



January 2018

# FOREST SERVICE

## Improvements Needed in Internal Controls over Budget Execution Processes

# GAO Highlights

Highlights of [GAO-18-56](#), a report to congressional committees

## Why GAO Did This Study

The Forest Service, an agency within USDA, performs a variety of tasks as steward of 193 million acres of public forests and grasslands. Its budget execution process for carrying out its mission includes (1) allotments, which are authorizations by an agency to incur obligations within a specified amount, and (2) unliquidated obligations, which represent budgetary resources that have been committed but not yet paid. Deobligation refers to an agency's cancellation or downward adjustments of previously incurred obligations, which may result in funds that may be available for reobligation.

GAO was asked to review the Forest Service's internal controls over its budget execution processes. This report examines the extent to which the Forest Service properly designed control activities over (1) allotments of budgetary resources, its system for administrative control of funds, and any fund transfers between Forest Service appropriations; (2) reimbursables and related collections; and (3) review and certification of unliquidated obligations.

GAO reviewed the Forest Service's policies, procedures, and other documentation and interviewed agency officials.

## What GAO Recommends

GAO is making 11 recommendations to improve processes and related internal control activities over the management of the Forest Service's budgetary resources, reimbursable receivables and collections, and its process for reviewing unliquidated obligations. The Forest Service generally agreed with the report and stated that it has made significant progress to address the report findings.

View [GAO-18-56](#). For more information, contact Asif A. Khan at (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov).

January 2018

## FOREST SERVICE

### Improvements Needed in Internal Controls over Budget Execution Processes

## What GAO Found

In fiscal years 2015 and 2016, the Forest Service received discretionary no-year appropriations of \$5.1 billion and \$5.7 billion, respectively. It is critical for the Forest Service to manage its budgetary resources efficiently and effectively. While the Forest Service had processes over certain of its budget execution activities, GAO found the following internal control deficiencies:

- **Budgetary resources.** The purpose statute requires that amounts designated in appropriations acts for specific purposes are used as designated. The Forest Service did not have an adequate process and related control activities to reasonably assure that amounts were used as designated. In fiscal year 2017, GAO issued a legal opinion that the Forest Service had failed to comply with the purpose statute with regard to a \$65 million line-item appropriation specifically provided for the purpose of acquiring aircraft for the next-generation airtanker fleet. Further, the Forest Service lacked a process and related control activities to reasonably assure that unobligated no-year appropriation balances from prior years were reviewed for their continuing need; did not have a properly designed system for administrative control of funds, which keeps obligations and expenditures from exceeding limits authorized by law; and had not properly designed control activities for fund transfers to its Wildland Fire Management program. These deficiencies increase the risk that the Forest Service may make budget requests in excess of its needs.
- **Reimbursable agreements.** To carry out its mission, the Forest Service enters into reimbursable agreements with agencies within the U.S. Department of Agriculture (USDA), other federal agencies, state and local government agencies, and nongovernment entities. The Forest Service (1) did not have adequately described processes and related control activities in manuals and handbooks for its reimbursable agreement processes and (2) lacked control activities related to segregating incompatible duties performed by line officers and program managers. For example, line officers may be responsible for initiating cost sharing agreements, modifying cost settlement packages, and changing or canceling the related receivable, which represent incompatible duties. As a result, programs and resources may not be protected from waste, fraud, and mismanagement.
- **Unliquidated obligations.** The Forest Service's processes and control activities over the review and certification of unliquidated obligations were not properly designed to reasonably assure the best use of funds and that unliquidated obligations would be efficiently and effectively deobligated and made available for other program needs. Further, the current process, as designed, was inconsistent with USDA and Forest Service policy.

In addition, the Forest Service's manuals and handbooks, which provide directives for the areas that GAO reviewed, had not been reviewed by management in accordance with the Forest Service's 5-year review policy. Further, standard operating procedures and desk guides prepared by staff to supplement the manuals and handbooks were not issued as directives and therefore were not considered official policy. This increases the risk that control activities may not be consistently performed across the agency.

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## Abbreviations

CFO	Chief Financial Officer
FLAME	Federal Land Assistance, Management, and Enhancement
FSH	Forest Service handbook
FSM	Forest Service manual
OMB	Office of Management and Budget
ORMS	Office of Regulatory and Management Services
RACA	reimbursable and advanced collection agreement
RSA	region, station, and area
SOP	standard operating procedure
Treasury	Department of the Treasury
USDA	U.S. Department of Agriculture

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January 31, 2018

The Honorable Lisa Murkowski  
Chairman  
The Honorable Tom Udall  
Ranking Member  
Subcommittee on the Interior, Environment,  
and Related Agencies  
Committee on Appropriations  
United States Senate

The Honorable Ken Calvert  
Chairman  
The Honorable Betty McCollum  
Ranking Member  
Subcommittee on the Interior, Environment,  
and Related Agencies  
Committee on Appropriations  
House of Representatives

As steward of a reported 193 million acres of public forests and grasslands, the Forest Service, an agency within the U.S. Department of Agriculture (USDA), performs a variety of tasks, such as fighting wildland fires, restoring forest landscapes and rivers, and patrolling and maintaining the national forests' remote recreational trails. In fiscal years 2015 and 2016, the Forest Service received discretionary appropriations of \$5.1 billion and \$5.7 billion, respectively, to carry out its mission at national forests, national grasslands, and research stations across the country.<sup>1</sup> For fiscal year 2016, the Forest Service's largest program, the Wildland Fire Management program, received \$2.4 billion or 42 percent of the fiscal year's discretionary appropriated funds, of which about \$1.9 billion was for preparedness and fire suppression subprograms.

With geographically widespread operations and a diverse portfolio of work, it is critical for the Forest Service to manage its budgetary resources efficiently and effectively. Specifically, this includes (1) making

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<sup>1</sup>Discretionary appropriation refers to those budgetary resources that are provided in appropriation acts, other than those that fund mandatory programs. GAO, *A Glossary of Terms Used in the Federal Budget Process*, [GAO-05-734SP](#) (Washington, D.C.: September 2005).

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budgetary resources available to program activities timely, (2) allotting resources to programs for the purposes provided in applicable appropriations acts, (3) timely deobligating funds from unliquidated obligations that the agency determined are no longer needed, and (4) efficiently and effectively managing unobligated balances.<sup>2</sup>

You asked us to review the Forest Service's internal control practices over its budget execution processes. This report examines the extent to which the Forest Service properly designed control activities over (1) allotments of budgetary resources, its system for administrative control of funds, and any fund transfers between Forest Service appropriations; (2) reimbursables and related collections; and (3) reviews and certification of unliquidated obligations.<sup>3</sup>

To assess the design of the Forest Service's control activities over its budget execution processes, we obtained an understanding of entity-level controls at the Forest Service related to its (1) allotments of budgetary resources, its system for administrative control of funds, and any related fund transfers between Forest Service appropriations; (2) reimbursables and related collections; and (3) reviews and certification of unliquidated obligations. We interviewed agency officials to gain an understanding of the Forest Service's business processes. We reviewed Forest Service documents, which included a list of control objectives with applicable control activities and policies and procedures related to its budget execution processes. We reviewed these documents to determine whether the control activities were clearly described and whether the

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<sup>2</sup>An allotment is an authorization by either the agency head or another authorized employee to his/her subordinates to incur obligations within a specified amount. The amount allotted by an agency cannot exceed the amount apportioned by the Office of Management and Budget. An allotment is part of an agency system of administrative control of funds whose purpose is to keep obligations and expenditures from exceeding apportionments and allotments. Unliquidated obligations represent the amount of outstanding obligations or liabilities. Deobligating funds from unliquidated obligation refers to an agency's cancellation or downward adjustment of previously incurred obligations. Deobligated funds may be reobligated within the period of availability of the appropriation. Unobligated balance is the portion of obligational authority that has not yet been obligated. For a no-year account, the unobligated balance is carried forward indefinitely until (1) specifically rescinded by law or (2) the head of the agency concerned or the President determines that the purposes for which the appropriation was made have been carried out and disbursements have not been made from the appropriation for 2 consecutive years. See [GAO-05-734SP](#).

<sup>3</sup>Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.

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roles and responsibilities associated with the ownership and operation of the controls were clearly defined to help ensure that the control activities would achieve the applicable control objective(s). Appendix I provides a more detailed description of our scope and methodology, and appendix II provides additional details on standards for internal control in the federal government.

While our audit focused on control activities over the three areas of the Forest Service's budget execution processes discussed, we did not evaluate the control environment, risk assessment, information and communications, and monitoring components of internal control. Had we done so, additional deficiencies may or may not have been identified as part of our audit.

