Appendix B—U.S. Department of Agriculture Office of Inspector General Financial and IT Operations Audit Report

USDA

U.S. Department of Agriculture
Office of Inspector General
Financial and IT Operations
Audit Report

FOREST SERVICE
FINANCIAL STATEMENT AUDIT
FOR FISCAL YEAR 2002

Audit Report No.
08401-1-FM
January 2003

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

Date: 1/9/03

REPLY TO
ATTN OF: 08401-1-FM

SUBJECT: Audit of Fiscal Year 2002 Forest Service Financial Statements

TO: Dale Bosworth
Chief
Forest Service

ATTN: Mary Sally Matiella
Chief Financial Officer
Forest Service

This report presents the auditor's opinion on the Forest Service's Principal financial statements for the fiscal year ended September 30, 2002. The report also includes an assessment of Forest Service's internal control structure and compliance with laws and regulations.

KPMG Peat Marwick LLP (KPMG), an independent certified public accounting firm, conducted the audit. We monitored the progress of the audit at all key points, reviewed the working papers and performed other procedures, as we deemed necessary. We determined the audit was conducted in accordance with auditing standards generally accented in the United States of America, "Government Auditing Standards" (issued by the Comptroller General of the United States), and the Office of Management and Budget Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

It is the opinion of KPMG that the financial statements present fairly, in all material aspects, the Forest Service's financial position as of September 30, 2002, and its net costs, changes in net position, budgetary resources, and reconciliation of net cost to budgetary obligations for the year then ended, in conformity with generally accepted accounting principles. KPMG's report on internal controls contains six material internal control weaknesses. The material internal control weaknesses included the need for improved controls over:

- The reconciliation and accountability of Fund Balance with Treasury;
- accurate recording of property transactions;
- selected automated application programs;

- payroll processing; and
- yearend accruals.

The report also noted that the general control environment needed improvement.

KPMG's report on Forest Service's laws and regulations contains one instance of noncompliance with the Federal Financial Management Improvement Act.

The Forest Service does not yet operate as an effective, sustainable, and accountable financial management organization. The fiscal year 2002 ending account balances were primarily derived from a 2 year audit effort on beginning balances and numerous statistical samples of fiscal year 2002 transactions. As a result of these efforts, multiple adjustments were processed to the general ledger and/or subsidiary ledgers. For example the financial statement line-item "General Property, Plant and Equipment, Net" was reduced by over $1 billion dollars based on the audit coverage. The achievement of an unqualified opinion, therefore, did not necessarily result from improvement in underlying financial management systems, but rather as an extensive ad hoc effort. As stated by the Comptroller General of the United States, "an unqualified opinion achieved on this basis will become an accomplishment without much substance."

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, including the timeframes, on our recommendations. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

Richard D. Long

RICHARD D. LONG
Assistant Inspector General
for Audit

UNITED STATES DEPARTMENT OF AGRICULTURE
FOREST SERVICE

September 30, 2002

Table of Contents

INDEPENDENT AUDITORS' REPORT

KPMG

2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Chief, USDA Forest Service and
Office of Inspector General, United States Department of Agriculture:

We have audited the accompanying consolidated balance sheet of the United States Department of Agriculture (USDA) Forest Service as of September 30, 2002 and the related consolidated statements of net costs, changes in net position, and financing and combined statement of budgetary resources for the year then ended, hereinafter referred to as the "financial statements". The objective of our audit was to express an opinion on the fair presentation of these financial statements. In connection with our audit, we also considered the USDA Forest Service's internal control over financial reporting and tested the USDA Forest Service's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that the USDA Forest Service financial statements as of and for the year ended September 30, 2002 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

As a result of tremendous effort performed outside of its normal business processes, the USDA Forest Service obtained an unqualified opinion on its fiscal year 2002 financial statements after receiving disclaimers of opinion for the past several years. As noted in the following paragraph, however, the USDA Forest Service has significant business process design, operation and control deficiencies that it must address.

Our consideration of internal control over financial reporting resulted in the following reportable conditions. The first six are considered material weaknesses.

- USDA Forest Service must continue to develop and improve its internal controls over its reconciliation and accountability of fund balance with Treasury (repeat finding)
- USDA Forest Service must improve its control design and/or implementation related to the accurate recording of property transactions (repeat finding)
- USDA Forest Service must develop a comprehensive accrual methodology
- USDA Forest Service must improve its controls over the payroll process
- USDA Forest Service must improve its general controls environment
- USDA Forest Service must improve its application controls for data integrity and access privileges for Pontius, PRCH, PROP, and EMIS
- Posting of certain transactions do not contain the proper reference data to link related transactions
- Reconciliations between FFIS and subsidiary ledgers are needed
- Unliquidated obligation reconciliations need improvement and additional related procedures need to be developed

KPMG

- The grants and agreements process needs improved internal controls as well as refined procedures
- Controls related to physical inventories of capitalized assets need improvement
- Procurement controls and procedures need improvement
- USDA Forest Service information systems need improvements in addition to the material weaknesses noted above

The results of our tests of compliance with certain provisions of laws and regulations, exclusive of the *Federal Financial Management Improvement of 1996* (FFMIA), disclosed no material instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The results of our tests of FFMIA disclosed instances where the USDA Forest Service financial management systems did not substantially comply with Federal financial management systems requirements, applicable Federal accounting standards or the United States Government Standard General Ledger at the transaction level.

The following sections discuss our opinion on the USDA Forest Service's financial statements, our consideration of the USDA Forest Service's internal control over financial reporting, our tests of the USDA Forest Service's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheet of the USDA Forest Service as of September 30, 2002 and the related consolidated statements of net costs, changes in net position, and financing and combined statement of budgetary resources for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the USDA Forest Service as of September 30, 2002 and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.B. to the financial statements, the USDA Forest Service adopted the provisions of Statement of Federal Financial Accounting Standards No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles* effective October 1, 2001.

