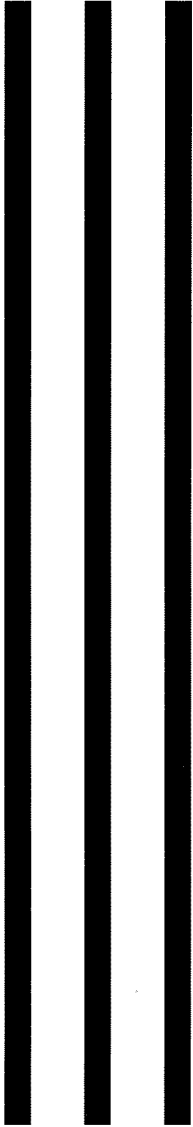


USDA



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

FOREST SERVICE
FINANCIAL STATEMENT AUDIT
FOR FISCAL YEAR 2002



**Audit Report No.
08401-1-FM
January 2003**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL



Washington, D.C. 20250

DATE: 1/9/03

REPLY TO

ATTN OF: 08401-1-FM

SUBJECT: Audit of Fiscal Year 2002 Forest Service Financial Statements

TO: Dale Bosworth
Chief
Forest Service

ATTN: Mary Sally Matiella
Chief Financial Officer
Forest Service

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

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

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

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

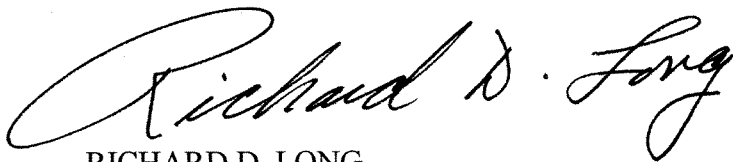
- payroll processing; and
- yearend accruals.

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

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

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

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



RICHARD D. LONG
Assistant Inspector General
for Audit

**UNITED STATES DEPARTMENT OF AGRICULTURE
FOREST SERVICE**

September 30, 2002

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INDEPENDENT AUDITORS' REPORT



2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

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

SUMMARY

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

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

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

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





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

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

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

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

OPINION ON THE FINANCIAL STATEMENTS

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

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

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

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our



attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the USDA Forest Service's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

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

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

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

INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

RESPONSIBILITIES

Management's Responsibilities

Management is responsible for:

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

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



Auditors' Responsibilities

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

An audit includes:

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

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

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

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

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

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

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



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

DISTRIBUTION

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

KPMG LLP

December 16, 2002

MATERIAL WEAKNESSES

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

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

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

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

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

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

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

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

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

In order to bring FS' fund balance with Treasury general ledger account balance into agreement with Treasury's fund balance with Treasury balance at September 30, 2002, FS conducted an

analysis of differences recorded on the 6653/6655 reports by Treasury symbols and recorded an adjustment of \$107 million in its general ledger.

Recommendation No. 1:

We recommend that the FS:

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

The FMS 6652 Reconciliation Process Needs to be Refined

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

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

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

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

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

Recommendation No 2:

We recommend that the FS:

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

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

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

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

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

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

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

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

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

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

Recommendation No. 3:

We recommend that the FS:

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

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

Transaction Costs And Other Information Were Not Recorded Accurately

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

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

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

In the real property sample of 600 transactions we found:

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

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

Recommendation No. 4:

We recommend that the FS:

- A. Train its personnel on accurate transaction recording.
- B. Require supervisory review of data input of property transactions.

