

**Improving Performance and Accountability
at the Forest Service:
Overcoming the Politics of the Budgetary Process
and Improving Budget Execution**

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**Improving Performance and Accountability at the Forest Service:
Overcoming the Politics of the Budgetary Process and Improving Budget Execution**

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ABSTRACT: Recent disclosure of systematic shortcomings in financial management and budget execution at the U.S. Department of Agriculture's Forest Service have prompted significant changes in the agency's financial reporting structure. However, until similar changes are made in the agency's budget structure, making it more consistent with the way work activities are structured in the field, there will continue to be a high degree of subjectivity in financial reporting and budget execution, and only limited improvement in the Forest Service's financial accountability to Congress and the public.

Introduction

The fiscal and performance accountability of the USDA Forest Service has become an important public issue recently, spilling from the pages of arcane government reports into the general press. Even given the increased focus on federal agency accountability brought about by policies such as the Government Performance and Results Act of 1992 (GPRA) and the Chief Financial Officer Act of 1990 (CFO), the level of scrutiny on the Forest Service's financial management shortcomings has been extraordinary. Reports from the USDA Inspector General and the U.S. General Accounting Office paint a picture of an agency whose budget and finance systems are of little value for either Congressional oversight or the Forest Service's own internal planning and budgeting. This is quite a shock to a proud agency, only a few years ago labeled the "Superstar Agency" among federal government natural resource organizations. (Clarke and McCool, 1985)

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Ardent defenders of the Forest Service counter that much of the criticism has come from highly partisan members of Congress looking for opportunities to attack an administration of the other major party. While neither position in its extreme is probably accurate, both would agree that perceived weaknesses in budgeting and financial management have become a lightning rod for the agency. These shortcomings are symptomatic of the Forest Service's larger strategic difficulties in developing organizational processes to support an integrated and holistic natural resource mission, that emphasizes big picture outcomes such as healthy ecosystems rather than component parts such as volume of available timber.

Powerful forces--in Congress, among constituent interest groups, and even within the Forest Service itself--over time, have contributed to and upheld a highly fragmented, program function-based structure for both budgeting and financial reporting.(Sample, 1992) In the past, subdividing program functions into a proliferation of extended budget line items has proven to be a successful strategy for increasing program budgets during budgetary expansions, and protecting them from budget reductions. Providing ever increasingly more specific levels of detail in budgets and financial management reports allowed highly specialized interests (e.g. cold water fisheries advocates) to figuratively and literally see their interests within the Forest Service, and track their interests through the changes in budgets and financial reports. This placed the focus on the component parts of the natural resource agenda for which the Forest Service was responsible. As the individual interests such as recreation, timber, wildlife and fisheries increased so did the Forest Service budget as a whole.

In recent years the above approach has not served the Forest Service well for two primary reasons; (1) the complexity of such a system made budget execution and financial accounting highly variable from unit to unit-- thereby impeding efforts to aggregate reports up or across the organization, and (2) the dominant philosophy and approach to natural resource management was moving in an opposite direction; toward focusing on the whole of integrated natural resource systems and not on the component parts. Exacerbated by cutbacks in administrative resources and "brain drain" of experienced personnel that held this complicated system together, the Forest Service found

itself with an overly intricate, unreliable system not well suited to support the currently espoused integrated approaches to natural resource management such as "New Forestry", "Ecosystem Management" or "Collaborative Stewardship." Thus the system was neither serving internal or external interests very well, and was helping call into question the agency's levels of accountability and credibility.

Finally, the urgency of improving the Forest Service's fiscal accountability by rectifying its financial management system is helping bring about changes that could have much broader benefits for the agency. The Forest Service has long sought to reconcile its major organizational processes for planning, budgeting, and accomplishment reporting, allowing it to better articulate--and demonstrate progress toward--its mission of integrated natural resource management. Simplifying the Forest Service's structure for budget development, execution and financial reporting will reinforce the agency's broader GPRA-driven effort to set its strategic goals and measure its performance on the basis of policy "outcomes," rather than on the basis of budget "inputs," or quantitative program "outputs" such as number of recreation visits and quantity of timber harvested. Many key stakeholders now share a primary interest in the overall performance of the agency's integrated programs and the health of the ecosystems for which they are responsible.