We conducted this performance audit from August 2016 to January 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

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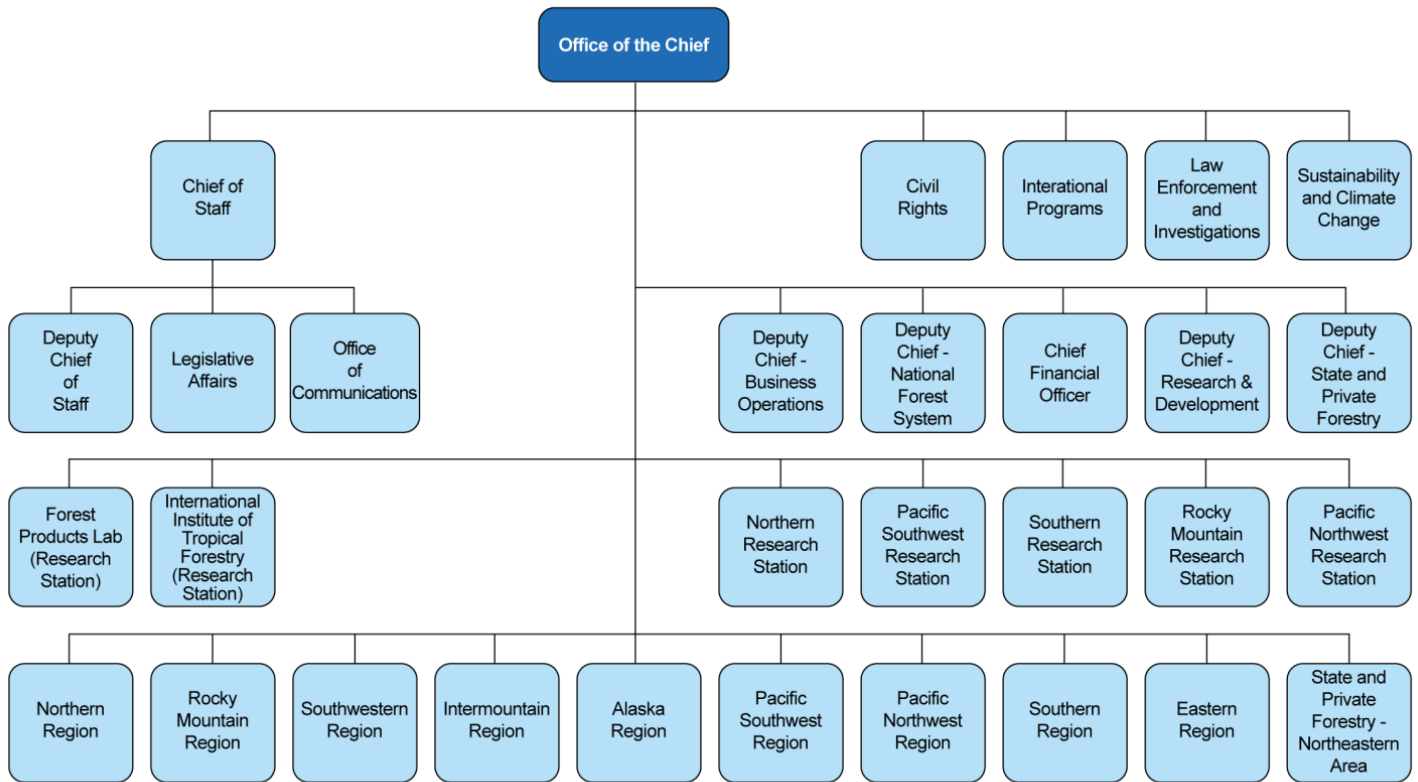
### Forest Service Mission and Structure

The Forest Service's mission includes sustaining the nation's forests and grasslands; managing the productivity of those lands for the benefit of citizens; conserving open space; enhancing outdoor recreation opportunities; and conducting research and development in the biological, physical, and social sciences. The agency carries out its responsibilities in three main program areas: (1) managing public lands, known collectively as the National Forest System, through nine regional offices, 154 national forests, 20 national grasslands, and over 600 ranger districts; (2) conducting research through its network of seven research stations, multiple associated research laboratories, and 81 experimental forests and ranges; and (3) working with state and local governments, forest industries, and private landowners and forest users in the management, protection, and development of forest land in nonfederal ownership, largely through its nine regional offices. According to the Forest Service, it employs a workforce of over 30,000 employees across the country. However, this number grows by thousands in the summer

months, when the agency hires seasonal employees to conduct fieldwork, respond to wildland fires, and meet the visiting public's needs.

The Office of the Chief of the Forest Service is located in Washington, D.C., with 27 offices reporting directly to the Office of the Chief, as illustrated in figure 1.

**Figure 1: Forest Service Organization Chart**



Source: Forest Service. | GAO-18-56

The nine national forest regions, each led by a regional forester, oversee the national forests and grasslands located in their respective regions. Each national forest or grassland is headed by a supervisor, the seven research stations are each led by a station director, and a state and private forestry area is headed by an area director. The Forest Service collectively refers to its forest regions, research stations, and area as RSAs. The RSAs are organized differently according to their operations,



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and comparable operations within the RSAs, such as collections from reimbursable agreements, may be processed differently in the various regions and stations, resulting in highly decentralized operations. In addition, the offices of the Chief Financial Officer (CFO); Deputy Chief of Business Operations (includes the budget office); and eight other offices located in the Washington, D.C., headquarters also report directly to the Office of the Chief of the Forest Service.

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## Forest Service Budget and Control Activities

The Forest Service receives appropriations for its various programs and for specific purposes to meet its mission goals. Prior to fiscal year 2017, the Forest Service's budgetary resources consisted primarily of no-year funds.<sup>4</sup> Its budget office in Washington, D.C., initiates apportionment requests and monitors the receipt of Department of the Treasury (Treasury) warrants.<sup>5</sup> Upon receipt of the warrant, the apportionment is recorded in the financial system and then the budget office develops an allocation summary detailing the allocation of its budget authority by fund, programs within the funds, and distribution of funds at the regional, station, and area levels.<sup>6</sup> The Forest Service may also transfer funds from other appropriations to the appropriations account that funds its fire suppression activities when available funds appropriated for fire

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<sup>4</sup>No-year funds represent no-year appropriations that are available for obligation for an indefinite period of time and can be brought forward into future years until they are expended, canceled in accordance with 31 U.S.C. § 1555, or rescinded by law. See GAO, *Principles of Federal Appropriations Law: Fourth Edition, Chapter 2*, [GAO-16-464SP](#) (Washington, D.C.: March 2016), and *Principles of Federal Appropriations Law: Annual Update of the Third Edition*, [GAO-15-303SP](#) (Washington, D.C.: March 2015).

<sup>5</sup>Apportionment is the action by which the Office of Management and Budget distributes amounts available for obligation, including budgetary reserves established pursuant to law, in an appropriation or fund account. An apportionment divides amounts available for obligation by specific time periods (usually quarters), activities, projects, objects, or a combination thereof. The amounts apportioned limit the amount of obligations that may be incurred. A warrant is an official document that the Secretary of the Treasury issues upon enactment of an appropriation that establishes the money authorized to be withdrawn from the central accounts that Treasury maintains. See [GAO-05-734SP](#).

<sup>6</sup>The Forest Service's budget authority generally consists of carryover funds from prior no-year or multiyear appropriations and appropriations for the current fiscal year, supported by the warrant from Treasury.

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suppression and the Federal Land Assistance, Management, and Enhancement (FLAME) fund will be exhausted within 30 days.<sup>7</sup>

The Forest Service's administrative policies, practices, and procedures are issued in its Directive System, which provides a unified system for issuing, storing, and retrieving internal direction that governs Forest Service programs and activities.<sup>8</sup> The Directive System consists of the Forest Service's manuals and handbooks. The manuals contain management objectives, policies, and responsibilities and provide general direction to Forest Service line officers and staff directors for planning and executing their assigned programs and activities. The handbooks provide detailed direction to employees and are the principal source of specialized guidance and instruction for carrying out directions issued in the manuals. Line officers at the national and RSA levels have authority to issue directives in the manuals and handbooks under their respective jurisdictions.<sup>9</sup> The Forest Service's policy states that the Directive System is the only place where Forest Service policy and procedures are issued.<sup>10</sup> In addition to the Directive System, Forest Service staff have also developed standard operating procedures (SOP) and desk guides to supplement guidance provided in directives. However, the SOPs and desk guides are not part of the Forest Service Directive System and therefore are not official policy and procedures.

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<sup>7</sup>Fire suppression is an activity funded through appropriations to the Wildland Fire Management account. With respect to the Forest Service, the FLAME fund was authorized and established under the Federal Land Assistance, Management, and Enhancement Act of 2009, or FLAME Act of 2009 (Pub. L. No. 111-88, div. A, title v, § 502, 123 Stat. 2904, 2968 (Oct. 30, 2009), *classified at* 43 U.S.C. § 1748a). This fund was established to cover the costs of large or complex wildfire events and as a reserve when amounts provided for wildfire suppression and federal emergency response in the Forest Service's Wildland Fire Management appropriation account are exhausted. See 43 U.S.C. § 1748a(c),(g). Treasury tracks activities in the FLAME fund through a separate Treasury appropriation fund account symbol.