C. Monitor compliance through a formalized quality assurance process.

Labor Costs Were Improperly Capitalized

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

Other Costs were Improperly Capitalized

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

Recommendation No. 5:

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

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

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

Recommendation No. 6:

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

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

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

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

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

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

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

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

Recommendation No. 7:

We recommend the FS:

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

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

Paycheck Automated Controls Need Improvement

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

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

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

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

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

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

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

Recommendation No. 8:

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

Manual Controls Over the Payroll Process Need Improvement

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

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

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

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

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

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

Recommendation No. 9:

We recommend that the FS:

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

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

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

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

Exhibit I

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

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

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

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

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

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

REPORTABLE CONDITIONS

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

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

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

Recommendation No. 10:

We recommend that the FS:

- A. Develop a methodology to link related transactions that are currently in the financial systems. Additionally, FS should incorporate edit checks to disallow processing of transactions that do not provide the required data.
- B. Establish direction and quality assurance protocols to ensure that appropriate data be entered in the system.

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

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

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

Recommendation No. 11:

We recommend that the FS:

- A. Periodically reconcile, at the FS level, earned revenue, deposit and unearned revenue recorded in the ATSA system with that recorded in FFIS.
- B. Periodically reconcile advances from others and accounts receivable recorded in the PCAS and general ledger modules of FFIS.

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

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

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

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

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

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

Exhibit II

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

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

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

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

Recommendation No. 12:

We recommend that the FS:

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

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

Internal Controls Need Improvement at Field Office Locations

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

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

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

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

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

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

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

Recommendation No. 13:

We recommend that the FS:

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

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

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

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

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

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

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

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

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

Recommendation No. 14:

We recommend that the FS:

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

Recommendation No. 15:

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

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

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

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

Lack Of Signatures and or Dates on Inventory Records

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

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

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

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

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

Recommendation No. 16:

We recommend that the FS:

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

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

Internal Controls Need Improvement at Field Office Locations

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

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

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

Exhibit II

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

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

Recommendation No 17:

We recommend that the FS:

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

Improvements Need to be Made to FS' Procurement Process

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

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

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

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

Exhibit II

examination. In addition, according to Federal Appropriation Law (*subsection of (a) of 31 U.S.C. 1501*) "an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of ..."

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

Recommendation No. 18:

We recommend that the FS:

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

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

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

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

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

NON-COMPLIANCE WITH FFMIA

FS Systems are Not Compliant with Federal Financial System Requirements

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

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

Recommendation No. 1:

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

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

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

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

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

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

Recommendation No. 2:

We recommend that the FS:

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

CONSOLIDATED FINANCIAL STATEMENTS

MISSION AND ORGANIZATIONAL STRUCTURE

Mission Statement

“The mission of the USDA Forest Service is to sustain the health, diversity, and productivity of the Nation’s forests and grasslands to meet the needs of present and future generations.”

The U.S. Department of Agriculture (USDA) Forest Service commitment to land stewardship and public service is the framework within which natural resources are managed. Implicit in this statement is the agency’s collaboration with public, private, and nonprofit partners.

As one of the principle Federal agencies in natural resource management, the USDA Forest Service provides leadership in the protection, management, and use of the Nation’s forest, rangeland, and aquatic ecosystems. The USDA Forest Service management approach integrates ecological, economic, and social factors to maintain and enhance the quality of the environment to meet current and future needs. Through implementation of land and resource management plans, the agency provides for the health, productivity, and diversity of the natural resources on our national forests. Outcomes include quality outdoor recreation opportunities, healthy watersheds that provide clean water, abundant wildlife and fish, improved rangeland conditions, timber, and mineral resources for current and future generations.

The USDA Forest Service is a world leader in forestry and natural resource research. By conducting and sponsoring basic and applied scientific research, the agency leads the way in increasing the basic biological and physical knowledge and understanding of the composition, structure, and function of forest, rangeland, and aquatic ecosystems, as well as increasing the efficient use of natural resource products.

Through technical and financial assistance, the USDA Forest Service supports all 50 States and private landowners in practicing good stewardship, promoting rural economic development, and improving the natural environment of cities and communities. The USDA Forest Service strives to develop and use the best available scientific information to meet agency goals and objectives. Domestic and international activities are directed at developing values, products, and services in such a way as to maintain ecosystem health.