Financial management shortcomings undermine public credibility and accountability

Recent investigations by the USDA Inspector General and the U.S. General Accounting Office have revealed what they consider to be substantial accounting irregularities, and major shortcomings in the Forest Service's current systems for ensuring fiscal and performance accountability.(General Accounting Office, 1997) In an unprecedented joint oversight hearing by the House Committees on Resources, Budget, and Appropriations, one Congressional leader in a key position of jurisdiction over Forest Service activities went so far as to say that the Forest Service "is accountable to no one, least of all the Congress or the American people."(Chenoweth, 1998)

In testimony, both the Inspector General and GAO leveled a withering barrage against the U.S. Forest Service, charging serious shortcomings in the agency's financial accountability to

Congress and the public, and questioning the agency's commitment to addressing these issues in a timely and meaningful way. Following its most recent review of Forest Service financial management, GAO concluded that, "foregone revenue, inefficiency and waste, increased vulnerability to fraud and abuse, and lack of financial and performance accountability indicate to us that the American public is not receiving a fair return for its annual investment in the Forest Service.(Hill, 1998) Additionally, the GAO said that \$215 million of its \$314 billion operating budget was accounted for improperly.(Hill, 1998) These are serious charges for an agency with a track record of operational competency.

Because of these and other deficiencies, the USDA Inspector General concluded that the agency's financial statements for fiscal year 1995 were "unreliable."(Viadero, 1998) The Inspector General further stated that his office's financial audits of the Forest Service, performed since 1991, "have only disclosed a limited correlation between the Forest Service's accounting numbers they report and the resources or events those numbers are to represent."

GAO and the Inspector General identified a variety of factors contributing to the deficiencies of the Forest Service's financial records, chief among them were the structure and complexity of the agency's methods for budgeting and reporting expenditures.

The Forest Service accounts for expenditures through a vast, complex, and nearly unauditible network of "management codes." Management codes are established as restructured budgets; an operating plan is developed at the beginning of the year which sets forth the prospective distribution of expenditures. The methodology used to develop these allocations are based on empirical data and generally are not adequately documented. *The Forest Service uses about 100,000 management codes which can contain up to 99 lines of accounting each. Though some codes are centrally prescribed, the preponderance are locally developed and are unique to each venue* [emphasis added].(Viadero, 1998)

Thus with the recent focus on overall agency performance and integrated program management, the stage was set for disappointing results. The highly fragmented and specialized system described above, which emphasized distinct program components, sub components and local management autonomy in determining budget execution and financial reporting rationale, was not found to be useful in reporting on the agency as a whole, or on its integrated program efforts.

To further complicate matters, the Inspector General objected to the Forest Service's practice of "retroactive redistribution," in which expenditures are recorded but then reassigned to different management codes, depending on the availability of funds. In his review, the Inspector General observed that "the process provides the latitude to charge costs to fund codes based upon the availability of funding rather than where funds were actually expended." When the retroactive redistribution occurs, all preceding transactions are reversed and reposted according to the revised criteria. It is difficult to identify where changes occurred and all records of prior activity can be potentially retrieved only after arduous reconstruction. *Given the amount of transactions and the number of lines of accounting and detail involved, accountability is lost* [emphasis added](Viadero, 1998)

The resulting financial management problems are not new to the Forest Service and Congress. The current organizational processes have developed over a long period of time, and are deeply rooted in many incremental decisions for which the original rationale may no longer be valid or even apparent. However, what is clear is that the old budgeting and financial management system, based largely on multiple program components and local autonomy in execution, does not satisfy the overall oversight demands of key stakeholders such as Congress, GAO, OIG and others. And, being unable to adequately account for its financial resources, leaves the Forest Service vulnerable politically, and provides ammunition for the attacks on its credibility and accountability.

Financial management shortcomings as a product of budgeting and reporting structure

The quality of the Forest Service's financial credibility and accountability are strongly influenced by a budget structure that is highly fragmented along the lines of programmatic divisions,

subdivisions, and sub-subdivisions. Yet today's integrative nature of resource management on the National Forests requires, in most cases, that the costs of an individual project at the field level be charged to multiple budget line items.(Coopers and Lybrand, 1998) In practical terms, budget execution and the allocation of charges tend to be highly subjective, and are often based more upon the funds available among the different budget line items than on any documented application of personnel time or direct expenses.(Coopers and Lybrand) (Also see the discussion on retroactive distribution in the preceding section.) The U.S. General Accounting Office, among others, has noted in its investigations that this tendency to account for expenses based on how funds were budgeted rather than how they were actually applied results in financial reporting that is highly subjective, and of little value to Congress in its oversight of Forest Service activities.(GAO, 1988)

Internally, such a budget structure and approach to budget execution appears consistent with a current management tenet of pushing decision making to lowest possible organization level thereby enabling the field managers in "getting the job done." However, an impact of this approach is that once a project is complete (the job is done), the cost data produced by this system is not helpful as a management tool. Performance measurement, future project planning and budget development are therefore not informed by the budgeting and financial management systems. Thus under such a scenario, budgeting becomes, in the words of Wamsley and Hedblom, more of a mindless ritual and less of a strategic tool. (Wamsley and Hedblom,) Such an approach also runs counter to the efforts of GPRA and other performance management approaches to public administration.

