems continue to undermine the reliability of the data reported through the feeder systems. First, the Forest Service generates some of its financial information from stand-alone automated systems and various manual processes each of which feature their own material weaknesses. Timber sales, for example, are accounted for in the Automated Timber Sale Accounting System, which due to timing problems does not adequately reflect accrued sales. Real property, as I mentioned, is compiled from reports to GSA, and not from a centralized accounting system. Second, many accounts generated from the CAS require additional analyses to determine the kinds of information not included in the ledger and any necessary adjustments. This process frequently results in questionable or unsupported changes to accounts. Lastly, even if the Forest Service's financial management systems were adequate, the CAS is not. Weaknesses in NFC's systems alone would be sufficient to impair the integrity of the reported data.

National Finance Center

Our reviews at the National Finance Center have disclosed continuing severe internal control weaknesses, culminating most recently with an adverse opinion we rendered on its overall control structure. These weaknesses impair and hinder the Forest Service's financial management, as well as other user agencies. Among the problems we have noted include:

- We are unable to gain reasonable assurance that the capability to access or modify data is limited to authorized individuals.
- Some of the programs are poorly documented and can be modified without proper authorization or adequate testing.
- NFC relies on numerous automated and manual reconciliation routines; these "reconciliations," however, are frequently achieved through the use of plugs or by simply denoting the unidentified differences. For example, in 1997 NFC adjusted its cash account by increasing disbursements by a net of about \$1 billion and increasing deposits by a net of \$174 million in order to agree with Treasury records. The reasons for the differences were not identified.
- Financial data can be adjusted without assurance that the actions are appropriate, authorized, documented, approved, or processed correctly.
- The general ledger does not conform with the U.S. Government Standard General Ledger requirements and cannot be fully crosswalked to the financial statements. For example, equity balances were derived from manipulations of various general ledger asset, liability, revenue, and expense accounts. Audit trails are cumbersome or nonexistent.

NFC systems are so unreliable that GAO estimated that USDA agencies attempt to compensate by operating over 100 separate financial management systems which perform overlapping functions. The Office of the Chief Financial Officer estimates that 750 to 1,500 staff years annually are expended in support of these systems.

Budget Versus Actual

The Central Accounting System currently has two components, the General Ledger System, or LEDG, and the Budget Cost System, or BUDG.

CAS processes the data into the BUDG system for budgetary accounting purposes and into the LEDG system for financial accounting. At the field level, Forest Service personnel input various accounting transactions into feeder systems using management codes. The feeder systems relay transaction data into the system.

Information processed into the BUDG system is grouped and identified by appropriation, fund code, Forest Service region, unit, subunit, and management code. The same information is processed into the LEDG system, with the addition of a general ledger account number, though no longer by management code. Since management codes are used by field units to input individual transactions, the loss of these codes in LEDG makes it virtually impossible to retrace individual transactions back to source documentation.

Although the same data is processed into LEDG and BUDG, the two systems do not produce balanced results. Currently, NFC uses an automated adjustment to the LEDG system to bring it into balance with BUDG for obligations and reimbursements. In 1995, \$55 million in adjustments to obligations had to be made.

Of concern to Congress, we know, is the reliability of the data presented in the agency's budget and assurance that the funds have been expended in accordance with the budget. Although OMB initially required an annual financial statement entitled "Budget and Actual Expenses," the statement was eliminated with the passage of Government Management Reform Act of 1994. As a result, we do not audit this reconciliation. It appears, however, based upon the weaknesses I have described, that there is very limited assurance that funds have been expended consistent with the budget. In addition, as we recently testified before the Subcommittee on Interior and Related Agencies on the Forest Service's maintenance backlog, funding is subjected to absorbing overhead charges as the appropriations are reallocated down through the organizational framework of the agency. As a result, the amount of funds appropriated for a specific purpose or activity are significantly reduced before they are available for that purpose. The requirement to audit the reconciliation of budget data to financial statement information has been reinstated for 1998.

FFIS

The Department decided in 1993 to develop a new accounting system, called the Foundation Financial Information System, to replace the general ledger in CAS. The HIS, as it is called, is supposed to serve the Department as a single integrated financial management system and bring USDA into compliance with Treasury, OMB, and the Federal Accounting Standards Advisory Board requirements. HIS, which was originally proposed to be fully functional by October 1, 1998, has been plagued by numerous problems and schedules have slipped. The central segment, or core, of the system is a commercial -off-the shelf product purchased from an outside vendor. OCFO, in consultation with the user agencies, opted to retain the legacy "feeder" systems at NFC and interface them with the core package. We have monitored the evolution of the system and have reported concerns regarding the adequacy of the system's testing and the problems encountered through maintaining the poorly documented legacy systems. The revised HIS plan called for two Forest Service Regions and a Research Station to go on HIS on October 1, 1997. Despite what appeared to be incomplete programming as well as testing, OCFO and the Forest Service implemented the plan. The remaining Forest Service Regions and other units are now proposed to be functional by October 1, 1998. Significant problems have arisen, however, which in our view may be too extensive to overcome by October 1 of this year to achieve the full Forest Service implementation. The Office of Chief Information Officer recently contracted for an independent verification and validation of FFIS. The contractor's draft report also indicates that further implementation of the system bears great risk.

The contractor was also sharply critical of the Forest Service's management code cost distribution/retroactive redistribution process, referring to it as a "millstone around the neck of FFIS." The report noted that the process increased the difficulty in coding and testing and has unduly saturated central processing unit time. The contractor further stated that the runs, which were to have been processed overnight, instead took 37 hours to complete and had to be restarted in their entirety, if any failure ensued. On a positive note, HIS will be designed to provide an audit trail over the management code activity which will enable us to trace transactions once this segment of the system becomes operational.

Financial Health Initiatives

All is not lost, however, in that improvements are underway. The Forest Service, OIG, and OCFO have worked together since mid-FY 1996 to plan and implement changes to strengthen the agency's financial accounting

processes. Forest Service management has emphasized the importance of financial health to its line managers and developed core financial competencies training for managers, financial staff and others. Most staff have now received some training geared toward improving financial accountability. The Forest Service issued a financial health desk guide designed as a reference source for all staff to use in properly recording financial transactions. The desk guide provides uniform accounting instructions for accounts receivable, accounts payable, real and personal property and other transactions.

The desk guide and training are intended to improve the quality of field level accounting data and compliance with Federal financial accounting standards. During FY 1997, OIG monitored field office efforts to improve data quality. All units we reviewed had begun to implement national financial health plans. While progress varied from unit to unit, all units were actively engaged in (1) the cleanup of erroneous accounting data and (2) improving accountability over real and personal property, accounts receivable and accounts payable. The agency's strategy is to bring these three critical account classes (property, receivables, and payables) into compliance with accounting standards prior to conversion to FFIS. The existing central accounting system does not contain subsidiary ledger records for real property, receivables, and payables. Therefore, the Forest Service must expend significant human resources to compile a real property data base and manually update receivable and payables monthly. Once the new general ledger system and real property data base are fully implemented, resources needed to maintain these accounts should be significantly reduced.

Forest Service also made improvements in its controls over financial statement preparation. Forest Service contracted for an accounting firm to prepare its FY 1997 statements and implemented a Forest Service staff review and management approval of each financial statement line item. This process has improved the quality of line items presented for audit review.

Conclusion

In conclusion, the Forest Service's financial management has been materially deficient for many years. With the efforts underway to achieve financial health and implement a new accounting system, the road to recovery has been laid and the Department is headed in the right direction. The corrective action remains a long-term venture, however, and continued emphasis and discipline will be needed to stay the course.

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