The information in the Management Discussion and Analysis, Required Supplementary Stewardship Information and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

In applying the limited procedures to the deferred maintenance information, which is Required Supplementary Information, we were unable to apply certain procedures prescribed by professional standards because supporting documentation was not provided.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the USDA Forest Service's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

In our audit we noted certain matters, described in Exhibits I and II, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the reportable conditions presented in Exhibit I are material weaknesses. Exhibit II presents the other reportable conditions.

We also noted other matters involving internal control over financial reporting and its operation that we will report to the management of USDA Forest Service in a separate letter.

INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

We noted certain significant deficiencies in internal control over Required Supplementary Stewardship Information that, in our judgment, could adversely affect the USDA Forest Service's ability to collect, process, record, and summarize Required Supplementary Stewardship Information.

We determined that preparation controls had not been effectively designed to insure the consistency and timeliness of the reported information. The information provided was not complete and was not as of September 30, 2002.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed instances, described in Exhibit III, where the USDA Forest Service's financial management systems did not substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, or the United States Government Standard General Ledger at the transaction level.

RESPONSIBILITIES

Management's Responsibilities

Management is responsible for:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting, and preparation of the Management's Discussion and Analysis (including the performance measures), required supplementary information, and required supplementary stewardship information; and
- Complying with laws and regulations, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

KPMG

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2002 financial statements of the USDA Forest Service based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered the USDA Forest Service's internal control over financial reporting by obtaining an understanding of the USDA Forest Service's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, we considered the USDA Forest Service's internal control over required supplementary stewardship information by obtaining an understanding of the USDA Forest Service's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over required supplementary stewardship information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the USDA Forest Service's financial statements are free of material misstatement, we performed tests of the USDA Forest Service's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the USDA Forest Service. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the USDA Forest Service's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard

General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

This report is intended for the information and use of USDA Forest Service's management, USDA Office of the Inspector General, OMB and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 16, 2002

MATERIAL WEAKNESSES

Material Weakness # 1: The USDA Forest Service Must Continue to Develop and Improve its Internal Controls over its Reconciliation and Accountability of Fund Balance with Treasury (Repeat Finding)

During our audit, we evaluated the internal controls in place for maintaining and reconciling fund balance with Treasury. Although the USDA Forest Service (FS) has made progress in improving its fund balance with Treasury reconciliation process, especially in regards to the Financial Management Service (FMS) 6652 reports reconciliation process, we identified continuing significant control deficiencies in the process.

A FMS 6653/6654/6655 Reports Reconciliation Process Needs to be Implemented

During our tests of the fund balance with Treasury FMS 6653/6654/6655 reports reconciliation process we noted that research of unreconciled items and the resulting corrective action had not been completed. FS could not provide sufficient supporting documentation of resolution for 60 of 60 sampled unreconciled items from the June and August fund balance with Treasury 6653/6654/6655 reports.

Monthly FMS 6653/6654/6655 reports reconciliations were not performed throughout the year for the following reasons:

- Efforts dedicated to define and improve the FMS 6652 reconciliation process.
- Assignment of adequately trained personnel to perform all the necessary functions of the reconciliations was not completed.
- Lack of communication with National Finance Center (NFC) personnel to resolve reconciling items that result from transactions processed by NFC on FS' behalf.
- Lack of understanding of how other Agency Locator Code (ALC) processes were affecting FS' appropriations.
- Lack of time to properly analyze suspense and deposit funds to ensure that they are being used appropriately.

OMB Circular A-123, *Management Accountability and Control*, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

Also, the *Treasury Financial Manual (TFM)*, Sections 2-3100 and 2-3300 state that the records of a Federal agency (i.e., FS' general ledger) must agree with the records of the U.S. Department of the Treasury. Any differences must be identified, reclassified into a budget suspense and clearing account, and resolved timely.

Without a reconciled fund balance with Treasury balance, FS' general ledger fund balance with Treasury balance could be out of balance with Treasury's balance. In addition, FS could be understating revenues and expenses.

In order to bring FS' fund balance with Treasury general ledger account balance into agreement with Treasury's fund balance with Treasury balance at September 30, 2002, FS conducted an analysis of differences recorded on the 6653/6655 reports by Treasury symbols and recorded an adjustment of $107 million in its general ledger.

Recommendation No. 1:

We recommend that the FS:

A. Complete the documentation of its reconciliation process for the 6653/6654/6655 process.
B. Work with the USDA NFC to develop service level agreements which include specific responsibilities, roles, clearing timelines and escalation procedures for resolution of non-compliance with the agreement terms. These agreements need to identify appropriate points of contact in the affected units that will assist in the reconciliation of transactions that are processed by NFC on FS' behalf.
C. Determine what FS resources are necessary to perform complete and timely reconciliations of all fund balance with Treasury accounts and allocate the personnel resources necessary to ensure that this process is completed monthly as required by the TFM.

The FMS 6652 Reconciliation Process Needs to be Refined

During our tests of the fund balance with Treasury FMS 6652 reconciliation process we noted that research of reconciling items and the resulting corrective action had not been completed timely (i.e., within 30 days of receipt of Treasury reports) for 63 reconciling items of the 105 sample items selected from the monthly reconciliations of June and August 2002.

The lag time in research is primarily due to FS' commitment to focus on reconciliation of the FMS 6652 reconciling transactions that are valued at $5,000 or more. In addition, a lack of service level agreements which include specific responsibilities, roles, clearing timelines and escalation procedures for resolution of non-compliance with agreement terms has caused delays in the reconciliation of items that are processed by NFC on FS' behalf.