Nevertheless, the rationale for a highly fragmented programmatic budget structure is based on lengthy experience in the real world of budgetary politics. As described above, the strategy of continually subdividing budget line items into finer and finer detail is regarded by many program leaders within the Forest Service as having been highly successful in maximizing total program budgets, and in resisting efforts during budget reductions. Over time, constituent interest groups have grown up around each newly identified budget line item, and now see a vital interest in maintaining its distinct identity and continued funding. Past attempts to simplify the system have largely been blocked by interests, both outside and within the Forest Service, that perceive these

efforts as running at cross purposes to their political success, as measured by continued funding for a particular program.(GAO, 1998)

This focus on maximum individual parts of the agency's budget rather than viewing it in a more holistic way has been heightened by at least three factors. First, reduced budgets, or even the threat of budget cuts, provides incentives for specialized interests to "circle the wagons" so that their favorite programs are not the ones facing reductions. Second, the publicity surrounding GAO's, OIG's and others' concerns about financial management integrity at the Forest Service, encourage interests to provide even closer oversight of the agency. Third, as the interest groups have become more numerous and more specialized, support for individual programs may have grown at the expense for support for the overall agency. The result has been a highly fragmented approach to budgeting which may have emphasized individual programs, and put the larger organization at risk.(Apple, 1998)

Actions now being undertaken to improve the situation

Recent oversight and critique of the Forest Service's budgeting and financial management systems have helped underscore the need for improvement. Agency leaders have made a top priority of solving a number of persistent problems inherent to the agency's organizational systems for financial management.(Forest Service, 1998) In so doing, the Forest Service is potentially laying the groundwork for rationalizing its broader organizational processes to better articulate its mission, establish strategic goals and tactical objectives, and assess progress over time relative to these milestones.

Interestingly, this proud career oriented agency, which has a long tradition of "promoting from within" (Tipple and Wellman, 1991) has looked outside the organization for help in this area. An experienced corporate CEO was recruited by the agency and given primary responsibility for restoring its financial credibility and accountability. Subsequently, one of the nation's largest accounting firms was retained to conduct a comprehensive review of the Forest Service's financial management policies and procedures, and provide recommendations for specific changes to bring

these systems up to par.

The accounting firm's leading recommendations included the establishment of a Chief Financial Officer, and simplifying the budget and accounting structures to generate more useful corporate information.(Coopers and Lybrand, 1998) The Forest Service acted promptly on these recommendations, announcing the creation of a Chief Financial Officer position as part of a larger agency reorganization intended to demonstrate the priority given to establishing and maintaining a system for sound financial management. Plans were also put in place to simplify the budget and accounting structures. A key challenge in making improvements in the Forest Service's systems will be the ability to effectively account for the geographic and programmatic decentralization of the organization, which has been one of its defining characteristics since its creation.(Kaufman, 1960)

Making financial reporting consistent in a highly decentralized organization

As observed by the USDA Inspector General, the current Forest Service financial accounting system contains as many as 100,000 different management codes, many of which were created locally at hundreds of locations across the country and are not used by any other unit. In effect, there are dozens of different charts of accounts in use within the Forest Service, making it virtually impossible to aggregate this information to the level of the agency as a whole. Further, management codes that are shared across the agency often are not interpreted nor used consistently by different units. This means that expenditures for a particular type of work activity reported under a given management code by one unit might represent a different kind of work activity on a different unit, yet be charged to a management code with the same title.

The decentralized management approach of the Forest Service which is a hallmark of its organization culture, has given local managers broad discretion not only for natural resource management decision making, but for decisions on financial management policies and procedures as well.

When improvements [in financial management procedures] are adopted by the agency's leadership, their implementation is often left to the discretion of regional offices and forests with uneven and mixed results. The Forest Service has consistently operated under the principle that its independent and autonomous regional offices and forests can determine how best to manage the lands and resources under their jurisdiction. As a result, the agency has given its field managers broad discretion in decision making. Although accountability should be the price that these managers pay for the freedom to make choices, the Forest Service has given them broad discretion in complying with financial and performance accountability requirements as well as in implementing efforts to operate more efficiently and effectively.(Hill, 1998)

A key objective in the creation of a Chief Financial Officer position is to maintain decentralized natural resource management decision making, but centralize decisions on financial management policies and procedures sufficiently to ensure uniform and consistent financial reporting across the entire agency. In following the recommendation to simplify the budget and accounting structures to generate more useful information, the Chief Financial Officer has indicated his belief that the Forest Service could thoroughly and accurately account for all of its activities with no more than 100 management codes.

One of the first tasks of the Chief Financial Officer will be to work with managers at various levels of the Forest Service to determine what cost information is most needed, and when, to facilitate more effective decision making. Once this much-reduced set of management codes is determined, changes in this and other financial management policies and procedures will be made through the Chief Financial Officer, not by local managers on individual units. Even though the resulting financial reports will be less detailed than in the past, it is expected that the major improvements in both their accuracy and their timeliness will make them a far more effective tool for both Forest Service senior managers and for Congress.

