**TESTIMONY OF**

**ROGER C. VIADERO**
**INSPECTOR GENERAL**
**U.S. DEPARTMENT OF AGRICULTURE**

before the
Committee on Agriculture
Subcommittee on Department Operations,
Oversight, Nutrition, and Forestry
U.S. House of Representatives
concerning

**Financial Accountability**
**of the Forest Service**

March 11, 1999

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for the opportunity to be here to testify on financial accountability in the Forest Service. With me today is Robert Young, Deputy Assistant Inspector General for Audit.

Last month I issued the audit report on the Forest Service's fiscal year 1998 financial statements. My opinion was a disclaimer - meaning the agency's books and records were in such poor shape I couldn't do enough work to draw a conclusion. This has been the pattern since the annual audit of financial statements became law in 1990.

The Forest Service has made significant strides towards improving its financial management systems and accountability since the advent of the Chief Financial Officer Act in 1990. However, much remains to be done. Because weaknesses have been so pervasive and long-standing, corrections have been difficult to achieve within the agency.

Because of our adverse opinion on Forest Service's fiscal year 1995 financial statements, a coordinated effort was initiated involving the Forest Service, the Office of the Chief Financial Officer, and OIG towards improving the agency's financial management and accountability. A Financial Health Task Force was created, and during December 1996, issued a report detailing actions needed within the Forest Service to become accountable at all levels. Even though Forest Service management was committed to implement the plan, difficulties and sometimes failed efforts have occurred. OIG has stayed current on the Forest Service actions to address its financial and management weaknesses through our annual financial audits. In each of these audits, we recheck and readdress material weaknesses in the Forest Service's financial systems and internal controls to assess progress and make recommendations. In addition, through a consulting agreement with the Forest Service, OIG has assisted the agency in monitoring the implementation of actions pursued under the Financial Health Task Force plan. Results from these efforts continue to show a need for improvement.

I will separately address the problems having the greatest impact on financial management and accountability within the Forest Service. The Forest Service estimates that all of the issues will be overcome by fiscal year 2000. Although the goal is admirable, it is also ambitious, and thus we cannot assure you that it is attainable.

## Real Property

By far the most significant accountability problem the Forest Service has is its management of real property. The Forest Service is one of the Government's largest owners of land, buildings, and equipment. Unfortunately, though the Forest Service may be able to see the forest for the trees, it's uncertain as to what's in the forests, where it is, or how much it's worth. In fiscal year 1997, we could not verify the $8.2 billion in real property reported by the Forest Service on its financial statements. This condition existed because all physical inventories and valuations of these assets had not been completed. To correct the weakness, Forest Service has been working for several years to build a new automated real property database (called Infrastructure) to account for all real property. In fiscal year 1998, agency personnel conducted real property inventories for the first time in many years in an effort to populate Infrastructure. At about yearend, most Forest Service units reported their real property inventory totals and certified them to be correct. Subsequently, however, the values increased by more than $500 million indicating that the inventories and valuations were, in fact, continuing despite the certifications. More importantly, pooled assets (primarily roads) of over $3 billion were not inventoried at all. Also, Infrastructure does not currently have a mechanism for automatically calculating depreciation for real property. This results in manual, labor intensive calculations that have been subject to error. For example, we identified a $213.5 million misstatement in the depreciation expense for the fiscal year 1998.

We also found, in response to a Congressional request last year, that the Forest Service has no system or systematic way to compile maintenance backlog information. The Forest Service estimated that for fiscal year 1998 its deferred maintenance needs were between $7.3 and $8.3 billion. Our review disclosed that the methodologies used to compile and estimate maintenance costs were generally not documented, and the definition of what constituted deferred maintenance for real property varied. In response to our recommendations, the Forest Service has developed a standard definition of what constitutes deferred maintenance. The process of gathering the information, via what is referred to as a condition assessment survey, will be several years in duration. As a result, a reasonable estimate of the maintenance backlog will not be known for some time.

The Forest Service goal is to have accurate real property information by the end of fiscal year 1999. This continues to be no small task in that it will require populating Infrastructure with a complete physical inventory that has been properly valuated, to include roads, adding a depreciation module, and implementing controls to review and verify accuracy at the data entry level.