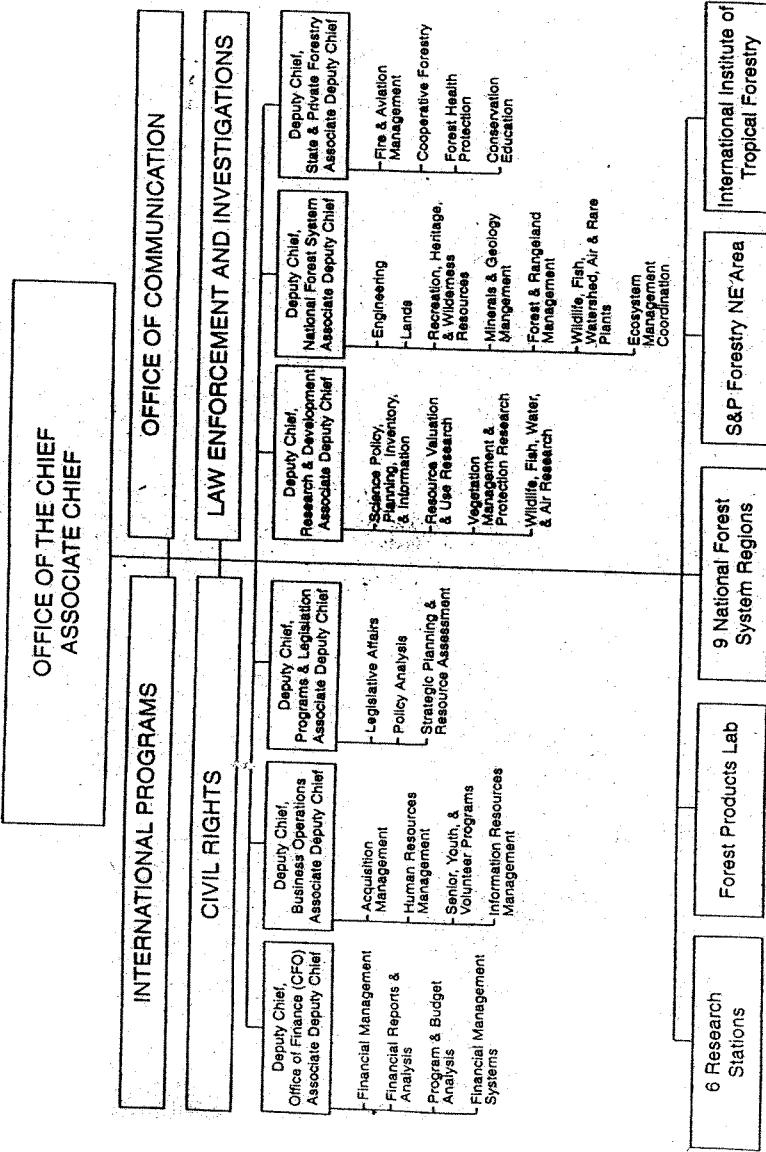
Organizational Structure

The Chief of the USDA Forest Service and the Associate Chief provide leadership at the national level from the headquarters office, located in Washington, D.C. National-level policy and direction is formulated and provided to the field offices in response to Administration priorities, congressional direction, and other national issues. Six deputy chiefs, nine regional foresters, six research station directors, one area director, and the directors of the Forest Products Laboratory and International Institute of Tropical Forestry report directly to the Chief.

The mission of the agency is accomplished in many ways through several different but cohesive organizational structures. In the National Forest System, regional offices link the Washington Office to individual national forests and grasslands, managed by forest supervisors. These units are subdivided into ranger districts that are managed by district rangers who report to the forest supervisor. Research and development is performed through a network of research stations and work units throughout the country, as well as the Forest Products Laboratory in Madison, WI and the International Institute of Tropical Forestry in Puerto Rico. The State and Private Forestry deputy area coordinates through regional offices and the Northeastern Area office to provide assistance to State and local governments, forest industries, private landowners, and forest users in the management and protection of non-Federal forest land. Through International Programs, the agency works with other Federal agencies, nonprofit development organizations, wildlife organizations, universities, and international assistance organizations to link people and communities striving to protect and manage forests throughout the world.