OMB Circular A-123, *Management Accountability and Control*, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

Also, the *TFM* Sections 2-3100 and 2-3300 state that the records of a Federal agency (i.e., Forest Services' general ledger) must agree with the records of the U.S. Department of the Treasury. Any differences must be identified, reclassified into a budget suspense and clearing account, and resolved timely.

FS is not in compliance with *TFM* reconciliation guidance because it is not timely clearing reconciling items associated with its FMS 6652 reconciliation process.

Recommendation No 2:

We recommend that the FS:

A. Completely reconcile each FMS 6652 unmatched report each month, including those reconciling items which are below the current $5 thousand threshold; and
B. Work with the USDA NFC to develop service level agreements which include specific responsibilities, roles, clearing timelines and escalation procedures for resolution of noncompliance with agreement terms. These agreements will identify appropriate points of

contact that can assist FS in resolving reconciling items that are processed by NFC on FS' behalf.

FS' Budget and Clearing Accounts Contain Excessive Unreconciled Transactions As Well As FS Revenue Transactions

During our analysis of the fund balance with Treasury budget and clearing accounts we noted that FS is not timely researching and reclassifying amounts located in Treasury accounts 12F3875(11) and 12F3885(11) to the proper Treasury symbols and final disposition in the general ledger (i.e., posted as a revenue or expense). In addition, FS revenue fees generated from operations such as the National Recreation Reservation System and Map Sales Program are held in suspense and are not properly recorded as revenue as the sales transactions are completed.

FS has not devoted substantial time to resolving and clearing reconciling items in its suspense and clearing accounts due to the efforts spent on developing the FMS 6652 reconciliation process. In addition, the revenue collections resided in the suspense and clearing account for two primary reasons: (1) FS did not have a separate receipt and expenditure account at Treasury to record these transactions and, (2) FS did not fully understand or explore the reporting implications associated with all of its business processes.

As of September 30, 2002, fund balance with Treasury accounts 12F3875(11) and 12F3885(11) contained balances of approximately $215 million and $9 million, respectively. Of the $215 million in Treasury account 12F3875(11), $116 million of balance relates to fees collected from timber sales that are temporarily recorded in the clearing account. A majority of the remaining difference, approximately $99 million relates to other revenue generating transactions, such as map sales and recreational camping fees, as well as unreconciled transactions. During our audit, FS was uncertain as to the exact composition of this $99 million at the transaction level. In addition, the balance in Treasury account 12F3885(11) relates to Intra-governmental Payment and Collection (IPAC)/ On-line Payment and Collection (OPAC) transactions that have not been researched, resolved and properly classified in the general ledger.

OMB Circular A-123, *Management Accountability and Control*, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

The *TFM* Sections 2-3100 and 2-3300 state that the records of a Federal agency (i.e., FS' general ledger) must agree with the records of the U.S. Treasury. Any differences must be identified, reclassified into a budget suspense and clearing account, and resolved timely. In addition, the *TFM* Volume I, Section 4, Chapter 7000, states that reconciling items in budget clearing accounts must be resolved expeditiously.

The following financial reporting problems result from delays in reconciling the budget clearing accounts:

- Cash payments to agencies can be inappropriately withdrawn from FS' fund balance with Treasury accounts,
- Undelivered orders are overstated at any given point in time due to unreconciled transactions, and
- Expenses and revenues are understated.

Recommendation No. 3:

We recommend that the FS:

A. Analyze the composition of its budget and clearing accounts and determine the proper disposition of the balances in Treasury suspense accounts 12F3875 and 12F3885 at least on a quarterly basis.
B. Identify all revenue generating business processes that are currently maintained in the budget clearing account and work with OMB and U.S. Department of the Treasury to establish a separate receipt and expenditure Treasury symbol so that revenue collections will not reside in the 12F3875 clearing account.

Material Weakness # 2: The USDA Forest Service Must Improve its Control Design and/or Implementation Related to the Accurate Recording of Property Transactions (Repeat Finding)

Transaction Costs And Other Information Were Not Recorded Accurately

During our testing of internal control effectiveness for property, plant, and equipment, we identified exceptions where the recorded amount of the transaction did not agree with the supporting documentation. This exception was noted 10 times in 270 personal property transactions and 11 times in 278 real property transactions.

During our year-end substantive testing of property, plant, and equipment transactions, we also identified instances where that the recorded values did not agree with the supporting documentation. In the personal property sample of 300 transactions we found:

- 17 exceptions in dollar amount,
- 24 exceptions in general ledger account code,
- 33 exceptions in fiscal year, and
- 24 exceptions in budget object class code.

In the real property sample of 600 transactions we found:

- 181 exceptions in dollar amount,
- 169 exceptions in general ledger account code,
- 38 exceptions in fiscal year, and
- Seven exceptions in budget object class code.

The effect of these exceptions results in an overstatement or an understatement of asset values. These exceptions can be attributed to a lack of trained personnel as well as a lack of supervisory review of the data input of these transactions.

Recommendation No. 4:

We recommend that the FS:

A. Train its personnel on accurate transaction recording.

B. Require supervisory review of data input of property transactions.

C. Monitor compliance through a formalized quality assurance process.

Labor Costs Were Improperly Capitalized

During our testing of internal controls for property, plant, and equipment, we concluded that some FS labor costs (i.e., payroll) were improperly capitalized. This deficiency was found one time during our review of eight personal property labor cost transactions and 23 times in our review of 204 real property labor cost transactions. This inappropriate capitalization of labor costs results in an overstatement of assets and an understatement of expenses. The primary cause of this deficiency is a result of a lack of controls for the authorization and review of labor costs capitalized.

Other Costs were Improperly Capitalized

During our testing of internal controls over personal property, we found eight field units that had improperly capitalized costs. Five units had capitalized costs that were below the capitalization threshold of $5 thousand. Three units had improperly capitalized costs because the transactions were expenses (i.e., repair costs). This deficiency also results in an overstatement of assets and an understatement of expenses. The primary cause of this deficiency is a lack of data entry recording accuracy and supervisory review.