<sup>8</sup>The Forest Service collectively refers to policies, practices, and procedures in the Directive System as directives. See 36 C.F.R. § 200.4.

<sup>9</sup>Line officers at the national level include deputy chiefs and associate deputy chiefs who have delegated authority from the Chief of Forest Service to issue most service-wide direction for programs under their jurisdiction.

<sup>10</sup>Forest Service manual (FSM)-1100 *Directive System*, Chapter – *Zero Code*, and FSM-1103 — *Policy*, 1.b (Oct. 18, 2007).

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## Forest Service Did Not Properly Design Control Activities for Its Allotments Process, Administrative Control of Funds, and Fund Transfers

While the Forest Service had documented processes for allotting its budgetary resources, it did not have an adequate process and related control activities for reasonably assuring that (1) amounts designated in appropriations acts for specific purposes are used as designated and (2) unobligated no-year appropriation balances from prior years were reviewed for their continuing need. In addition, the Forest Service did not have a properly designed and documented system for administrative control of funds.<sup>11</sup> Finally, the Forest Service had not properly designed control activities for fund transfers for fire suppression activities under its Wildland Fire Management program.

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## Forest Service Does Not Have an Adequate Process and Related Control Activities for Reasonably Assuring That Appropriated Amounts Are Used for the Purposes Designated

While the Forest Service had documented processes for allotting its budgetary resources, it did not have an adequate process and related control activities to reasonably assure that amounts designated in appropriations acts for specific purposes are used as designated—as required by the purpose statute, which states that “appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law.”<sup>12</sup> We reviewed Forest Service documents about its budget authority processes, which included control objectives, related control activities, and processes over the allotment of its budgetary resources.<sup>13</sup> We found that these documents, including manuals and handbooks, did not include an adequate process and related control activities for assuring that appropriated amounts are used for the purposes designated. For example, such a process would include the Forest Service allotting appropriated funds for specific programs or objects as provided in the applicable appropriation act, by either using

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<sup>11</sup>Office of Management and Budget (OMB) Circular No. A-11 (section 150) states that the Antideficiency Act requires agency heads to prescribe, by regulation, a system of administrative control of funds. The system is called the fund control system, and the regulations are called fund control regulations. See section 150.1. The system shall be designed to (1) restrict obligations or expenditures from each appropriation to the amount of apportionments or reapportionments of the appropriation and (2) enable the official or the head of the executive agency to fix responsibility for an obligation or expenditure exceeding an apportionment or reapportionment. See 31 U.S.C. § 1514(a).

<sup>12</sup>31 U.S.C. § 1301.

<sup>13</sup>Budgetary resources refer to amounts available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority (including direct spending authority provided in existing statute and obligation limitations) and unobligated balances of budget authority provided in previous years. See [GAO-05-734SP](#).

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specific budget line items already defined in the Forest Service's financial system or creating new budget line items, as needed.

*Standards for Internal Control in the Federal Government* states that management should define objectives clearly to enable the identification of risks and design appropriate control activities to achieve objectives and respond to the risks identified.<sup>14</sup>

As a result of the Forest Service not having an adequate process and related control activities for assuring that appropriated amounts are used for the purposes designated, the Forest Service did not properly allocate certain funds for specific purposes detailed in the appropriations acts for fiscal years 2015 and 2016.<sup>15</sup> For example, in fiscal year 2015, the Forest Service did not set aside in its financial system the \$65 million specified in the fiscal year 2015 appropriations act for acquiring aircraft for the next-generation airtanker fleet. According to Forest Service documents, as of January 6, 2016, \$35 million of the designated funds was used for other purposes. In February 2017, we issued a legal opinion, related to the Forest Service's use of the \$65 million, which concluded that the Forest Service had failed to comply with the purpose statute.<sup>16</sup> According to USDA's Office of General Counsel, "this lack of any separate apportionment or account for the next-generation airtanker fleet was due

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<sup>14</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

<sup>15</sup>See Consolidated and Further Continuing Appropriations Act, 2015, Pub. L. No. 113-235, div. F, title III, 128 Stat. 2130, 2427-34 (Dec. 16, 2014); Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, div. G., title III, 129 Stat. 2242, 2558-64 (Dec. 18, 2015).

<sup>16</sup>GAO, *U.S. Forest Service—Line-Item Appropriation for Acquiring Aircraft for the Next-Generation Airtanker Fleet*, B-328323 (Washington, D.C.: Feb. 28, 2017). In this legal opinion, we concluded that the Forest Service had failed to comply with the purpose statute because it obligated some amount of the \$65 million designated for acquiring aircraft for the next-generation air tanker fleet for other purposes, such as salaries, training, and equipment maintenance. We noted in that opinion that the Forest Service may be able to adjust its accounts to correct its purpose statute violation, and that if the Forest Service, after adjusting its accounts, had sufficient budget authority to cover all obligations incurred, then the Forest Service would not have violated the Antideficiency Act. The purpose statute (31 U.S.C. § 1301) states that "appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law." The Antideficiency Act, among other things, prohibits making expenditures or incurring obligations in advance of an appropriation; and prohibits incurring obligations or making expenditures in excess of amounts available in appropriation or fund accounts unless specifically authorized by law. A violation occurs when making or authorizing an overobligation or overexpenditure of an appropriation or fund account. See 31 U.S.C. § 1341(a).

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to the fact that it was a new item, not included in the agency's budget request, and added late in the appropriations process." Similarly, in fiscal year 2016, the Forest Service did not create new budget line items to reserve in its financial system \$75 million for the Forest Inventory and Analysis Program specified in the fiscal year 2016 appropriations act. Rather than creating a new budget line item for the program specified in the appropriations act, the funds were combined with an existing budget line item, making it difficult to track related budget amounts and actual expenditures. The lack of an adequate process and related control activities to reasonably assure that appropriated amounts are used for the purpose designated also increases the risk that the Forest Service may violate the Antideficiency Act.<sup>17</sup>

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### Forest Service Lacked a Process and Related Control Activities over the Review of Unobligated No-Year Funds from Prior Years

The Forest Service did not have a process and related control activities to reasonably assure that unobligated, no-year funds from prior years were reviewed for continuing need. We reviewed the Forest Service's budget authority process document and related manuals and handbooks, which documented control objectives and procedures over its budgetary resources and the guidance for administrative control of funds. We found that these documents did not include a process for reviewing the Forest Service's unobligated, no-year funds from prior years and related control activities to reasonably assure that such funds were reviewed for continuing need. Such reviews, if performed, may identify unneeded funds that could be reallocated to other programs needing additional budgetary resources, if consistent with the purposes designated in appropriations acts.

The *USDA Budget Manual* states as a department policy that "agencies of the Department have a responsibility to review their programs

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<sup>17</sup>The Antideficiency Act prohibits, among other things, making expenditures or incurring obligations in advance of an appropriation and incurring obligations or making expenditures in excess of amounts available in appropriation or fund accounts unless specifically authorized by law. A violation occurs when making or authorizing an overobligation or overexpenditure of an appropriation or fund account. See 31 U.S.C. § 1341(a). See [GAO-05-734SP](#).

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continually and recommend, when appropriate, deferrals or rescissions.”<sup>18</sup>  
The *USDA Budget Manual* further states the following:

“Agency officials should remain alert to this responsibility since the establishment of reserves is an important phase of budgetary administration. If it becomes evident during the fiscal year that any amount of funds available will not be needed to carry out foreseeable program requirements, it is in the interest of good management to recommend appropriate actions, thereby maintaining a realistic relationship between apportionments, allotments, and obligations.”

However, the Forest Service did not develop a directive addressing the control objectives, related risks, and control activities for implementing this USDA policy.

Up until fiscal year 2017, Forest Service budgetary resources consisted primarily of no-year funds.<sup>19</sup> At the beginning of each fiscal year, unobligated balances of no-year funds are carried forward and reapportioned to become part of budget authority available for obligation in the new fiscal year.<sup>20</sup> Unobligated balances can increase during the fiscal year due to deobligation of prior years’ unliquidated obligations that the Forest Service determines it no longer needs. These resources are immediately available to the Forest Service to the extent authorized by law without further legislation or action from Office of Management and Budget (OMB) unless the apportionment states otherwise. According to

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<sup>18</sup>A deferral is a temporary withholding or delaying of the obligation or expenditure of budget authority or any other type of executive action, which effectively precludes the obligation or expenditure of budget authority. Deferrals may be proposed by agencies but must be communicated to Congress by the President in a special message. Rescissions cancel the availability of budget authority previously enacted before the authority would otherwise expire. All funds proposed for rescission must be reported to Congress in a special message. See [GAO-05-734SP](#).

<sup>19</sup>For fiscal year 2017, the Forest Service’s accounts were appropriated multiyear funds. See Consolidated Appropriations Act, 2017, Pub. L. No. 115-31, div. G, title III, 131 Stat. 135 (May 5, 2017).