The current organizational structure is shown on page 3. A proposed reorganization, currently in the Department of Agriculture for review, is shown on the chart on page 4.

USDA Forest Service Organizational Structure

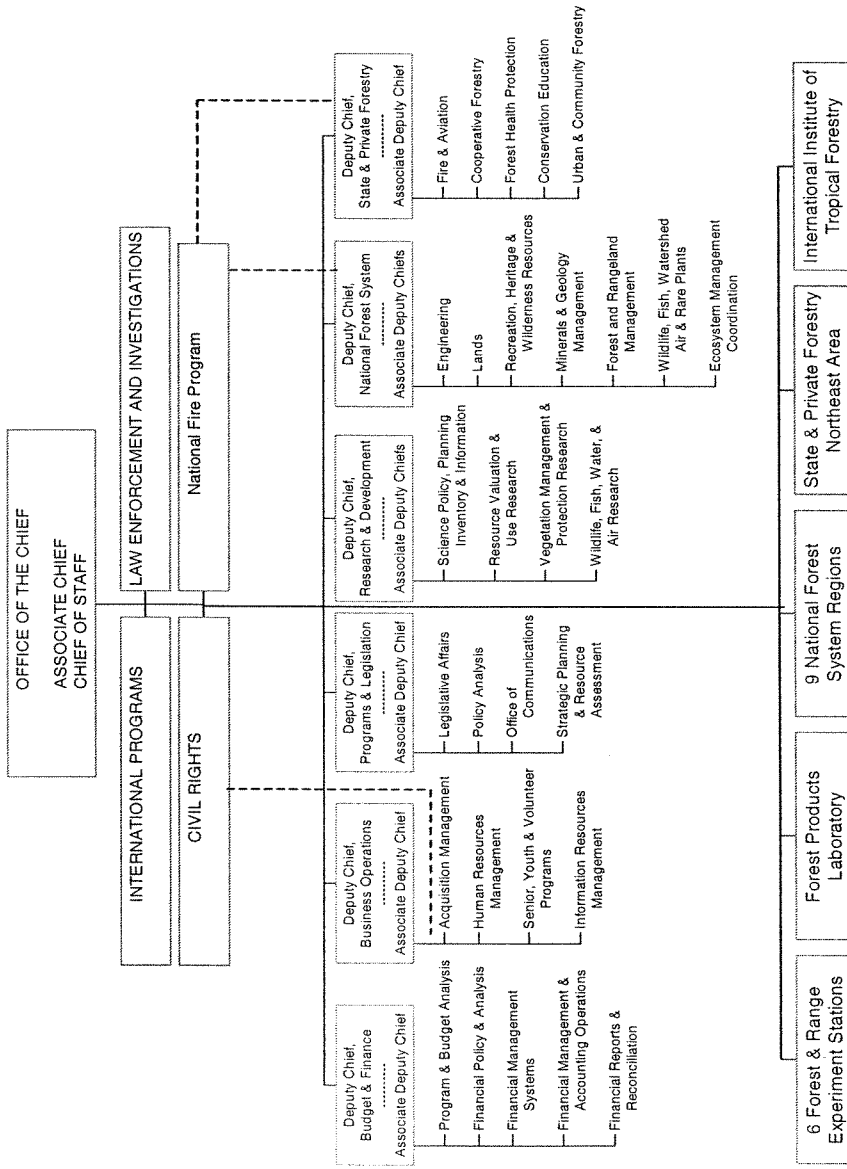


As of May 2001
 Supercedes Chart Dated: June 16, 1997
 Prepared by: Human Resources Management Staff, Washington Office

The agency manages the 192 million acre National Forest System for many purposes; administers a comprehensive research program; provides for cooperative forestry assistance to States, communities, and private forest landowners in the United States; and conducts international forestry activities in cooperation with other countries.