Parallel needs for restructuring the budget framework

The major hurdle after simplifying management codes for financial reporting will be adopting a simplified *budget* structure that reflects the integrated resource management approach that is consistent with current thinking on natural resource management and is consistent with contemporary interpretation of the Forest Service's statutory mandates. The political obstacles (both internal and external to the agency) to doing so are as present now as ever, but broader changes taking place in the way the Forest Service establishes its management goals and measures performance may pave the way to overcoming these barriers. Additionally, the painful scrutiny and publicity the Forest Service has received on these matters recently may have helped open the window of opportunity for reform.

The Forest Service will have to address the credibility and accountability questions by finding a way to demonstrate performance and report expenditures on some basis other than dollars spent on individual programs. These measures will have to provide at least the same level of confidence given in the past by detailed "tracking dollars" and reporting completion of resource output targets. Many of the Forest Service's key political constituent groups continue to resist any effort at budget restructuring and system simplification. Some have threatened to revoke their political support for the Forest Service if the agency goes forward with any kind of budget consolidation, because they feel they will no longer have adequate assurance that their support will translate to sufficient spending on their programs of interest. If the Forest Service is successful in shifting the focus of land management and performance measurement to on-the-ground results, it will challenge constituent groups to redefine their own goals. These interest groups will be forced to publicly acknowledge, for example, whether they are truly interested in improved water quality and aquatic habitat, or merely in increasing the number of fisheries biologists and dollars allocated to the fisheries program. Can these interests be as flexible as the Forest Service in shifting attention to actual results, rather than budget inputs or individual program outputs? Clearly this is a lot to ask in budgeting, a public administration management process that is known for incrementalism. (Wildavsky, 1964, 1998)

Unfortunately for the Forest Service, the existing inadequacies of their systems and their past performance problems do not seem to generate enough confidence on the part of key outside stakeholders, such as Congress, to provide the agency enough additional maneuvering room to fix their problems. As observed in the Coopers & Lybrand analysis, "the difficulty in seeking simplification is that information reported by the Forest Service lacks credibility almost universally."(Coopers and Lybrand, 1998) In recent testimony, GAO summarized their own experience with the Forest Service:

"Over the years, we, Agriculture's Inspector General, and internal Forest Service task forces have made numerous recommendations to improve the Forest Service's financial and operational performance . . . However, the agency has not acted on some recommended improvements and has studied and restudied others without establishing a clear sequence or schedule for reaching closure. . . In 1987, the Forest Service proposed a *quid pro quo* to the Congress. If the Congress would increase the agency's flexibility in fiscal decision making, the Forest Service would improve its accountability in budget execution through better accounting for its expenditures and performance. During the intervening decade, the Congress has given the Forest Service virtually all of the flexibility in fiscal decision making that it requested. . . . However, the Forest Service has not improved its accountability as it promised, and beginning in fiscal year 1998, the Congress began to reduce the agency's latitude . . ." (Emphasis added)(Hill, 1998)

Thus what the Agency seems to need most, flexibility to address its problems, appears to be in short supply. However, despite concerns noted above, key stakeholders are beginning to give the agency credit for getting serious about these matters and appear to be taking a wait and see approach. From their perspectives, appointing a chief financial officer and engaging a major accounting firm are seen as positive first steps.

Buying time to restore credibility

Engaging the key stakeholders and successfully addressing the politics of the Forest Service budgetary process remain central to improved financial and performance accountability. Neither outcome-based planning objectives, nor simplified management codes for financial reporting by themselves can be effective in addressing this challenge without being linked together by a simplified budget structure more closely oriented to the Forest Service's integrated resource management mission. Despite skepticism on the part of key stakeholders, the sense of urgency to improve the Agency's financial accountability may buy the Forest Service an additional measure of time and flexibility, but probably not much. The steps taken during the past year highlighted above have proven helpful in keeping the critics at bay. GAO has testified that:

"By clarifying its central mission and funding priority, the Forest Service has taken a significant first step toward establishing accountability for its performance. However, before the agency can be held accountable for its performance, other components of its planning, budgeting, and reporting processes and systems must be aligned with its strategic goals and objectives. Currently, there is no clear link between the Forest Service's ecosystem-based goals and objectives and its budget line items, funding allocation criteria, and performance measures."(Hill, 1998)

The Coopers & Lybrand review of factors influencing the Forest Service's financial and performance accountability noted that the unsuitability of the current budget structure is well recognized by other key institutions that play a part in determining the Forest Service's budget structure. Both OMB and Congressional appropriations committees/subcommittees are aware of the challenge associated with the budget structure. In particular they pointed out the disconnect between the stovepipe, functional nature of the budget structure and the integrated reality of budget execution, and on the ground resource management.