<sup>20</sup>As provided by OMB Circular No. A-11: *Preparation, Submission, and Execution of the Budget* (Washington, D.C.: July 1, 2016); section 120 – *Apportionment Process*, reapportionment is a revision of a previous apportionment of budgetary resources for an appropriation or fund account. Agencies usually submit requests for reapportionment to OMB as soon as a change becomes necessary because of changes in amounts available, program requirements, or cost factors. For exceptions, see OMB Circular No. A-11, section 120.5. This approved revision would ordinarily cover the same period, project, or activity covered in the original apportionment.

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Forest Service officials, unobligated funds reported in the Forest Service's September 30, 2016, Statement of Budgetary Resources included \$351 million in discretionary unobligated no-year funds, appropriated as far back as fiscal year 1999.

The Forest Service did not identify and define a process and control objectives related to its review of unobligated no-year funds from prior years for continuing need. As a result, the Forest Service did not have reasonable assurance that prior no-year unobligated balances were properly managed and considered in its annual budget requests. This increased the risk that the Forest Service may make budget requests in excess of its needs. Additionally, the Forest Service could miss opportunities to use its prior year unobligated no-year funds more timely and effectively, for example, using these funds for other Forest Service program needs, if consistent with the purposes designated in appropriations acts. During our work, we brought this issue to management's attention, and in response, Forest Service officials stated that the Forest Service is planning to develop a quarterly process to review available balances and, as needed, redirect funds to agency priorities. However, as of July 2017, the Forest Service had not yet developed this review process. Further, Congress rescinded about \$18 million of the Forest Service's prior year unobligated balances and required it to report unobligated balances quarterly within 30 days after the close of each quarter and appropriated multi-year funds instead of no-year funds to the Forest Service for fiscal year 2017.<sup>21</sup>

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### Forest Service Did Not Have a Properly Designed Comprehensive System for Administrative Control of Funds

The Forest Service issued guidance related to administrative control of funds in manuals and handbooks, which USDA did not review and approve prior to their issuance. Based on our review of these documents, we found that the processes and related control activities over the administrative control of funds were dispersed in numerous manuals and handbooks, which may hamper a clear understanding of the overall system. Further, the system lacked key elements that would allow it to serve as an adequate system of administrative control of funds. For example, in its manuals and handbooks the Forest Service did not identify, by title or office, those officials with the authority and responsibility for obligating the service's appropriated funds, such as funds for contracts, travel, and training. As a result, the responsibility for

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<sup>21</sup>Consolidated Appropriations Act, 2017.

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obligating funds was not clearly described and properly assigned in Forest Service policy as required by the *USDA Budget Manual* and OMB Circular No. A-11.

OMB Circular No. A-11 states that the Antideficiency Act requires that the agency head prescribe, by regulation, a system of administrative control of funds, and OMB provided a checklist in appendix H to the circular that agencies can use for drafting their fund control regulations.<sup>22</sup> This requirement is consistent with those in the *USDA Budget Manual*, which prescribes budgetary administration through a system of administrative controls for its component agencies, including the Forest Service. The *USDA Budget Manual* states that to the extent necessary for effective administration, (1) the heads of USDA component agencies may delegate to subordinate officials responsibilities in connection with the administrative distribution of funds within apportionments and allotments and the monitoring, control, and reporting of the occurrence of obligations and expenditures under apportionments and allotments and (2) the chain of such responsibility shall be clearly defined. In addition, USDA requires its component agencies to promulgate and maintain administrative control of funds regulation and to send such regulation to USDA's Office of Program and Budget Analysis for review and approval prior to issuance.<sup>23</sup>

Because the Forest Service has not developed and issued a comprehensive system for administrative control of funds that considers all aspects of the budget execution processes, it cannot reasonably assure that (1) programs will achieve their intended results; (2) the use of resources is consistent with the agency's mission; (3) programs and resources are protected from waste, fraud, and mismanagement; and (4) laws and regulations are followed.<sup>24</sup>

We also found that the Forest Service had not reviewed and updated most of its administrative control of funds guidance in the manuals and

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<sup>22</sup>OMB Circular No. A-11, section 150 - *Administrative Control of Funds*, paras. 150.1 and 150.7.

<sup>23</sup>U.S. Department of Agriculture, *Revision to USDA Budget Manual*, chs. 4 and 5, (Washington, D.C.: Aug. 9, 1991), 3, 8.

<sup>24</sup>OMB Circular No. A-11, para. 150.3.



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handbooks for over 5 years.<sup>25</sup> The *USDA Budget Manual* requires each component to periodically review its funds control system for overall effectiveness and to assure that it is consistent with its agency programs and organizational structures. Further, Forest Service policy also requires routine review, every 5 years, of policies and procedures in its Directive System. According to Forest Service officials, when directives are up for review and update, a staff from the Office of Regulatory and Management Services (ORMS) sends an e-mail reminder to notify responsible personnel that updates to applicable directives are needed. However, we found that the Forest Service does not have adequate controls in place to monitor the reviews and any updates of the manuals and handbooks in its Directive System to reasonably assure that their efforts resulted in timely updates. As a result, the Forest Service is at risk that guidance for its system for administrative control of funds may lose relevance as processes change over time and control activities may become inadequate.

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### Forest Service Control Activities for Wildland Fire Suppression Related Fund Transfers Were Not Properly Designed

The Forest Service did not have properly designed control activities over its process for fund transfers related to wildland fire suppression activities. The Forest Service receives appropriations for necessary expenses for (1) fire suppression activities on National Forest System lands, (2) emergency fire suppression on or adjacent to such lands or other lands under fire protection agreement, (3) hazardous fuels management on or adjacent to such lands, and (4) state and volunteer fire assistance. Transfer of funds from other Forest Service programs to its fire suppression activities occurs when the Forest Service has exhausted all available funds appropriated for the purpose of fire suppression and the FLAME fund. A key aspect of this process is assessing the FLAME forecast, which the Forest Service uses to predict the costs of fighting wildland fires for a given season, and developing a strategy to identify specific programs and the amounts that may be transferred to pay for fire

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<sup>25</sup>The numerous manuals (FSM) and Forest Service handbooks (FSH) for administrative control of funds the Forest Service provided and related effective dates included: FSH 6509.11K, *Servicewide Finance and Accounting Handbook*, Chapter 50 – *Accounting* (April 29, 2010); FSH 1909.13 – *Program Development and Budgeting Handbook*, Chapter 30 – *Budget Execution* (Sept. 30, 1994); FSM 1900 – *Planning*, Chapter 1930 – *Program Development and Budgeting* (effective April 10, 2013); FSM 6500 – *Finance and Accounting*, Chapter-Zero Code (April 18, 2011); FSM 1400, *Controls*, Chapter – *Zero Code* (March 9, 2006); and Chapter 1410 - *Management Reviews* (June 15, 2016).

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suppression activities when needed.<sup>26</sup> The process for reviewing the FLAME forecast and strategizing the fund transfers was documented in the *Basic Budget Desk Guide* created by staff in the Forest Service's Strategic Planning and Budget Analysis Office. However, the desk guide did not contain evidence of review by responsible officials. As a result, the Forest Service lacked reasonable assurance that the desk guide was complete and appropriate for its use.

The *Basic Budget Desk Guide* included a listing of actions to be performed by the analyst for reviewing the FLAME forecast report and developing a strategy for fund transfer from other programs. However, the desk guide did not specify the factors to be considered when developing the strategy. For example, it did not call for documentation addressing the rationale for the strategy or an assessment of the risk that the fund transfer could have on the programs from which the funds would be transferred. The desk guide also did not describe the review and approval of the strategy by a responsible official(s) prior to the fund transfer request sent to the Chief of the Forest Service.

According to *Standards for Internal Control in the Federal Government*, management should design control activities to achieve objectives and respond to risks and that such control activities should be designed at the appropriate levels in the organizational structure. Further, management may design a variety of transaction control activities for operational processes, which may include verifications, authorizations and approvals, and supervisory control activities.

The lack of properly designed control activities for supervisory review of the desk guide and strategy to identify the amounts for fund transfers does not provide the Forest Service reasonable assurance that the objectives of the fund transfers—including mitigating the risk of a shortfall of funding for other critical Forest Service program activities, such as payroll or other day-to-day operating costs—will be efficiently and effectively achieved.

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<sup>26</sup>The Forest Service assesses the FLAME forecast, which predicts the upper and lower limits of likely fire suppression expenditures, as well as ongoing fire activity and the available balance in the fire suppression account to develop a fire transfer strategy. This strategy identifies specific programs and amounts that would be transferred to pay for fire suppression activities in the event of severe burning conditions and increased suppression costs. These transfers can occur only if the agency will exhaust all available funds appropriated for fire suppression and the FLAME fund within 30 days. See 43 U.S.C. § 1748a(g).