Recommendation No. 5:

We recommend that the FS improve the design and operation of its labor cost and other cost capitalization controls.

Initial Recording Of Acquisition Cost, In-Service Date, And Useful Life Were Not Reviewed

During our testing of controls for property, plant, and equipment, we concluded that the initial recording of acquisition cost, in-service date, and useful life (i.e., critical data elements for property, plant, and equipment items) was not required to be independently reviewed by a supervisor, other independent person, or by system checks within the personal and real property systems. These exceptions were found 77 times out of 215 personal property transactions and 92 times out of 233 real property transactions. These errors result in a misstatement of assets and expense balances. This condition is caused by a lack of design of effective controls for the critical initial recording of acquisition cost, in-service date, and useful life for assets.

Recommendation No. 6:

We recommend that the FS design and implement a control methodology that independently verifies the initial recording of asset acquisition cost, in-service date, and useful life, as well as other critical data elements to ensure proper depreciation of capital assets.

Material Weakness # 3: The USDA Forest Service Must Develop A Comprehensive Accrual Methodology

The FS proposed methodology to accrue liabilities for grants and non-grant/non-payroll related expenses was not accurate and did not substantially support delivered orders as of the period-end. In addition, the proposed methodology did not take into consideration payables to states as of September 30.

One of FS' key accrual methodology assumptions was that the accrual would be based on one month's level of delivered orders as estimated by the subsequent month's cash disbursements. Our testwork in the grants/agreements and non-grant/non-payroll expenses areas disclosed a significant number of expenses that were prior years expenses (some of which dated as far back as 1998) that were processed in the current year. As a result, it was determined that the one month's lag time for accrued liabilities is not adequate based upon the current year grants/agreements and non-grant/non-payroll substantive testing results.

The Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards (SFFAS) Number 1, *Accounting For Selected Assets and Liabilities* states that when an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. In addition, when services are provided a liability is accrued once the services are accepted. If invoices for those goods/services are not available when financial statements are prepared, the amounts owed should be estimated. In addition, OMB Circular A-123, *Management Accountability and Control*, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

If FS used its proposed methodology, we believe it would be understating its accrued liabilities and associated expense balance. In addition, using FS' proposed methodology would not provide an audit trail on a transaction by transaction basis which would be necessary to determine the reasonableness of the period end accrual.

Because of the inconsistencies in FS' proposed methodology and lack of auditability, FS was requested to utilize a sample of transactions from the unliquidated obligation balance to determine the amount of payables at the end of fiscal year 2002 that would subsequently be extrapolated to the unliquidated obligation population. As a result of this exercise, it was statistically projected that FS' accrual as of September 30 was approximately $318 million which is much higher than the balance that FS was projecting using its proposed methodology.

In addition to the accrual discussed above, which was based on unliquidated obligations, we proposed an adjustment for a separate accrual for payments to states which is determined by a revenue formula used by FS. This liability, which approximated $370 million, was necessary because the related disbursement process does not involve unliquidated obligations.

Recommendation No. 7:

We recommend the FS:

A. Develop an accrual methodology for use in fiscal year 2003 that will provide for an estimate using known individual current business activity in accordance with appropriate FASAB guidance.
B. Maintain the supporting documentation (i.e., invoices and information used to develop estimates) used to determine the accrual for management review.

Material Weakness # 4: USDA Forest Service Must Improve its Controls Over the Payroll Process

---

Paycheck Automated Controls Need Improvement

The Paycheck system was designed to allow employees that are listed in the FS' Lotus Notes e-mail system to route their time and attendance sheets to other designated employees for approval.

We noted that Paycheck allows users to submit their timesheets for approval to an employee that is not the user's designated supervisor. In addition, it was also observed in many field site locations that the employee can send the timesheet to him/herself for approval.

As a result of this lack of system controls, FS must rely on manual review and approval of timesheets. However, our testwork in this area, as noted below, disclosed weaknesses in the manual review and approval of timesheets.

OMB Circular No. A-127, *Financial Management Systems,* states that the financial management systems shall include a system of internal controls that ensure resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and disclosed in reports. Appropriate internal controls shall be applied to all system inputs, processing, and outputs. Such system related controls form a portion of the management control structure required by Circular A-123.

OMB Circular No. A-123, *Management Accountability and Control*, states that:

- Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.
- Access to resources and records should be limited to authorized individuals, and accountability for the custody and use of resources should be assigned and maintained.

Without adequate system controls in place relating to segregation of duties and access/approval rights, an employee could submit inaccurate or potentially fraudulent timesheets.

Recommendation No. 8:

We recommend that the FS implement adequate system controls in Paycheck to ensure that the employee's supervisor of record appropriately reviews and approves his/her subordinates timesheets.

Manual Controls Over the Payroll Process Need Improvement

During our internal control testwork at 14 FS locations, we noted that FS lacked adequate manual controls over timesheet and payroll processing. Specifically, the following control discrepancies were noted during our testwork:

- Nine time and attendance sheets (out of 127 sample items) were missing either the employees', supervisors', or both signatures to document review and approval of the timesheet.
- Seven payroll registers (out of 132 sample items) were not available for review to ensure the employee information was correctly reflected in the payroll system.

The timesheets were not signed because employees did not adhere to established FS policy requiring both the employee and supervisor to sign the timesheets. In addition, payroll registers were not available because the FS field offices do not routinely use the registers to reconcile the bi-weekly payroll to the personnel roster.

According to OMB A-123, *Management Accountability and Control*, management should ensure:

- Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.
- Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

A lack of manual controls, as well as poor automated controls in the Paycheck system, can cause FS to be exposed to potential fraud, waste and abuse as well as inaccurate payroll costs.