GAO's analysis clearly recognizes that, as long as the Forest Service's budget structure remains highly fragmented along the lines of individual program functions, it works against an

integrated approach to natural resource management, realistic budget execution, and against reliable financial reporting. Having a budget structure far removed from the realities of organizational operations inhibits the contribution budgeting can play in effectively managing complex organizations. In the words of GAO,

. . . an analysis linking the strategic objectives of the agency with its budget structure for fiscal year 1999 identified at least 23 funding sources that could be used to restore or protect a forested ecosystem, indicating that consolidation for strategic planning, efficiency, and accountability purposes has not been accomplished . . . 12 of the 23 potential funding sources for forested ecosystems--including those for forest health, forest stewardship, wildlife habitat management, timber sales management, timber salvage sales, and wildland fire preparedness and operations--also fund one or more other objectives, making it difficult to determine the effects of different funding levels on forest health-related outputs and outcomes."(General Accounting Office, 1998).

The Coopers & Lybrand analysis concludes that "what is required is a fundamental redrawing of the entire budget and accounting structures; such a redrawing will provide key financial information that can help the Forest Service at the strategic level to decide on alternative resource investments, and can help the Forest Service at the local level to make tactical decisions on how to manage projects."

Yet, as has been described, key stakeholders are not likely to give the Forest Service free reign to completely overhaul their budgeting process. When coupled with the natural forces which resist change in budgeting, the challenge is formidable.

Searching for a Solution: Exploring the Possibility of a Place Based Budget Structure

As a rule, identifying problems in public policy and administration, is often easier than developing solutions. The case of the Forest Service budget and financial management systems is no exception

to this rule. One approach to thinking about solutions in this area involves shifting toward an orientation that explicitly recognizes the multitude of geographic locations represented in the Forest Service organization. This proposal of "place-based budgeting," would be structured around geographic administrative units rather than programs functions.

Overcoming Initial Concerns

Structuring the Forest Service budget primarily along geographical lines has not received detailed consideration in the past, for several reasons. First, a budgeting framework based on geographic areas would appear to play to Congress' weakness for playing "pork barrel politics," generously funding those areas with representation on the appropriations committees and underfunding others. Yet, closer analysis reveals that the current system of congressional "earmarks" that direct specific appropriations to specific locations, plays the same role in the current system.

Second, it has appeared to some members of Congress and other stakeholders to provide less control, and ability to direct funding to specific programs that they feel most benefit their constituents. As the investigations by the Inspector General and GAO have shown, however, the highly detailed structure of "extended budget line items" and innumerable, "nearly unauditable" management codes for financial reporting give little more than an illusion of control. Because of the inaccuracies this approach engendered in the Forest Service's financial accounting, the Inspector General found only "a limited correlation between the Forest Service's accounting numbers . . . and the events those numbers are to represent." (Viadero, 1998) Though tremendously detailed, the information is of little value to Congress for the purposes of either direction or oversight. Thus, control may actually be increased for external stakeholders, if the new system provides more accurate information.

Finally, there is uniform agreement among the recent investigations by the Inspector General, GAO, and the independent study by Coopers & Lybrand that a major simplification of this complex, fallible budget and accounting structure is essential before the Forest Service's financial

accountability can be significantly improved. Thus perhaps the bottom line is that Congressional oversight capability--or "control"--will be substantially *increased* by giving up the current detailed, fragmented budget structure in favor of one that is greatly simplified, and geographically oriented.

Other Benefits of Place Based Budgeting

In addition to being able to respond to charges of being corrupted by pork barrel politics and contributing to a decline of public oversight, the case for place based budgeting in the Forest Service is bolstered by a number of other arguments.

It Is Consistent with the Decentralized Nature of the Agency and Will Emphasize Line Management Accountability

Place based budgeting would emphasize the work being done at particular work units, much in keeping with the Agency's history of emphasizing "work on the ground." Since it's inception, the Forest Service has proudly represented itself as a highly decentralized agency, where maximum organizational resources are focused at the lowest organizational levels. The reality of the existing budgeting system demonstrates more of an emphasis on functional programs, and program managers (who often work in Regional Offices and the National Headquarters) than on line offices such as District Rangers or Forest Supervisors. Thus the proposed placed based budgeting system would play to the agency's strength of decentralization, while at the same time increase accountability.

It will Facilitate Consistency Across the Organization

A place-based budget structure, with budget line items representing individual national forests, could bring about an immediate significant consistency in financial reporting. And it could be used to simplify and accelerate the GPRA-mandated process of setting strategic goals and demonstrating agency performance on the basis of desired outcomes. Both fiscal and performance accountability could be substantially increased.