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## Forest Service Did Not Have Properly Designed Processes and Related Control Activities for Reimbursable Receivables and Collections

The Forest Service enters into various reimbursable agreements with agencies within USDA, other federal agencies, state and local government agencies, and nongovernment entities to carry out its mission for public benefit. The reimbursable agreements may be for the Forest Service to provide goods and services to a third party or to receive goods and services from a third party, or may be a partnership agreement with a third party for a common goal. According to Forest Service officials, the two distinct types of Forest Service reimbursable agreements are (1) fire incident cooperative agreements and (2) reimbursable and advanced collection agreements (RACA).

The Forest Service did not have documented processes and related control activities for its fire incident cooperative agreements to reasonably assure the effectiveness and efficiency of its related fire incident operations. In addition, processes and related control activities applicable to RACAs were not adequately described in applicable manuals and handbooks in the Directive System, to reasonably assure that control activities could be performed consistently and effectively. Further, certain RACA processes in the Directive System had not been timely reviewed by management and did not reflect current processes. Moreover, as previously discussed, SOPs and desk guides developed in field offices related to RACA processes were not in the Forest Service's Directive System.<sup>27</sup> Finally, the Forest Service lacked control activities segregating incompatible duties performed by line officers and program managers in creating reimbursable agreements and the final disposition of related receivables.

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## Forest Service Did Not Have Documented Processes and Related Control Activities for Fire Incident Cooperative Agreements

The Forest Service did not have documented processes and related control activities for its fire incident cooperative agreements to reasonably assure the effectiveness and efficiency of its related fire incident operations and reliable reporting internally and externally.

As part of the service's mission objective to suppress wildland fires, Forest Service officials stated that they enter into 5-year agreements referred to as master cooperative agreements with federal, state, and other entities. These agreements document the framework for

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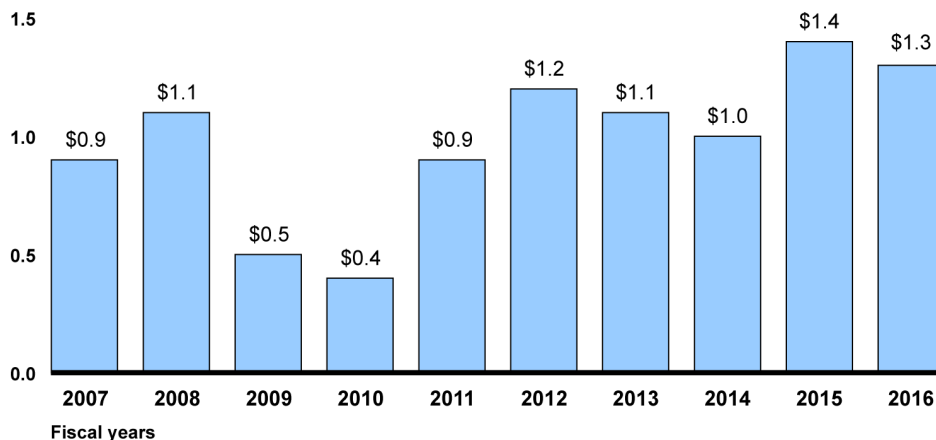
<sup>27</sup>According to Forest Service policy, its directive system is the primary source for official Forest Service policy and procedures. FSM-1100 – *Directive System*, Chapter – *Zero Code*, and FSM-1103 – *Policy*.

commitment and support efficient and effective coordination and cooperation among the parties in suppressing fires, when they occur. The master cooperative agreements do not require specific funding commitments as amounts are not yet known. These agreements vary from region to region because of the differing laws and regulations pertaining to the participating states and other entities. These variations can also result in different billing and collection processes between regions. When a fire occurs, supplemental agreements, which are based on the framework established in the applicable master cooperative agreements, are signed by relevant parties for each fire incident. These agreements establish the share of fire suppression costs incurred by the Forest Service and amounts related to entities that benefitted from those fire suppression efforts. These supplemental agreements require commitment and obligation of funds. As indicated in figure 2, the Forest Service's obligations for fire suppression activities ranged from \$412 million to \$1.4 billion over the 10-year period from fiscal years 2007 through 2016.

**Figure 2: Obligations for Fire Suppression Activities, Fiscal Years 2007 through 2016**

Dollars in billions

2.0



Source: GAO analysis of the Forest Service's Suppression Obligations 2007- 2016 in net nominal amounts from the President's Budget for fiscal year 2018. | GAO-18-56

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In response to our request for documentation of processes and related control activities over its fire incident cooperative agreements, Forest Service officials stated that processes and related control activities over reimbursable agreements were applicable to both fire incident cooperative agreements and RACAs. However, based on our review of the Forest Service's processes and related control activities over its reimbursable agreements, we found that the unique features of fire incident cooperative agreements (as compared to features of RACAs) were not addressed in the processes and related controls for reimbursable agreements. For example, there was no process and related control activities over the negotiation and review of (1) a fire incident master cooperative agreement, which is developed before a fire occurs, and (2) supplemental agreements, which are signed by all relevant parties after the start of a fire incident. These supplemental agreements detail, among other things, the terms for (1) fire department resource use, (2) financial arrangements, and (3) specific cost-sharing agreements.

Another unique feature of fire incident cooperative agreements, which was not covered in process documents for its reimbursable agreements, was the preparation of the Cost Settlement Package.<sup>28</sup> The preparation of this package does not start until after the fire has ended and the Forest Service has received and paid all bills. According to Forest Service officials, a fire incident is deemed to have ended when there are no more resources (firefighters and equipment) on the ground putting out the fire. However, this definition was not documented in the Forest Service's manuals and handbooks in the Directive System. Based on our review of documentation that the Forest Service provided for four fire incidents, we found that for these incidents the Cost Settlement Packages and the billings took several months to years to complete after the fire incident. According to Forest Service officials, delays in preparing the Cost Settlement Package in many cases were due to parties involved in suppressing the fires taking a long time to submit their invoices to the Forest Service for payment.<sup>29</sup> Because the preparation of Cost Settlement

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<sup>28</sup>According to the Forest Service, the Cost Settlement Package details all the expenses the Forest Service paid in suppressing a fire incident. The Forest Service and the other entities that are parties to the agreements provide their respective cost information to negotiate and settle on amounts that the Forest Service will receive from these parties based on the terms of the supplemental agreements. The Forest Service then bills the parties the negotiated amounts.

<sup>29</sup>Parties to the agreements may bill the Forest Service for costs they incurred paying their vendors for services provided in suppressing the related fire incidents.

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Packages was not included in the process documents, the Forest Service did not have a defined time frame for when, in relation to the end of the fire, the Cost Settlement Package must be completed. For example, in one case we reviewed, the bill for a cost settlement was sent 9 months after the fire occurred, and in another case, settlement occurred approximately 2 years after the fire occurred. For both fire incidents, based on the reports we reviewed, the fires were contained within a week or two, but the Forest Service does not have a policy for documenting the date when the fire incident is deemed to have ended.

Because of the complexity of the process for negotiating and determining the reimbursable amounts from all the costs that the Forest Service pays for a fire incident, the reimbursable amounts may take time to negotiate, and subsequent billing to and collection from parties may take much longer.<sup>30</sup> Forest Service officials stated that some receivables that were not going to be collected until after its financial system's aging process for receivables deemed such receivables uncollectible and a bad debt are tracked in a spreadsheet outside its financial system.<sup>31</sup> We found that the Forest Service did not have a documented process and related control activities to reasonably assure that its Budget Office was informed of these older receivables being tracked in a spreadsheet and the related progress of collection activities that local program managers and line officers perform, which could affect the reliability of the reported reimbursable receivable amounts.

According to *Standards for Internal Control in the Federal Government*, management should internally communicate the necessary quality information to achieve the entity's objectives.<sup>32</sup> Without proper communication, important information, such as amounts that the Forest Service will receive from fire incident cost settlement negotiations, may not be considered in the Forest Service's strategy for the effective and efficient management of fund transfers for fire suppression activities.

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<sup>30</sup>According to Forest Service officials, local or state governments may have to wait for budget approval for funding, which could take significant time.

<sup>31</sup>The Forest Service's accounts receivable aging schedule summarizes accounts receivable based on the timing since the bills were sent and the receivables recorded. The schedule usually clusters invoices into 30-day time buckets. Those invoices in the 0-30 day time buckets are considered to be current. Additional time buckets cover the 31-60, 61-90, and 90+ day periods. Invoices located in the older time buckets were targeted for more aggressive collection activities. Those in the oldest time bucket may be written off.

<sup>32</sup>[GAO-14-704G](#).