Recommendation No. 9:

We recommend that the FS:

A. Reinforce the requirement that timesheets be signed by both the employee and supervisor of record.
B. Require accounting units to reconcile and certify its payroll registers to its personnel listing bi-weekly and retain this information for periodic reviews and audits.

Material Weakness # 5: The USDA Forest Service Must Improve Its General Controls Environment

---

During our audit, we identified the following material weaknesses in the design and operation of FS' general controls environment.

- Controls for determining the trustworthiness of personnel and limiting access to information systems – including FS information systems hosted at the National Information Technology Center – need improvement.

- General controls at the National Finance Center need improvement; the FS should work with the Department, as application owner, to sustain an effective operating environment for its general and application control systems at the National Finance Center.

Due to the sensitive nature of the issues identified, we provided FS officials with a separate, limited-distribution report which contains the detailed findings along with specific recommendations.

Material Weakness # 6: The USDA Forest Service Must Improve Its Application Controls for Data Integrity and Access Privileges for Pontius, PRCH, PROP, and EMIS

During our audit we identified the following material weaknesses in the design and operation of FS' application controls.

- Controls in Pontius and PRCH over data input, reconciliation, integrity, and segregation of duties need improvement.
- Controls surrounding PROP user access, system interfaces and automated edit checks need improvement.
- EMIS data validation and correction controls and access privileges need improvement.

Due to the sensitive nature of the issues identified, we provided FS officials with a separate, limited-distribution report which contains the detailed findings along with specific recommendations.

REPORTABLE CONDITIONS

Reportable Condition # 1: Postings of Certain Transactions Do Not Contain the Proper Reference Data to Link Related Transactions

FS business processes require that relevant information needed to link related transactions such as documentation number and agreement number be entered in the general ledger module of Foundation Financial Information System (FFIS) and the related FFIS cost accounting module called Project Cost Accounting System (PCAS). This link facilitates the matching of related transactions which results in a net balance. However, this required information is not mandatory and is not always entered in the system. We noted that the following instances where offsetting transaction were not linked:

- *Trust and Deposit Liabilities* – The trust and deposit extract provided by FS, excluding timber-related transactions, did not contain the net amount of related transactions due to the lack of reference data, such as document number, that is necessary to link related transactions.
- *Accounts Receivable* - Collections related to accounts receivables were not always matched with specific billing documents to generate a net balance. FS created a transaction code in order to capture and net transactions that are posted in FFIS. However, the information needed to link transactions, such as the agreement number, was not entered in the system. As a result, an accurate receivable balance was not always generated.
- *Advances from Others* – Transactions were not always linked due to the absence of relevant data such as agreement numbers. We also noted instances where agreement numbers were modified which prevented accurate linking of relevant transactions, resulting to an inaccurate net balance. As a result, an accurate advances from others balance was not always generated.

Recommendation No. 10:

We recommend that the FS:

A. Develop a methodology to link related transactions that are currently in the financial systems. Additionally, FS should incorporate edit checks to disallow processing of transactions that do not provide the required data.

B. Establish direction and quality assurance protocols to ensure that appropriate data be entered in the system.

Reportable Condition # 2: Reconciliations Between FFIS and Subsidiary Ledgers are Needed

FS does not periodically reconcile, at the FS level, earned revenue, deposit and unearned revenue recorded in the Automated Timber Sale Accounting (ATSA) system with that recorded in FFIS. Additionally, FS does not periodically reconcile advances from others and accounts receivable recorded in the PCAS and general ledger modules of FFIS.

These reconciliation procedures have not been incorporated into the FS financial management process. Sound financial management requires periodic reconciliation of subsidiary ledger and the general ledger. The lack of reconciliation may result in misstatement of account balances.

Recommendation No. 11:

We recommend that the FS:

A. Periodically reconcile, at the FS level, earned revenue, deposit and unearned revenue recorded in the ATSA system with that recorded in FFIS.

B. Periodically reconcile advances from others and accounts receivable recorded in the PCAS and general ledger modules of FFIS.

Reportable Condition # 3: Unliquidated Obligation Reconciliations Need Improvement and Additional Related Procedures Need to be Developed

During our internal control testwork at 20 FS locations, we noted that 23 transactions (out of 140 sampled) recorded as obligations as of March 31, 2002 should have been deobligated. These exceptions occurred even after the office completed a requirement imposed by the FS Chief Financial Officer (CFO) that required a FS-wide review and certification of its open obligations as of March 31, 2002.

Some of the primary causes for the exceptions are as follows.

- IPAC payments did not reduce the obligation because document referencing information was not available.
- FEDSTRIP transactions with the General Services Administration (GSA) did not properly deobligate when the delivery order documents were sent to NFC.
- The final payment checkbox was not checked or the final payment did not reduce the obligation to zero.
- A lack of oversight due to personnel vacancies in the financial management office.
- Reference numbers did not match or reference the existing obligation.
- A convenience check was used to pay for a purchase order obligation.
- Obligations entered into FFIS twice.

Also, during our fiscal year-end substantive testwork of unliquidated obligations, we identified two primary areas of weaknesses that related to: (1) a lack of activity posted against the unliquidated obligation, and (2) the lack of supporting documentation to support the obligation. Our testwork disclosed that:

- 28 unliquidated obligations, totaling $3,613,477, were not valid as of September 30, 2002. 14 of these, totaling $3,437,558, had no payments or the period of performance had been expired for one year. The unliquidated obligation balances recorded in FFIS were not valid because FS had not always performed adequate or timely reviews of unliquidated obligation balances. In addition, a policy addressing unique transactions of the FS was not established to deobligate funds if no payments were made or the period of performance had been expired for over one year.