Determining how to allocate the costs of an integrated resource management project among dozens of different management codes entails far more subjectivity than determining whether or not an expenditure took place on a given national forest. Whereas a typical integrated resource management project must now draw funds from several program-based budget line items, and subsequently be charged to several different management codes, there are few situations in which management activities must be funded by and charged to more than one national forest.

It Is Consistent With the Leading Thinking on Natural Resource Management

Finally, place based budgeting is better suited to play an administrative support role to integrated natural resource management, the fundamental work of the Forest Service. There has been a steady and consistent movement in the direction of natural resource managers taking a more holistic approach toward their work. They are being asked to look at natural resources from a larger scale--a complete watershed rather than a tract of land, and the overall health of the forest instead of it's available timber. Place based budgeting will facilitate this shift in thinking and provide the managers with the type of budget and financial information necessary to plan, conduct and report on integrated resource management work. No longer will they have to do tortured calculations in translating a highly fractured program budget into an integrated program of work.

Better Aligns Responsibility and De Facto Authority To Improve Personal Accountability of Line Officers

Adopting geographic units as the primary basis for budgeting and fiscal control immediately shifts the focus for performance accountability to the overall management of the geographic units or areas, which is consistent with GPRA's mandate to focus on mission goals and results. It also gives Forest Service accountability a human face--the "line managers" who comprise the management cadre of the organization and often represent the organization externally.

Such a shift will also help rectify the current situations of asking line managers to be accountable for areas over which they have no authority. A manager should not be held accountable for activities over which he or she has no authority. Some aspects of the way the Forest Service as an organization has developed over time have tended to undermine the authority of the line officers, and thus to limit the extent to which they should be--or even can be--held accountable.

Finally, patterning budgetary and fiscal control along the lines of geographic administrative units could also make these key organizational management processes consistent with the way the Forest Service is publicly portrayed to operate. In the decentralized organizational structure of the Forest Service, line managers are described as having broad decision-making discretion in the management of all lands and resources within the borders of their administrative units. Within one of these geographic administrative units, the line manager has responsibility for all programs and activities, and all program staff within the unit are responsible directly to that line manager.

Under the current program-based budget structure, however, the formally recognized organizational structure of the Forest Service is overlaid by an unwritten or "shadow" organizational structure that can create conflicts in authority and undermine accountability. Over a period of years, the directors for individual resource programs in the Forest Service's national headquarters have accumulated significant *de facto* power over both budget development and allocation within their program, right down to the field level.(Sample, 1990) Directors for individual resource programs at each level of the organization exercise significant control over the program funding for every unit at the next lower level. The program directors thus wield enormous *de facto* power within the organization, and in some instances command greater loyalty from lower-level program staff than the line officers to whom the program staff nominally report. The short tenure of line officers relative to that of program directors further contributes to how program staff place their loyalties.

Periodically, efforts have been made to discourage this shadow "stovepipe" organizational structure and reassert the authority of the line officers for all programs and activities within their

geographic unit. But the continued reliance on a program-based budget structure creates incentives that strongly reinforce this behavior. Without a fundamental shift away from a program-based budget structure, the Forest Service will probably always exhibit this tendency toward the shadow organizational structure that leads to conflicts in authority and undermines both personal and organizational accountability. If under a place-based budget structure these conflicts in authority thus can be resolved, Forest Service line managers can more readily embrace their responsibility for financial management and performance on the units they direct, and thus improve the accountability of the organization overall.

It Facilitates Incorporating Financial and Performance Accountability into the Performance Review System

A high-level internal task force instituted by the Forest Service has already completed a set of specific recommendations for mechanisms by which line officers and their superiors can agree on mutual performance expectations for the coming year, and then return to this list during the subsequent annual evaluation.(US Forest Service Accountability Task Force Report,) These "performance agreements" can serve as the basis for establishing specific expectations for improved business management skills that will be critical to improving financial accountability, as well as expectations regarding integrated natural resource management.

These performance agreements would also facilitate a periodic comprehensive review of all aspects of a unit's operations by a broader team of individuals drawn from other parts of the Forest Service. These comprehensive examinations, known as General Management Reviews, were widely used in the Forest Service up through the 1960s. They were credited, in part, with establishing and maintaining a level of performance and integrity at the Forest Service that was unmatched among federal government agencies.(Kaufman, 1960)

Using geographic units as the primary basis for budgeting and fiscal control, these performance agreements and General Management Reviews will have to reflect that the focus for performance

accountability has shifted to the overall management of a national forest, not budget inputs or individual resource program outputs. In GPRA terms, performance measurement should concentrate on the extent to which the results of management on each national forest has advanced the agency's mission and strategic goals. Place based budgeting would facilitate such an evaluative approach.