U.S. Department of Agriculture
FOREST SERVICE

Proposed 2002



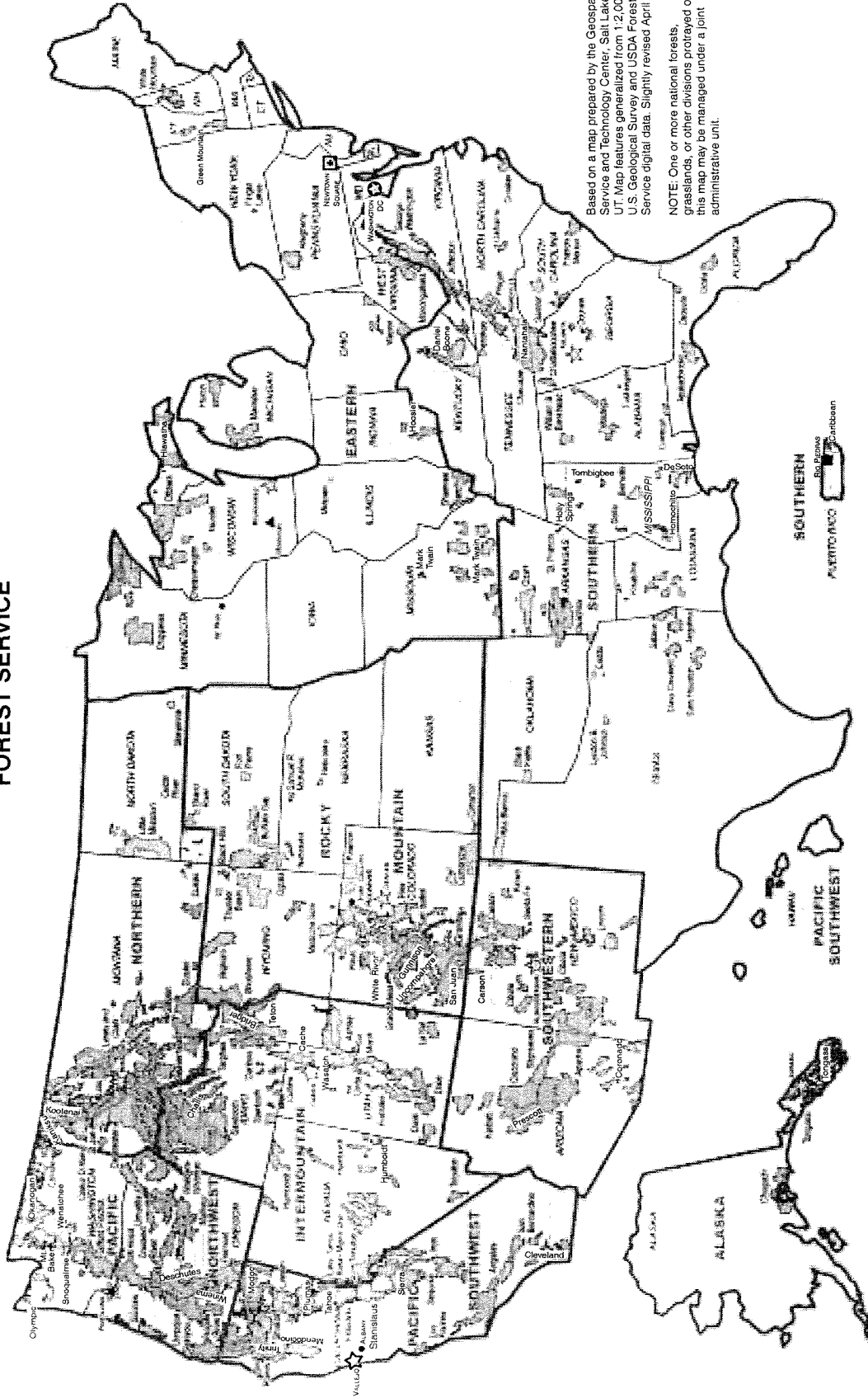
- - - Deputy Area responsible for administrative oversight