- 14 unliquidated obligations, totaling $1,539,095, were either not supported by obligation documents, or a contract, purchase order, grant or other document supporting the obligation did not agree to the amount obligated in FFIS. FS was unable to provide supporting obligation documents that agreed with the obligation amounts recorded in FFIS.

CFO Bulletin 2002-005, *Review of Undelivered Orders*, requires that all FS obligations that exceed the threshold of $10,000 or are 120 days or older shall be reviewed within 30 days of the end of March 31, and also by September 30. All obligation amounts determined no longer valid shall be deobligated within 30 days. In addition, a certification form is to be provided to the CFO from each Regional Forester, Station Director, Area Director, International Institute of Tropical Forestry Director and all Job Corps and Washington Office Staff Directors.

OMB Circular A-123, *Management Accountability and Control*, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls and other significant events must be clear and readily available for examination.

Because FS has obligations recorded that are no longer needed, FS' obligated balance may be overstated and funds maybe unnecessarily restricted that could be used for other purposes.

Recommendation No. 12:

We recommend that the FS:

A. Revise the existing CFO Bulletin 2002-005 to:
   - Establish specific procedures to be performed for the certification of open obligations,
   - Include a policy for specific duties of the Washington Office, Regional Offices, and Forest Level Offices, and
   - Include information on the retention of documentation supporting the certification review.
B. Require that each accounting unit review and certify its obligations quarterly, with the fourth quarter review and certification occurring as of August 31. In addition, each accounting unit should also ensure that deobligations occur within 30 days from the time the obligation amount is determined to be no longer valid.
C. Work with NFC, via a service level agreement, to create procedures to ensure that payments processed via IPAC and payments made to GSA for FEDSTRIP transactions properly reference the obligation document and reduce the obligation when payments are made.
D. Emphasize first through the issuance of a CFO Bulletin, and then through policy direction in FS manuals and handbooks, the importance of checking the final payment checkbox, when appropriate, to ensure that final payments reduce obligations to zero.
E. Discontinue using convenience checks for paying purchase order obligations and ensure that supervisors reemphasize that convenience checks should not be used for this purpose.
F. Ensure that each accounting unit maintains documentation for amounts obligated in FFIS (i.e., contract, purchase order, grant or other documents supporting the obligation) as long as the obligation is valid, even if the period of time extends beyond the 3 year documentation retention policy.

Reportable Condition # 4: The Grants and Agreements Process Needs Improved Internal Controls As Well As Refined Procedures

Internal Controls Need Improvement at Field Office Locations

During our grant and agreement internal control testwork at 20 FS locations, we noted that FS lacked adequate controls over grants and agreements that were consistently applied at all offices. Specifically, the following control discrepancies were noted during our testwork:

- Grant or agreement award files did not contain written authorization of the grantee or cooperator's representative. The procedure was not followed for 66 grants and agreements in our sample of 140 transactions.
- Grantee's requests for funds, SF-5805, *Request for Payment*, were not approved for payment by a FS representative prior to payment. This procedure was not established or followed for 39 grant and agreements in our sample.
- Agreement award letters to cooperators were either not sent for two agreements or the letters did not contain a proper signature by an appropriate official for one agreement.
- Monitoring procedures were not documented for three grants.

During discussions with FS personnel, we noted that these conditions occurred because either the control was not in current practice or was overlooked.

OMB Circular A-123, *Management Accountability and Controls,* requires that documentation for transactions, management controls, and other significant events should be clear and readily available for examination.

In addition, the FS *Grants Manual* requires FS personnel to:

- Obtain letters from grantees or cooperators stating who is authorized to represent the applicant.
- Provide a grant or agreement award letter that contains proper approval, a statement awarding the grant or agreement, and a statement incorporating all applicable OMB, departmental, and Federal Acquisition Regulations.

Without an effective system of internal controls, FS could have grants and agreements that result in misappropriation of assets as well as potential violations of laws and regulations.

Recommendation No. 13:

We recommend that the FS:

A. Obtain written authorizations for grantee or cooperator's representative.
B. Establish a uniform procedure on how the FS documents reviews and approvals prior to payment.
C. Issue agreement award letters to cooperators upon award of the agreement.
D. Document appropriate monitoring procedures in grants that provide for regular periodic oversight of the grantee.

Improvements Need to be Made to FS' Grants and Agreements Process

During the audit, we requested a listing of all grants and agreements that the FS had as of a particular date. FS was not able to provide such a listing and stated that if we wanted this information that a data call to the field locations would have to be made, since this information is only locally maintained.

In addition, during our substantive testing for grants and agreements (e.g., payments to states, state forester grants, research grants, etc.), we identified several areas where deficiencies existed and the associated causes. Of our sample of 231 expenditures:

- Four did not have a grant or agreement award letter to support the recorded obligation for the expenditures in FFIS. We were not able to obtain the award letters or other support for transactions processed because FS stated they were not available.
- 46 were not properly obligated in advance of the payment of the funds to the grantee or cooperator. The grant and agreement expenditures that were not properly obligated in advance of the payment related to fire suppression services that were performed during FY 2002. The FS does not always obligate specific amounts of funds on agreements for fire suppression expenditures because of the difficulty in estimating costs for these services prior to receiving invoices for goods and services received. In addition, during fiscal year (FY) 2002 the Northeastern Area Office discovered and recorded payments that were made by the Department of Health and Human Services (HHS) on FS' behalf during FY 1997 and 1999.
- 10 were recorded in FFIS and did not agree to the amount recorded on the SF-5805, *Request for Payment,* or invoice. The SF-5805, *Request for Payment,* or invoice requested amount did not agree with the expenditure amounts recorded in FFIS because FS processed the payments based on the unliquidated obligation amounts instead of the amount requested by the grantee. In one situation, the FS did not use the correct requested amount on the SF-5805. Also, in four situations proper documentation/calculations was not available for review.
- 42 were recorded in FY 2002, however we were unable to determine the period of performance because the grantee requested the payments or advances using a SF-5805 or an invoice, which did not document this information. Also in the Northeastern Area Office, we noted that it is difficult to determine the period of performance when the FS receives payment information from HHS. The period of performance could not be obtained because FS does not require the submission of a SF-270 for all grants and agreements.
- 22 did not note the job code on the source documentation (i.e., application for Federal assistance, the grant award letter, the SF-270, the SF-5805, or the grantee's invoice). The lack of job codes on the supporting documentation resulted from FS employee errors in preparation of the document for payment.