Driven in part by the statutory requirements of GPRA, and in part by resource use trends and changing social values and priorities relating to forest management, the Forest Service has articulated a set of strategic goals "shifting its emphasis from consumption to conservation and from managing individual resources to managing natural systems." (Dombeck, 1997) Simultaneously, GPRA and other government reform efforts challenge agencies to reconceptualize its mission broadly in terms of what it does for the American people. GPRA challenges an agency to focus on policy outcomes to determine performance, rather than indirect measures such as inputs of budget dollars, or numerical unit outputs of an individual program in isolation from other programs with which it is supposed to be integrated. (Osborne and Gaebler, 1992)

The Forest Service has responded to this challenge by redefining its strategic goals as:

- Maintaining and restoring healthy aquatic, forest, and rangeland ecosystems;
- Maintaining and restoring healthy riparian areas;
- Providing for environmentally responsible uses of national forests and grasslands and improving their capacity to respond to increasing recreation demands;
- Promoting public/private partnerships to maintain productive, healthy, and diverse ecological systems. (Dombeck, 1998)

Long-term objectives aimed at achieving these strategic goals are to be articulated as "results, not efforts or activities." (Forest Service, 1998) To ensure that achieving these objectives doesn't become just another paper exercise, Forest Service leaders have made this a key element in its internal system for reward and advancement in the organization, particularly for line officers in charge of the national forests.

As the Chief of the Forest Service said, "Our first priority is to the land and the people who use and care for it; and our responsibility is to deliver. Every Forest Supervisor in the nation will have new, clearly-defined performance measures in key areas such as:

- riparian condition and forest health;
- water quality;
- watershed health and soil stability;
- rangeland health;
- management of fire dependent landscapes; and
- endangered species habitat protection.

Within the goals of the Government Performance and Results Act, we will include performance measures and standards for Forest Supervisors that relate to maintaining healthy ecological systems.(Dombeck, 1997) Therefore the combination of placed based budgeting with the above strategic guidance provides the perfect opportunity for increased organizational and individual accountability.

It Encourages Involving Local Communities in Establishing Objectives and Assessing Performance

Given the Forest Service's deep-seated credibility problem, and the extent to which the agency proposes to have its performance assessed in terms of on-the-ground improvements in environmental quality and resource productivity, it may help to invite greater involvement by local communities in the establishment of each national forest's management objectives and standards, and in evaluating performance. Placed based budgeting not only provides opportunities for improved efficiencies, but also for increased public responsiveness.

The periodic development of land and resource management plans under the requirements of the National Forest Management Act offers an important opportunity to engage local communities

and other outside stakeholders in the development of management standards and site-specific objectives consistent with the Forest Service's overarching strategic goals. Just as important is finding some way to engage these same parties in annual evaluations of a national forest's progress relative to the prior established standards and objectives. With ongoing reductions in agency staffing, particularly in field offices, local citizens are often more familiar than Forest Service officials of changes in water quality, road and trail conditions, insect and disease outbreaks, or wildlife and fish populations on the national forests. Such information can be highly valuable to Forest Service officials in prioritizing investments to make maximum progress toward environmental quality and resource productivity goals at least cost.

The independent evaluations of local citizens and other outside stakeholders, particularly through an organized entity such as an informal advisory committee or participation on a General Management Review, can be a valuable source of information to both the Forest Service and Congress. It can also play a critical role in reinforcing the efficacy of relying on on-the-ground progress in environmental quality and resource productivity as the primary determinants of performance accountability.

Summary and conclusions

Recent investigations by the USDA Inspector General and the U.S. General Accounting Office have revealed problems with the Forest Service's financial management significant enough that Congress is now questioning the agency's fundamental public accountability. The urgency of dealing with these financial accountability issues has led the Forest Service to finally address a number of persistent problems that have prevented the basic organizational processes of planning, budgeting, and accomplishment reporting from working together to advance the agency's mission and strategic goals. Resolving these larger issues is prerequisite to the Forest Service's being able to effectively address its near-term mandate to improve its financial accountability.

The Forest Service has taken major steps forward in clarifying its mission and establishing

strategic goals explicitly linked to accomplishing that mission. The agency has also made important progress in simplifying a maze of inconsistently applied financial reporting codes that made it virtually impossible for field managers to accurately report the costs associated with integrated natural resource management activities, and faithfully execute their budgets.

The Forest Service has not yet addressed serious issues regarding its budget structure, which in its present form could negate the efforts to date to improve the agency's fiscal and performance accountability. Useful options exist for rectifying the current budget structure such that it will reinforce the changes being made in strategic goal-setting and financial management, and will support the integrated resource management mission of the Forest Service.