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Forest Service Manuals and Handbooks for RACAs Did Not Adequately Describe the Processes and Related Control Activities and Were Not Timely Reviewed

Processes and related control activities applicable to RACAs were not adequately described in Forest Service manuals and handbooks in its Directive System. RACAs, which may be for research or other nonemergency purposes, are billed and collected based on previously agreed upon billing and collection terms. In accordance with the Forest Service's Directive System, policies related to business processes, such as RACAs, are documented in its manuals while procedures for performing specialized activities are documented in its handbooks. We found that the manuals and handbooks in the Directive System did not adequately describe the processes and related control activities over the RACA processes to enable efficient and effective performance of the work by appropriate and responsible personnel. The manuals and handbooks related to RACAs state that a manager review the documentation to ensure that the funding supports the objective of the agreement, the agreement is the correct instrument for funding the project, all relevant terms and conditions have been included in the agreement, the entity's financial strength and capability are acceptable, and all applicable regulations and OMB circulars have been addressed.<sup>33</sup> However, there was no discussion in the manuals and handbooks about when the manager needs to perform the reviews and how these reviews were to be documented. Further, in response to our inquiry regarding procedures performed to assess the entity's financial strength and capability are acceptable before a RACA is signed, Forest Service officials stated that there is currently no formal process for determining financial capability for RACAs. For reimbursable agreements, the Forest Service's process documented in its handbook consisted of completing a creditworthiness checklist. However, the handbook did not describe procedures for (1) completing the checklist and (2) documenting responsible personnel's review and approval of an entity's acceptable financial capability.

*Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risks.<sup>34</sup> Management's design of internal control establishes and communicates the who, what, when, where, and why of internal

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<sup>33</sup>FSH 1509.11 - *Grants, Cooperative Agreements, and Other Agreements Handbook*, Chapter 10 – *Grants & Agreements Administration*, section 14.22b - *Review of Risk Posed by Applicant or Cooperator* (Washington, D.C.: July 6, 2015).

<sup>34</sup>[GAO-14-704G](#).

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control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel. Further, the standards also explain that management clearly document internal control in a manner that allows the documentation to be readily available and properly managed and maintained.

In addition, the manuals and handbooks applicable to the RACAs have not been timely reviewed by management, and had not been updated to reflect current processes. For example, the document that serves as direction for Forest Service personnel on how to enter into RACAs referred to an outdated financial system that was replaced in fiscal year 2013. Further, the manuals and handbooks for the RACA processes had no indication that they had been reviewed within the past 5 years. Forest Service policy requires routine review, every 5 years, of policies and procedures in its Directive System.<sup>35</sup> According to Forest Service officials, a staff member from ORMS sends an e-mail to officials responsible for updating these policies and procedures. However, appropriate control activities have not been designed to reasonably assure that updates were made, reviewed, approved, and issued as needed for continued relevance and effectiveness.

Without adequate descriptions of processes and related control activities in its manuals and handbooks over RACAs, the Forest Service is at risk that processes and related control activities may not be properly, consistently, and timely performed. Further, because it lacks a process and related controls for monitoring and reviewing the updates of the guidance and various process documents in the Directive System, the Forest Service is at risk that its policies and procedures may not provide appropriate agency-wide direction in achieving control objectives, particularly when financial systems change and old processes may no longer be applicable.

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<sup>35</sup>FSM 1100 - *Directive System*, Chapter 1110 – Directive System Structure and Standards, section 1114 - *Currency of Directive System*, para.1114.03 *Policy* (Oct. 18, 2007).



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## Forest Service Standard Operating Procedures and Desk Guides for RACA Processes Were Not in the Directive System and Lacked Sufficient Details

SOPs and desk guides related to RACA processes were not in the Directive System and are not considered official Forest Service policy and procedures. Forest Service field staff responsible for various processes generally developed SOPs and desk guides to document day-to-day procedures for employees in carrying out RACA processes to supplement the manuals and handbooks. However, the SOPs and desk guides did not reference the applicable manuals and handbooks they supplemented. Further, the SOPs and desk guides did not provide descriptions of (1) review procedures for authorization, completeness, and validity of RACAs and related receivables; (2) detailed review procedures to be performed and by whom; (3) timing of review procedures; and (4) how to document the completion of the review procedures. Finally, SOPs and desk guides did not have evidence that responsible officials reviewed and approved them to authorize their use. These SOPs and desk guides are only available in the field office where these were developed, and if similar SOPs and desk guides were developed in other field offices, control activities and how they are performed could vary.<sup>36</sup> We also noted that these SOPs and desk guides were not timely updated to reflect processes and systems currently in use. For example, there were many instances where the SOPs and desk guides referred to systems that the Forest Service no longer used.

*Standards for Internal Control in the Federal Government* states that management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel and to achieve the entity's objectives. Management assigns responsibility and delegates authority to key roles throughout the entity.<sup>37</sup>

As a result of the issues discussed above, the Forest Service is at risk that control activities may not be properly and consistently performed and its related control objectives may not be achieved efficiently and

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<sup>36</sup>According to Forest Service officials, field offices (i.e., regional offices, forests, research stations, etc.) managed the majority of Forest Service projects, entered into agreements, and monitored related collections.

<sup>37</sup>[GAO-14-704G](#).

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effectively. In addition, the Forest Service is at risk that knowledge for performing the control activities may be limited to a few personnel or lost altogether in the event of employee turnover.

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### Forest Service Lacked Adequate Segregation of Duties over Reimbursable Agreements

The Forest Service lacked control activities over the segregation of incompatible duties performed by line officers and program managers for reimbursable agreements and any adjustments affecting the final disposition of related receivables. Field offices manage the majority of Forest Service projects, including authorizing the agreements and monitoring related collection. The Forest Service line officer for fire incident cooperative agreements and program managers for RACA at the RSA, unit, or field levels initiate and develop the terms of the agreements and are also responsible for any subsequent negotiation of the agreements. In the process of negotiating and settling costs, the line officer or program manager has the authority to cancel or change related receivables that they deemed uncollectible. For example, in a fire incident, the line officer at the region or field level is involved in both developing a Cost Share Agreement and after the fire incident has ended, negotiating the Cost Settlement Package with parties involved in the agreement to determine the final settlement amount that the Forest Service will be reimbursed for expenses paid in suppressing the fire incident.<sup>38</sup> Therefore, the line officer is responsible for initiating the Cost Share Agreement, modifying the Cost Settlement Package, and changing or canceling the related receivable, which represent conflicting duties. We also found that the Forest Service did not have any mitigating controls, such as independent approval of any adjustments affecting the final disposition of receivables, to mitigate the risk of these incompatible duties.

*Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risks. Segregation of duties contributes to the design, implementation, and operating effectiveness of control activities. To achieve segregation of key functions, management can divide responsibilities among different people to reduce the risk of error, misuse, or fraud. This may include separating the responsibilities for authorizing or approving transactions, processing and recording them, and reviewing

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<sup>38</sup>The Cost Share Agreement is an example of a supplemental agreement.

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the transactions so that no one individual controls all key aspects of a transaction or event.<sup>39</sup>

Forest Service officials stated they did not consider segregating the conflicting duties related to reimbursable agreements because these line officers and program managers were most familiar with the terms of the agreement and the activities performed. However, a lack of adequate segregation of conflicting duties or proper monitoring and review of conflicting duties for receivables from reimbursable agreements could result in receivables not being collected, and an increased risk of fraud.

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## Forest Service Did Not Have Properly Designed Processes and Related Control Activities for Reviewing Unliquidated Obligations

The Forest Service's processes and related control activities over review of unliquidated obligations were not properly designed to reasonably assure optimum utilization of funds and were inconsistent with USDA and Forest Service policy. Further, Forest Service manuals and handbooks related to the review of unliquidated obligations did not clearly describe control activities and were not timely reviewed by management. The Forest Service reported unliquidated obligations of approximately \$2.6 billion and \$2.5 billion in its financial statements as of September 30, 2015, and 2016, respectively. In fiscal year 2016, the Forest Service deobligated about \$319 million of its unliquidated obligations from prior years.

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## Forest Service Processes and Control Activities for Review and Certification of Unliquidated Obligations Were Not Properly Designed

The Forest Service's procedures related to the review of unliquidated obligations were not properly designed and were inconsistent with USDA and Forest Service policy. In accordance with USDA Departmental Regulation (Regulation 2230-001) and related Forest Service policy, the Forest Service identifies and reviews unliquidated obligations that have been inactive for at least 12 months to determine whether delivery or performance of goods or services is still expected to occur. Once a determination has been made that an unliquidated obligation can be deobligated, program or procurement personnel are to notify finance personnel, in writing, within 5 days of the determination to process the deobligation. Within 15 days of receipt of the written notification, the unliquidated obligations are to be adjusted in the financial management system. The Forest Service CFO is then to be notified in writing that the deobligation was processed. Within 1 month of the close of each quarter,

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<sup>39</sup>[GAO-14-704G](#).

the Forest Service CFO is to submit to USDA’s Associate CFO for Financial Operations a certification stating that the Forest Service has performed reviews of its unliquidated obligations and taken appropriate actions, such as promptly deobligating an unliquidated obligation that is no longer needed. However, the Forest Service’s quarterly certifications are inconsistent with USDA and Forest Service policy because the months included in each quarterly review do not line up with the months outlined in policy. For example, as shown in table 1, based on policy the certification due on October 31, covers the months July through September. However in practice, the certification that the Forest Service prepared for October 31 covers May through July. As a result, the review and certification for August and September would be delayed an entire quarter.