OMB Circular A-123, *Management Accountability and Control*, requires that the documentation for transactions, management controls, and other significant events be clear and readily available for examination.

Comptroller General Decision *(39 Comp. Gen. 317. 1959; 37 Comp. Gen. 861,863. 1958; 31 Comp. Gen. 608. 1952)* states that in order to properly obligate an appropriation, some action creating a definite liability against the appropriation must occur during the period of the obligation availability of the appropriation. In the case of grants and agreements, the obligating action will usually be the execution of a grant agreement or a cooperative agreement. As a result, when the grant or agreement award letter is issued, the FS must obligate funds specified in the award letter.

In addition, the FS *Grants Manual* requires that the FS ensure that recipients complete and submit an original SF-270.

FS could be understating its obligations by the amount of unrecorded obligations, overstating or understating expenses in any given year, and not charging expenses to the correct job code/responsibility segment.

Recommendation No. 14:

We recommend that the FS:

A. Develop a system that can be used to track the financial and operational aspects of all grants and agreements.
B. Enter obligations, or at least an estimate of the expected obligations, at the time FS executes a binding agreement with the grantee or cooperator.
C. Review payment data that is entered into FFIS to ensure data integrity (i.e., the correct amount and correct job code are used) and ensure that proper supporting documentation is maintained.
D. Require all grantees and cooperators to submit SF-270's for payments and advances.
E. Require the grantees or cooperators to submit SF-269's on a quarterly basis that ends March 31, June 30, September 30, and December 31.

Recommendation No. 15:

We also recommend that the Northeastern Area Office ensure that the grant related payments processed through HHS are entered into FFIS on a timely basis.

Reportable Condition # 5: Controls Related to Physical Inventories of Capitalized Assets Need Improvement

The FS Washington Office provides capitalized asset written physical inventory instructions to FS' accounting units. We reviewed the instructions and believe they are effectively designed, except as noted below.

For economy and efficiency the FS rotates inventories on a 2 year cycle. Personal property is done in even years and real property is done in odd years. Thus, the personal property inventory records we reviewed were from the current year and the real property records were from the prior year.

Lack Of Signatures and or Dates on Inventory Records

During our testing of inventory procedure controls for property, plant, and equipment, we noted that there were no signatures or inadequate signatures, and/or dates on the inventory reports to confirm that the employee performing the physical inventories had verified the existence of the inventory items. This deficiency was found at two locations of the 18 accounting units tested for personal property and at three locations of the 15 accounting units tested for real property. Unsigned and undated physical inventory lists could result in an overstatement of assets because the physical existence of assets was not verified and/or properly recorded. This condition is cause by a lack of compliance by field units with FS' written inventory instructions.

Floor to Book Procedures were not Designed for Pooled Real Property and not Operating Effectively for Other Types of Property

During our testing of inventory procedure controls for property, plant, and equipment, we identified that "Floor to Book" completeness inventory procedures were not designed for pooled real property and not operating effectively for the other types of property. The deficiency was found at four locations of the 18 locations tested for personal property and at two locations of the 15 locations tested for real property. This deficiency can result in an understatement of assets. This condition is cause by a lack of procedures for pooled real property and a lack of knowledge/training/compliance with FS inventory instructions for other types of property.

Non-Reconciling Items Discovered During Physical Inventories were not Corrected in the Property Systems

During our testing of inventory procedure controls for property, plant, and equipment, we identified that non-reconciling items discovered during the physical inventory were not corrected in the property systems. This deficiency was found at three locations of the 15 locations tested for personal property and at three locations of the 14 locations tested for real property. The effect is an overstatement or an understatement of assets because assets were not properly recorded in the property subsidiary ledgers. This deficiency resulted from a lack of compliance by and/or supervision of the personnel doing the physical inventory.

Recommendation No. 16:

We recommend that the FS:

A. Design and add to appropriate physical inventory instructions steps for the completeness testing of pooled real property.
B. Train employees on the proper physical inventory procedures.
C. Monitor accounting units for compliance with the FS written physical inventory instructions.

Reportable Condition No. 6: Procurement Controls and Procedures Need Improvement

---

Internal Controls Need Improvement at Field Office Locations

During our procurement internal control testwork at 20 FS locations, we noted that FS lacked adequate controls that were consistently applied. The internal control weaknesses noted were as follows:

- 15 purchase card holders did not have authorizations on file to be purchase card holders,
- Four procurement transactions and one credit card transaction were missing documentation, and
- Three field office Local Area Procurement Coordinators (LAPC) did not perform or document reviews of credit card reconciliations.

With regards to the purchase card holders authorizations and the 12 transactions that were missing documentation, FS was either unable to provide or timely provide the documentation requested. In addition, credit card reconciliations are not consistently performed across FS nor is the methodology of performance consistent across FS.

OMB Circular A-123, *Management Accountability and Control*, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls and other significant events must be clear and readily available for examination. In addition, key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.

If FS does not maintain supporting documentation for authorization of cardholders and does not always perform management reviews of cardholder activity the potential for misuse of the government credit card can occur.