However, program-specific interests within the agency's constituent groups, the Congress, and even within the Forest Service itself have strongly resisted all attempts at budget restructuring that would result in relinquishing any detail in what has now become a highly fragmented, program-based budget that can no longer effectively link with processes for program planning and financial reporting. The Forest Service is faced with a dilemma between doing what is best in terms of organizational management but losing the support of key political constituents, or acceding to the demands of constituent groups and continuing with a system incapable of providing the level of fiscal and performance accountability demanded by Congress and the general public. Either way, the organization's survival is potentially in jeopardy.

Persuasive leadership will be needed in the Forest Service to convince both constituent groups and Congressional critics that the ongoing changes in planning, budgeting, and reporting--including a major simplification of the budget structure and its reconciliation with other key organizational management processes--will in fact result in greater public accountability and improved natural resource management.

Shifting to a place-based budget structure may offer important potential benefits in terms of (1) increased financial/ performance accountability and budget execution, and (2) finally reconciling

on a common basis the Forest Service's major organizational processes for planning, budgeting, and accomplishment reporting. Previous attempts at budget restructuring have focused on consolidating the number of extended budget line items, but have retained a structure still based on program functions.(Sample, 1990) These half-measures at budget reform have succeeded in little more than stimulating the competitive and protective instincts of narrow single-program interests among constituent groups, in Congress, and even within the Forest Service itself. Pitched battles have been fought over proposals to eliminate even sub-subdivisions of budget line items.

The real issue, which these efforts have yet to seriously address is how to integrate budgeting at the much higher and strategic level representing major programs functions. Until there is a budget structure that integrates across these program functions, field managers will still be in the position of having to arbitrarily draw upon several budget line items to accomplish a single integrated natural resource management project, and then arbitrarily divide the costs of that project among several corresponding management codes to produce financial reports. The challenge continues.

NOTES

Each of the Forest Service's major divisions (Research, National Forest System, and State/Private Forestry) are administered in tiers of geographically-defined units. For example, the National Forest System is divided into 9 regions, 126 national forest units and 620 ranger districts.

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PINCHOT INSTITUTE FOR CONSERVATION

About the Pinchot Institute

The Pinchot Institute for Conservation is an independent, non-profit organization dedicated to leadership in conservation thought, policy, and action. The Pinchot Institute was dedicated in 1963 by President John F. Kennedy at Grey Towers National Historic Landmark in Milford, Pennsylvania, historic home of conservation leader Gifford Pinchot, to facilitate communication and closer cooperation among resource managers, scientists, policymakers, and the American public. The Institute continues Pinchot's legacy of conservation leadership as a center for policy development in support of sustainable forest management.

Programs and activities

- **Policy research and analysis.** The Pinchot Institute serves as a bridge between the scientific and policymaking communities in forest resource management. The Institute provides independent policy research and timely, objective analysis targeted to the current information needs of policymakers and resource managers.
- **Convening and facilitation.** The Institute serves as a convenor and facilitator, fostering collaborative approaches to resolving key issues in forest policy. The Institute brings together leaders in forest management, research, and education from federal and state agencies, universities, industry, and conservation organizations to address new challenges and discover new solutions for advancing sustainable forest management.
- **Leadership development.** Through its program on leadership in natural resource conservation, the Institute conducts research and provides training for resource management professionals and community leaders in participatory decision making and conservation leadership.

Current programs

Institutional and policy changes to implement sustainable forest management. Much of the effort to date in sustainable forestry has focused on policy development, with far less attention devoted to the mechanisms by which these policies will be implemented, or potentially thwarted. Policies for integrated approaches to resource management will make little difference on the ground until the appropriate organizational structures and administrative processes are developed. These include the development of processes for conservation-oriented strategic goal setting and performance measurement, and integrated resource management planning, budgeting and fiscal accountability. These considerations are complex and intensely politicized, and the Pinchot Institute can play a critical, constructive role through both independent analysis and facilitation.

Forest stewardship and sustainable rural development. The restoration and maintenance of forest ecosystems for multiple objectives requires a variety of continuing land treatments that can be the basis of stable employment and income in rural communities. There is a need for policies aimed specifically at facilitating the development of local capacity to carry out such land treatments through the kind of small entrepreneurial firms that characterize rural communities. The Pinchot Institute is working with policymakers, federal and state land management agencies and with a network of community-based rural development practitioners to identify and address key policy issues such as contracting, bonding requirements, capital financing, and training in the development of specific strategies to advance both forest stewardship and sustainable rural development.

Developing collaborative models of conservation leadership. The Pinchot Institute is committed to the development of effective natural resource conservation leadership among both beginning and mid-career professionals, in public agencies, private organizations, and conservation NGOs. The Pinchot Institute offers leadership workshops and executive development seminars in participatory decision models that are beginning to redefine the relationship between land management agencies and the communities they serve. The Institute's leadership development program is integrated with the training and conservation fellowship programs held at Grey Towers National Historic Landmark, primarily for mid-level managers in federal natural resource management agencies.

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