Prepared by: Human Resources Management Staff, Washington Office
June 2002

Land Management

The USDA Forest Service is a large, geographically dispersed organization. The National Forest System is comprised of 155 national forests, 20 national grasslands, 5 national monuments, the National Tallgrass Prairie, and 6 land utilization projects. These units are located in 44 States, Puerto Rico, and the Virgin Islands, and encompass over 192 million acres. The USDA Forest Service regional boundaries and administrative units are shown on the map on the following page.

U.S. Department of Agriculture FOREST SERVICE



Based on a map prepared by the Geospatial Service and Technology Center, Salt Lake City, UT. Map features generalized from 1:2,000,000 U.S. Geological Survey and USDA Forest Service digital data. Slightly revised April 2002.

NOTE: One or more national forests, grasslands, or other divisions portrayed on this map may be managed under a joint administrative unit.

- ⊕ National Headquarters
- ☆ Regional Headquarters
- Research Station Headquarters
- ▲ National Products Laboratory
- State and Private University Animal Headquarters (For all States show symbols are obtained from Regional Headquarters)
- National Forests
- National Conservation
- National Institute of Tropical Forestry
- Regional Boundaries

OVERVIEW OF MAJOR PROGRAMS

National Forests and Grasslands

The National Forest System (NFS) is managed under the principles articulated in the National Forest Management Act. The natural resources contained within the NFS are managed to meet the needs of the Nation in a sustainable manner. The National Forest System encompasses approximately 192 million acres of aquatic and terrestrial ecosystems including tropical and boreal forests, grasslands, and important wetlands. Administration of NFS lands uses a multiple-use land management approach that sustains healthy ecosystems, repairs damaged ecosystems, and addresses the need for resources and commodities. NFS provides support to National Fire Plan implementation through its burned area emergency rehabilitation (BAER) program, as well as other restoration and rehabilitation programs. NFS operations provide an array of multiple uses, including, but not limited to, the following:

- Administering and managing recreation, wilderness, and heritage areas;
- Restoring, recovering, conserving, and enhancing fish and wildlife and their habitats;
- Sustainably managing forest, rangeland, minerals, and water resources;
- Conducting resource inventories and assessments of NFS lands; and
- Providing a safe environment for the public and for USDA Forest Service employees.

Forest and Rangeland Research

The Research & Development division (R&D) of the USDA Forest Service is one of the world's leaders in forest conservation research. R&D serves society by developing and communicating the scientific information and innovative technology required to manage, protect, use, and sustain our nation's forests. Results produced by division scientists contribute to the stewardship of land, real property, and society by providing more affordable housing, creating jobs, and improving the health of trees, forests and forest ecosystems. Innovative research applications permit the USDA Forest Service and other public and private land managers to monitor and manage forest responses to environmental change, contributing immeasurably to the sustainability of the nation's forests and rangelands and improving human health. The R&D division also provides support for implementation of the National Fire Plan.

R&D operates six research stations, the Forest Products Laboratory, and the International Institute of Tropical Forestry in Puerto Rico. It employs over 500 scientists and hundreds of technical and support personnel at 65 principle field sites throughout the nation.

The R&D program is focused on the following seven functional areas to meet the needs of society:

- Enhancing the productive capacity of forests and rangelands;
- Improving forest and rangeland health;
- Preserving forest and rangeland contributions to carbon cycles;

- Conserving soil, water, and air resources;
- Enhancing long-term multiple socioeconomic benefits;
- Protecting biodiversity; and
- Monitoring forest inventory and health.