Recommendation No 17:

We recommend that the FS:

A. Ensure that all FS purchase cardholders are authorized in writing.
B. Ensure purchase requisitions, invoices and invoice receipt certifications are properly prepared, received and accepted, approved, and maintained for review.
C. Develop policies and procedures that require the LAPCs to perform specific procedures, including a review of the card holders reconciliation, for their reviews of purchase cardholders and require this review to be performed monthly.

Improvements Need to be Made to FS' Procurement Process

During the audit, we requested a listing of all contracts that the FS had as of a particular date. FS was not able to provide such a listing and stated that if we wanted this information that a data call to the field locations would have to be made since the information is not centrally maintained.

During our substantive testing of non-grant/non-payroll procurement expenditures, we identified several areas where deficiencies existed in the process and the causes associated with them. Of our sample of 509 procurement expenditures:

- Seven were not properly supported by obligation documents (i.e., contracts, purchase orders, purchase requisitions, travel orders, delivery orders etc.). The expenditures were not properly supported by an obligation document, because either FS: (1) has not historically obligated fire suppression services prior to payment, or (2) could not support the obligation with adequate documentation.
- Eight were not supported by any documentation or the documentation was not calculated properly. Invoices, travel orders, or documentation to support expense were not properly calculated because of personnel errors or documentation was not available per the FS.
- 16 did not have supporting documentation (i.e., invoices, contracts, purchase orders, receiving reports, travel orders, delivery orders or transaction register amounts) that agree with the expenditure amounts recorded in FFIS. The FS did not properly record the expenditure amounts in FFIS or provide adequate documentation.
- 33 expenditure samples did not have job codes that agreed with the job code on the source documents. The lack of job codes on the supporting documentation resulted from FS employee errors in preparation of the document for payment.

OMB circular A-123, *Management Accountability and Control,* requires that documentation for transactions, management controls, and other significant events be clear and readily available for examination. In addition, according to Federal Appropriation Law (*subsection of (a) of 31 U.S.C. 1501)* "an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of …"

FS could be understating its obligations by the amount of unrecorded obligations, overstating or understating expenses in any given year, and not charging expenses to the correct job code/responsibility segment.

Recommendation No. 18:

We recommend that the FS:

A. Develop a centralized reporting system for all contracts.
B. Ensure that the expenditures are supported by obligation documents and are obligated in FFIS at the time FS has entered into a binding agreement with another party. If exact obligations are initially unknown, estimates based upon historical activity should be made and subsequently adjusted when exact amounts are known.
C. Ensure that all supporting documentation is available for examination.
D. Emphasize that all invoices or similar documents are to be closely and accurately reviewed by an individual separate from the data entry person and that FFIS expenditure amounts are accurately recorded.
E. Assure that job codes are accurately recorded on all source documents and are properly recorded in FFIS.

Reportable Condition # 7: USDA Forest Service Information Systems Need Improvements in Addition to the Material Weaknesses Noted In Exhibit I

During our audit we identified the following weaknesses in the design and operation of FS' internal control structure:

- Identification of critical data/operations, backup and recovery procedures and disaster recovery planning needs improvement.
- Unauthorized points of presence to the Internet need to be identified, documented and approved or shut down.
- Application systems utilized in the development of the financial statements have not been subjected to the accreditation process.
- Controls around ATSA documentation and duplicate transactions and ATSA user access reviews need improvement.
- Controls surrounding FFIS user access, edit checks, and reconciliation with feeder systems need improvement.

Due to the sensitive nature of the issues identified, we provided FS officials with a separate, limited-distribution report which contains the detailed findings along with specific recommendations.

NON-COMPLIANCE WITH FFMIA

FS Systems are Not Compliant with Federal Financial System Requirements

During our audit we noted that FS does not have timely formal certification and accreditations performed on its PONTIUS/PRCH and EMIS/PROP applications. A certification and accreditation is a requirement for systems that comply with FFMIA, Joint Financial Management Improvement Program (JFMIP) standards, and OMB Circular A-130, *Management of Federal Information Resources.*

Because of this observation and our other observations of application control weaknesses in the PONTIUS/PRCH and EMIS/PROP systems, these systems are not in compliance with FFMIA. Also, during our testwork we noted that EMIS does not have a history file. A history file is one of the required elements for JFMIP compliant systems. The NFC maintains these systems or significant components of them.

Recommendation No. 1:

We recommend that the FS work with the NFC to take steps to certify and accredit the PONTIUS/PRCH and EMIS/PROP systems or replace legacy systems.

FS Revenue Collections from Certain Business Processes Are Not Recognized As Revenue When Earned

We noted that FS does not recognize revenue at the point of sale for certain collections. Instead FS collects these receipts and maintains them in its suspense and clearing account until it has an operational need for these funds, at which time the funds are spent and a revenue and expense is recorded. Some examples of the revenues that are not currently recognized at the point of sale are as follows:

- *Map Sales* – Collections of earned revenue related to sale of maps by FS is deposited into a suspense account and not recognized as earned revenue until FS uses the proceeds to purchase more maps. FS treats the collections as reimbursable revenue by transferring the funds from the Treasury suspense account into an appropriated account.
- *National Recreation Reservation System* – Collections received for camp site reservations are not recognized as revenue when earned. The collections are deposited into the Treasury suspense account and is recognized as revenue when it transferred to an appropriated account.

Because FS does not recognize revenue at the point of sale for these and other transactions, it is not in compliance with SFFAS Number 7, *Accounting for Revenue and Other Financing Sources* as well as the United States Standard General Ledger (SGL) posting logic.

FS was not aware of this non-compliance and as a result did not have SGL posting logic that was compliant with the applicable standards.

Recommendation No. 2:

We recommend that the FS:

A. Work with the U.S. Department of the Treasury to establish the appropriate Treasury symbol.
B. Develop a posting model to ensure that revenue is recognized when earned.
C. Notify and train FS personnel on the new revenue posting model.