**Table 1: Forest Service Unliquidated Obligation Quarterly Certification Periods**

<b>Due date for CFO certification: Reviews and corrective actions have been performed</b>	<b>Policy: Months that should be covered in quarterly reviews per USDA and Forest Service policies</b>	<b>Practice: Months actually covered in the quarterly reviews per Forest Service desk guides and training material<sup>a</sup></b>
January 31	October 1 – December 31	August 1 – October 31
April 30	January 1 – March 31	November 1 – January 31
July 31	April 1 – June 30	February 1 – April 30
October 31	July 1 – September 30	May 1 – July 31

Legend: CFO = Chief Financial Officer, USDA = U.S. Department of Agriculture

Source: GAO analysis of USDA and Forest Service documents. | GAO-18-56

<sup>a</sup>The guides and training materials provide detailed instructions and applicable training for reviewing unliquidated obligations with no activity for 12 months.

According to Forest Service officials, it takes considerable time to produce accurate unliquidated obligations reports from USDA’s financial system and then distribute them to field offices. Therefore, there is not sufficient time for the field offices to review and deobligate amounts not needed from the unliquidated obligations balances to meet USDA’s certification timing and requirements. However, the Forest Service has not developed other processes and control activities that could help meet USDA and Forest Service policy and reasonably assure that unliquidated obligations are reviewed timely and appropriate actions are taken. As a result, there is an increased risk that the Forest Service may not achieve

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its control objectives of optimum utilization of funds and timely adjustments of obligated balances.<sup>40</sup>

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### Forest Service Processes and Control Activities for Reviewing Unliquidated Obligations in Manuals and Handbooks Were Not Adequately Described and Timely Reviewed

The Forest Service's process and related control activities over its review of unliquidated obligations and resulting certifications were not adequately described in manuals and handbooks in its Directive System. Further, the manuals and handbooks were not timely reviewed and updated to reflect processes and systems currently in use.

In accordance with the Forest Service's Directive System, policies are documented in its manuals while procedures for performing specialized activities are documented in its handbooks. However, we found that the Forest Service's processes and related control activities for reviewing unliquidated obligations were not adequately described and documented in such manuals and handbooks.<sup>41</sup> Although parts of the applicable section of the handbook referred to procedures, there were no detailed descriptions of the processes, and only references to objectives of the procedures for reviewing unliquidated obligations were listed. For example, in identifying unliquidated obligations for review, the narrative description of the procedures in the handbook states that the responsible obligating official must review each selected unliquidated obligation to determine whether (1) delivery or performance of goods or services has occurred or is expected to occur and (2) accounting corrections to the obligation data in the accounting system are necessary. The handbook also refers to an unliquidated obligations report listing the unliquidated obligations that must be reviewed.<sup>42</sup> The narrative does not provide any detailed procedures that obligating officials or responsible personnel need to perform, how to perform those procedures, and how those control activities are to be documented. The guidance in the handbook was supplemented by two desk guides. However, the desk guides are outside the Forest Service's Directive System and, as previously noted, the

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<sup>40</sup>Optimum utilization of funds is achieved when unneeded unliquidated obligations are efficiently and effectively deobligated and are made available to fund applicable program needs. Forest Service, *Servicewide Finance And Accounting Handbook*, FSH 6509.11k (Washington, D.C.: effective Apr. 29, 2010), Chapter 50 – *Accounting*, section 52.03 – *Policy*.

<sup>41</sup>Forest Service, *Servicewide Finance And Accounting Handbook*, section 52.6 - *Reviews of Unliquidated Obligations*.

<sup>42</sup>Forest Service, *Servicewide Finance And Accounting Handbook*, section 52.61 - *Identify Unliquidated Obligations*.

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Directive System is the only place where the Forest Service's policy and procedures are issued. In addition, these desk guides did not reference the applicable guidance in the Directive System that they were supplementing. Further, the process and related control activities for adjusting unliquidated obligations within 15 days of receipt of written notification, as stated in USDA's policy, were not described in either the handbooks or the desk guides.

*Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risks to achieve an effective internal control system.<sup>43</sup>

Management's design of internal control establishes and communicates the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel. Further, the standards also explain that management clearly document internal control in a manner that allows documentation to be readily available and that documentation be properly managed and maintained.

In addition, manuals and handbooks for processes related to review and certification of unliquidated obligations had no evidence that they had been reviewed within the past 5 years for ongoing relevance and effectiveness. According to a Forest Service manual, all service-wide directives, except interim directives, shall be reviewed at least once every 5 years. The Forest Service does not have an effective process in place to monitor the reviews and any updates of the manuals and handbooks in its Directive System. As previously discussed, while ORMS sends an e-mail requesting that the applicable officials review and update the guidance in the manuals and handbooks, there is no follow-up process to help ensure that documents were reviewed and updated as needed.

Because the Forest Service's process and related control activities over its review and certification of unliquidated obligations were not adequately described in its manuals and handbooks, the Forest Service is at risk that its control activities may not reasonably assure that control objectives provide (1) optimum utilization of funds and (2) for unliquidated obligations that are no longer needed to be efficiently and effectively deobligated and made available for other program needs.

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<sup>43</sup>[GAO-14-704G](#).

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## Conclusions

Adequate processes and related control activities over the Forest Service's budgetary resources are critical in reasonably assuring that these resources are timely and effectively available for its mission operations, including fire suppression. However, we identified deficiencies in the Forest Service's processes and related controls over allotments, unobligated no-year funds from prior years, administrative control of funds, fund transfers, reimbursable agreements, and available funds from deobligation of unliquidated obligations. Deficiencies ranged from a lack of processes to control activities that were not properly designed, resulting in an increased risk that Forest Service funds may not be effectively and efficiently monitored and used. In addition, the Forest Service's manuals and handbooks, which provide the directives for the areas we reviewed, had not been reviewed by management in accordance with the Forest Service's 5-year review policy. Further, Forest Service staff prepared SOPs and desk guides that documented control activities, but they were not issued as official policy and had not been reviewed and approved by responsible officials. As a result, the Forest Service is at increased risk that the control activities may not be consistently performed across the agency and that the guidance in the SOPs and desk guides may not comply with agency policy in the Directive System.

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## Recommendations for Executive Action

To improve internal controls over the Forest Service's budget execution processes, we are making the following 11 recommendations:

The Chief of the Forest Service should (1) revise its process and (2) design, document, and implement related control activities to reasonably assure that amounts designated in appropriations acts for specific purposes are properly used for the purposes specifically designated. (Recommendation 1)

The Chief of the Forest Service should (1) develop a process and (2) design, document, and implement related control activities to reasonably assure that unobligated no-year funds from prior years are reviewed for continuing need. (Recommendation 2)

The Chief of the Forest Service should (1) design, document, and implement a comprehensive system for administrative control of funds and (2) submit it for review and approval by USDA before issuance, as required by the *USDA Budget Manual*. (Recommendation 3)

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The Chief of the Forest Service should design, document, and implement control activities over the preparation and approval of a fire suppression fund transfers strategy, to specify all appropriate factors to be considered in developing and documenting the strategy, and incorporate these control activities into the Directive System. (Recommendation 4)

The Chief of the Forest Service should design, document, and implement processes and related control activities for its fire incident cooperative agreements to reasonably assure efficient and effective operations and timely and reliable reporting of reimbursable receivables related to fire incident cooperative agreements, and incorporate them in the Directive System. (Recommendation 5)

The Chief of the Forest Service should update the RACA manuals and handbooks to adequately describe the processes and related control activities applicable to RACAs to reasonably assure that staff will know (1) how and when to perform processes and control activities and (2) how to document their performance. (Recommendation 6)

The Chief of the Forest Service should design, document, and implement segregation of duties or mitigating control activities over reimbursable agreements and any adjustments affecting the final disposition of related receivables. (Recommendation 7)

The Chief of the Forest Service should modify, document, and implement control activities consistent with USDA and Forest Service policy to reasonably assure that unliquidated obligations are reviewed timely and appropriate actions are taken. (Recommendation 8)

The Chief of the Forest Service should adequately describe the processes and related control activities for unliquidated obligations review and certification processes in manuals and handbooks within the Directive System. (Recommendation 9)

The Chief of the Forest Service should develop, document, and implement a process and related control activities to reasonably assure that manuals and handbooks for allotments, reimbursable agreements, and review of unliquidated obligations are reviewed and updated every 5 years, consistent with Forest Service policy. (Recommendation 10)

The Chief of the Forest Service should develop, document, and implement a process and related control activities to reasonably assure that SOPs and desk guides (1) clearly refer to guidance in the Directive



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System for allotments, reimbursable agreements, and review of unliquidated obligations and (2) are reviewed and approved by responsible officials prior to use. (Recommendation 11)

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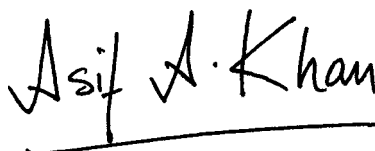
## Agency Comments

We provided a draft of this report to USDA for comment. In its comments, reproduced in appendix III, the Forest Service stated that it generally agreed with the report and that it has made significant progress to address the report's findings. Specifically, the Forest Service stated that its financial policies concerning budget execution have been revised to address our concerns with allotments, unliquidated obligations, commitments, and administrative control of funds as prescribed by OMB Circular No. A-11. Further, the Forest Service stated that it has undertaken an in-depth review of its unliquidated obligations and modified the certification process to comply with the USDA requirement.