## Accounts Receivable and Accounts Payable

Forest Service does not have an integrated accounts receivable system or accounts payable system as part of its general ledger. The lack of an integrated system means that each month the Forest Service reporting units must go through a cumbersome manual input process to transmit accounts receivable and payable data to the general ledger. This process has been conducive to numerous errors.

Entry errors at the field level have resulted in a substantial amount of invalid receivables. For example, reported receivables have included intra-agency transactions; more specifically, transactions that occur between segments of the Forest Service that should be eliminated when preparing the financial statements. Without eliminating these transactions, assets shown by the statements include amounts the Forest Service expects to receive from itself. In total, Forest Service's financial statements for fiscal year 1998 had to be adjusted by over $44 million for intra-agency transactions.

Since 1993, the Forest Service has historically computed its accounts payable balance statistically by identifying the extent of errors likely to have occurred and projecting them over the universe of transactions, then adjusting the total. Rather than correcting the errors, the Forest Service tries to estimate how many were made.

The Forest Service is converting to a new general ledger system which will facilitate an integrated accounts receivable system and accounts payable system; thus improving controls. To be successful, however, the Forest Service will need to ensure a successful conversion to the new system so that feeder systems provide accurate and timely accounts receivable and payable data. In addition, improved supervisory controls at reporting units will be needed to minimize field level entry errors.

## Fund Balances with Treasury

For the account "Fund Balances with Treasury", unexplained variances exist between deposits and disbursements shown in Treasury records when compared to the amounts reflected in the accounting system used by Forest Service.

The Central Accounting System, or (CAS), used by Forest Service, is maintained by the National Finance Center, or NFC. For fiscal year 1998, NFC manually adjusted the Department's agencywide fund balance accounts by $535 million to agree with Treasury records. This adjustment was made without fully researching and reconciling the differences. As a result, the portion of the adjustment applicable to Forest Service could not be determined. This situation compares to adjusting your checkbook to reflect the bank's balance shown by your monthly statement without balancing your checkbook to determine why the difference exists, thus automatically accepting the bank's reported balance.

To correct accounting weaknesses in the account "Fund Balances with Treasury", Forest Service must document the basis for any adjustments made by the agency, and NFC must do the same for adjustments it makes. Adjustments by NFC must provide sufficient detail to allow allocation of the adjustment to applicable agencies within the Department. We have continually reported material weaknesses in the general controls environment at NFC that have hampered the ability of user agencies to analyze and reconcile accounting data. It is difficult to estimate when these weaknesses might be resolved. However, it should be noted that even though part of the problem exists at NFC, Forest Service has the ultimate responsibility for producing and reporting reliable data.

## Conversion to a New General Ledger System

As previously mentioned, Forest Service is in the process of converting to a new general ledger system, the Foundation Financial Information System (FFIS). Conversion to FFIS is intended to correct weaknesses in CAS. The CAS general ledger is not fully integrated with its subsystems, processes within CAS impede the ability to trace individual transactions back to source documentation, and CAS does not conform with governmentwide standard general ledger requirements.

FFIS will be maintained by NFC. Conversion to FFIS began during fiscal year 1997, with two out of the nine Forest Service Regions being converted. The remaining Regions are scheduled for conversion in October 1999.

Conversion to FFIS has not been easy. The Forest Service has experienced problems with the production of timely and accurate FFIS budget and account reports, system accounting errors, integrating subsystems data into FFIS, and conversion of the Forest Service management codes process to FFIS. Historically the Forest Service has used about 100,000 management codes that contain up to 99 lines of accounting data to allocate fund usage among expanded budget line items. The use of these management codes pose great risk that fund usage will be improperly reported and we have recommended their elimination. The Forest Service has proposed reducing the number of management codes in CAS by more than 50 percent and standardizing the codes throughout the agency. These codes are to be eliminated when FFIS is fully implemented.

## Conclusion

Without correcting the weaknesses in accountability, Forest Service managers' ability to effectively manage operations, monitor revenue and spending levels, and make informed decisions about future funding needs will continue to be hampered. Forest Service's financial management and accountability has been materially deficient for many years, and correction remains a long-term venture needing continued emphasis and discipline to stay on course. It is critical that an improved general ledger system such as FFIS be successfully implemented in conjunction with controls to ensure that reporting units input accurate data through integrated feeder systems and retain supporting documentation. Further, the real property problems must be rectified -- all assets must be located, and properly valued. If these efforts are achieved, I believe that Forest Service will no longer be an agency at "high risk".