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We are sending copies of this report to the appropriate congressional committees and to the Secretary of Agriculture and the Chief of the Forest Service. In addition, this report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff members have any questions about this report, please contact me at (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made key contributions to this report are listed in appendix IV.



Asif A. Khan  
Director  
Financial Management and Assurance

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# Appendix I: Objectives, Scope, and Methodology

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Our objectives were to determine the extent to which the Forest Service properly designed control activities over (1) allotments of budgetary resources, its system for administrative control of funds, and any fund transfers between Forest Service appropriations; (2) reimbursables and related collections; and (3) unliquidated obligations.<sup>1</sup>

We reviewed the Forest Service's process documents and control activities, policies and procedures from its manual and handbooks in its Directive System, and other guidance in the form of standard operating procedures (SOP) and desk guides to obtain an understanding of internal controls at the Forest Service related to our three objectives.<sup>2</sup> We reviewed the control activities that the Forest Service identified to determine whether the activities would achieve the control objectives that the service identified and whether the activities were consistent with *Standards for Internal Control in the Federal Government*. We also reviewed recent relevant GAO and U.S. Department of Agriculture (USDA) Office of Inspector General reports to obtain background information related to the Forest Service's budget execution processes. We evaluated the design of the Forest Service's control activities based on data for fiscal year 2016.

To address our first objective, we reviewed Forest Service process documents related to allotments and budget authority to obtain an understanding of control activities over the allotments of budgetary resources, its system for administrative control of funds, and any related fund transfers between Forest Service appropriations. The process documents included a list of control objectives and related control activities that the Forest Service had used to assess its internal controls. We also reviewed the related guidance in appendix H to Office of Management and Budget Circular No. A-11, *Preparation, Submission,*

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<sup>1</sup>An allotment is an authorization by either the agency head or another authorized employee to his/her subordinates to incur obligations within a specified amount. The amount allotted by an agency cannot exceed the amount apportioned by the Office of Management and Budget. An allotment is part of an agency system of administrative control of funds whose purpose is to keep obligations and expenditures from exceeding apportionments and allotments. See GAO, *A Glossary of Terms Used in the Federal Budget Process*, [GAO-05-734SP](#) (Washington, D.C.: September 2005); see also 31 U.S.C. § 1513(d).

<sup>2</sup>The Forest Service performed assessments to document its compliance with the 17 internal control principles detailed in *Standards for Internal Control in the Federal Government*, effective in fiscal year 2016. See GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

*and Execution of the Budget for Administrative Control of Funds*, to identify requirements that agencies must meet to ascertain whether their controls over funds management are properly designed. We interviewed key officials from the Forest Service's Strategic Planning, Budget and Accountability Office to gain an understanding of their processes for allotments of budgetary resources, its system for administrative control of funds, and fund transfers between Forest Service appropriations for wildland fire suppression activities, including how each of their risk assessments were performed and their plans to mitigate the risks. We reviewed and analyzed the processes documented in the manuals and handbooks collectively referred to as directives to determine whether the processes and control activities were designed to achieve the Forest Service's stated objectives. Specifically, we examined the Forest Service's control activities to determine whether these sufficiently communicated the procedures to be performed and the documentation to be prepared. We also reviewed *USDA Budget Manual* to determine whether Forest Service guidance was consistent with USDA's requirements for all of its component agencies, specifically requirements related to the administrative control of funds.

To address our second objective, we reviewed the Forest Service's policies, procedures, and other documentation and interviewed agency officials to develop an understanding of its processes related to reimbursable agreements and related collection activities. We first identified, through interviews with Forest Service officials, the different kinds of reimbursable agreements that the Forest Service enters into with other USDA components, other federal agencies, state and local government agencies, and nongovernment entities to carry out its mission for the benefit of the public. Two distinct types of reimbursable agreements include (1) fire incident cooperative agreements and (2) reimbursable and advanced collection agreements. We reviewed Forest Service process documents and templates related to these two types of reimbursable agreements provided to obtain an understanding of control activities over reimbursable processes. We reviewed the list of control objectives and related control activities that the Forest Service identified to determine whether the control activities were designed to achieve the applicable control objectives.

To address our third objective, we reviewed the Forest Service's policies, procedures, and other documentation related to and interviewed agency officials about unliquidated obligations to develop an understanding of the Forest Service's review and certification processes for unliquidated obligations balances. We reviewed the Forest Service's control activities

related to its process for reviewing unliquidated obligations to obtain an understanding of control activities around its process and to determine whether the control activities were designed to achieve the applicable control objectives.

Based on the results of our evaluation of the Forest Service's design of internal control activities over the budget execution processes, we did not evaluate the implementation of the control activities or whether they were operating as designed.

While our audit objectives focused on certain control activities related to (1) allotments of budgetary resources, the Forest Service's system for administrative control of funds, and related fund transfers; (2) reimbursables and related collections for reimbursable agreements; and (3) unliquidated obligations, we did not evaluate all control activities and other components of internal control. If we had done so, additional deficiencies may or may not have been identified that could impair the effectiveness of the control activities evaluated as part of this audit.

We conducted this performance audit from August 2016 to January 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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# Appendix II: Standards for Internal Control in the Federal Government

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*Standards for Internal Control in the Federal Government* provides the overall framework for establishing and maintaining internal control. Internal control represents an agency's plans, methods, policies, and procedures used to fulfill its mission, strategic plan, goals, and objectives. Internal control is a process by an entity's oversight body, management, and other personnel to provide reasonable assurance that the objectives of the entity will be achieved.<sup>1</sup> When properly designed, implemented, and operating effectively, it provides reasonable assurance that the following objectives are achieved: (1) effectiveness and efficiency of operations, (2) reliability of internal and external reporting, and (3) compliance with applicable laws and regulations. Internal control is not one event, but a series of actions that occur throughout an entity's operations. The five components of internal control are as follows:

- Control Environment - The foundation for an internal control system that provides the discipline and structure to help an entity achieve its objectives.
- Risk Assessment - Assesses the risks facing the entity as it seeks to achieve its objectives and provides the basis for developing appropriate risk responses.<sup>2</sup>
- Control Activities - The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.
- Information and Communication - The quality information management and personnel communicate and use to support the internal control system.
- Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

An effective internal control system has each of the five components of internal control effectively designed, implemented, and operating with the components operating together in an integrated manner. In this audit, we assessed the design of control activities at the Forest Service related to

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<sup>1</sup>Reasonable assurance represents a high degree of confidence but not absolute confidence. See GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

<sup>2</sup>Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. See [GAO-14-704G](#).

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its (1) allotments of budgetary resources and any related fund transfers between Forest Service appropriations, (2) reimbursables and related collections, and (3) review of unliquidated obligations.

# Appendix III: Comments from the U.S. Department of Agriculture



Forest Service  
Washington Office

1400 Independence Avenue, SW  
Washington, D.C. 20250

File Code: 1420  
Date: JAN 18 2018

Asif Khan  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548


Dear Mr. Asif Khan:

Thank you for the opportunity to review the U.S. Government Accountability Office (GAO) draft report, "Forest Service: Improvements Needed in Internal Controls over Budget Execution Processes, (GAO-18-56)." The U.S. Department of Agriculture (USDA) Forest Service generally agrees with the report. The Agency has made significant progress to address the report's findings.

Financial policies concerning budget execution have been revised to address GAO concerns with allotments, unliquidated obligations (UOs), commitments, and administrative control of funds as prescribed by Office of Management and Budget Circular A-11. The Agency has also undertaken an in-depth review of its UOs that have had no activity in two years and modified its UO certification process to comply with the USDA requirement. In addition, we are providing the full list of UOs to all agency staffs to comprehensively manage their funds.

If you have questions, contact Antoine L. Dixon, Chief Financial Officer, at 202-205-0429 or [aldixon@fs.fed.us](mailto:aldixon@fs.fed.us).

Sincerely,

  
TONY TOOKE  
Chief



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# Appendix IV: GAO Contact and Staff Acknowledgments

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## GAO Contact

Asif A. Khan, (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, the following individuals made key contributions to this report: Roger Stoltz (Assistant Director), Meafelia P. Gusukuma (Auditor-in-Charge), Tulsi Bhojwani, Cory Mazer, Sabrina Rivera, and Randy Voorhees.



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Washington, DC 20548

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Washington, DC 20548

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## Strategic Planning and External Liaison

James-Christian Blockwood, Managing Director, [spel@gao.gov](mailto:spel@gao.gov), (202) 512-4707  
U.S. Government Accountability Office, 441 G Street NW, Room 7814,  
Washington, DC 20548



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