State and Private Forestry

State and Private Forestry (S&PF), a division of the USDA Forest Service, is a Federal leader in providing technical and financial assistance to landowners and resource managers to help sustain the Nation's urban and rural forests and protect communities and the environment from wildland fires. S&PF programs help bring forestry to all landowners—woodlot, tribal, State, and Federal—in efficient, non-regulatory ways. Through management, protection, conservation education, and resource use efforts, S&PF helps facilitate sound stewardship across lands of all ownerships on a landscape scale, while maintaining the flexibility for individual forest landowners to pursue their objectives. S&PF plays a key role, along with the National Forest System, Forest and Rangeland Research, and the U.S. Department of the Interior in implementing the National Fire Plan to manage the impacts of wildland fires on communities and the environment. S&PF operations provide for the following activities:

- Maintaining healthy and productive forest ecosystems by preventing, detecting, and suppressing damaging insects and disease;
- Providing technical and financial assistance to States and local fire agencies to promote efficient wildland fire protection on Federal, State, and private lands;
- Maintaining healthy, sustainable rural and urban forests through stewardship planning, active management, and professional technical assistance for States and private landowners;
- Improving the quality of living conditions in urban areas through the management of urban natural resources; and
- Protecting forests from fragmentation and conversion to non-forest uses.
- Improving the economic well-being of natural resource dependant rural communities.

Fire and Aviation Management Program/The National Fire Plan

The Fire and Aviation Management Program protects life, property, and natural resources on the 192 million acres of NFS lands. The USDA Forest Service also enters into cooperative fire protection agreements with States and other Federal agencies such as the Department of the Interior and the Department of Defense. The Fire and Aviation Management Program is guided, in part, by the fundamental principles articulated in the National Fire Plan (NFP), as adopted by the Secretaries of Agriculture and the Interior in FY 2000, as well as the 10-Year Comprehensive Strategy, signed by the Secretaries in August 2001, and the Implementation Plan, signed in May 2002. Among many programmatic functions, NFP funds are used to support actions that help prevent, detect, and take initial suppression actions on wildland fires. The program also supports fire operations, including fire suppression efforts and the reduction of hazardous fuels to minimize the potential for large, destructive wildfires. In addition, it funds and supports

communities through Economic Action Programs and Cooperative Fire Assistance Programs for States and volunteer fire departments. The National Fire Plan also encompasses Forest Health Management Programs for Federal and cooperative lands, joint fire sciences, fire facilities, and restoration of burned-over lands. Research efforts include a variety of projects supporting firefighting capacity, rehabilitation and restoration, hazardous fuels reduction, and community assistance.

Working Capital Fund

The Working Capital Fund is a revolving fund established in 1956 for furnishing supply and equipment services in support of programs of the USDA Forest Service. Presently, the WCF includes ten activities approved by the Chief of the Forest Service and the Secretary of Agriculture: fleet services, including rental and maintenance; aircraft services, including operation and maintenance; supply services, including photo reproduction, sign shop, and seed supply; tree nursery services; and computer services, including the replacement of computer hardware and software.

The Working Capital Fund is credited with advance payments in connection with firm orders and reimbursements from appropriations and funds of the USDA Forest Service, at rates approximately equal to the cost of furnishing the supply and equipment services.

MAJOR ISSUES FACING THE USDA FOREST SERVICE

The USDA Forest Service faced and met many challenges in FY 2002. The extreme fire season impacted nearly all programs within the agency, as approximately \$1 billion was transferred from other agency programs to support firefighting efforts. Healthier forests would greatly reduce the potential for catastrophic fires; as a result, fire suppression costs should, on average, decrease dramatically. The President highlighted the need to return our Nation's forests and grasslands to a healthy condition, including the need to address not only the hazardous fuels situation, but also the threat from noxious weeds and other invasive species, the need to protect and improve the country's watersheds, and address the economic impacts of changes in land management policies and practices. Major challenges the USDA Forest Service faces include efforts to:

- Continue implementation of the 10-Year Comprehensive Strategy of the National Fire Plan to reduce wildland fire risks to communities and the environment;
- Implement the Healthy Forests Initiative to improve the condition of the Nation's forests and grasslands;
- Address the "Process Predicament" to improve the timeliness and effectiveness of agency decision making;
- Address the increasing threat of insects, disease, and noxious weeds -- including those classified as invasive species -- to the integrity and viability of forest and rangeland ecosystems;
- Restore and manage watersheds;
- Address the impacts that result from transferring funds to fight fires in FY 2002; and
- Continue improvement of the agency's financial and performance accountability and attain an unqualified audit opinion from the USDA Office of the Inspector General related to The USDA Forest Service annual financial statements.

Community and Land Protection/National Fire Plan

The incredibly disastrous fire seasons of FY 2000 and FY 2002 have vividly illustrated the negative impacts hazardous fuels buildup in forested areas can have on watersheds and biological resources, especially in the wildland/urban interface. Catastrophic fires in the first half of the 1900s caused the Nation to adopt a policy of fire prevention and suppression. Ironically, firefighters became so effective at suppressing fires that small trees and brush increased to dangerously high fuel levels. The severe fire season of FY 2000 led to the adoption of the National Fire Plan (NFP), in an effort to protect life and property and minimize losses of natural resources. As evidenced by the enormous fires in the West during the summer of 2002, although much fuel reduction work has been done since the NFP was developed, it will take many years to restore the Nation's forests to a healthy and fire-safe condition.

The NFP implements an ambitious program of work while preparing the longer-term foundation to reduce fire risk and restore healthy, fire-adapted ecosystems on the Nation's forests and rangelands. The goals of the National Fire Plan are to:

- Ensure all necessary firefighting resources are available;

- Restore landscapes and rebuild communities;
- Invest in projects to reduce fire risk;
- Work directly with communities; and
- Be accountable

The 10-Year Comprehensive Strategy and Implementation Plan were developed cooperatively between Federal, State, tribal, and local governments, local community groups, and other interested parties to address the multitude of issues related to wildland fires. Many activities and efforts took place in FY 2002 in support of the goals and objectives embraced by the NFP. In April, the Wildland Fire Leadership Council was established to achieve consistent implementation of the goals, actions, and policies of the National Fire Plan and the Federal Wildland Fire Policy. In May, the 10-Year Implementation Plan was signed by the Secretaries of Agriculture and the Interior and 17 State governors, in furtherance of the 10-Year Comprehensive Strategy. In August, President George W. Bush announced the Healthy Forests Initiative that, in part, supports several of the actions addressed by the 10-Year Comprehensive Strategy and Implementation Plan. In the area of NFP research support, the Joint Fire Science Program (created in 1998 by the USDA Forest Service and the Department of the Interior), provides support in hazardous fuels management; the USDA Forest Service Research and Development division conducts research projects addressing NFP goals.

Many management practices, such as thinning, timber stand improvement, and prescribed burning can be systematically blended to meet site-specific forest needs. To achieve these desired outcomes, the USDA Forest Service and the Department of the Interior work with communities to reduce hazardous fuel buildups, restore forested ecosystems impacted by catastrophic fire, and equip those communities and homeowners with the tools necessary to reduce wildland fire risks. Aid is provided through the Volunteer, State, and Rural Fire Assistance Program, as well as Economic Action Programs.

While these efforts will help reduce threats to communities at risk, large wildland fires will not be eliminated. Long-term and comprehensive programs in fire prevention, fire suppression, and fuel treatments involving other Federal agencies, States, tribes, and communities, will be necessary before the current fire environment is changed to one that is less destructive and costly. To this end, the USDA Forest Service is currently working on improvements to wildland fire planning systems, focusing fuel treatment in areas where communities are at risk; working with other Federal and State agencies to plan interagency landscape-level fuel treatment programs; and expanding fire prevention programs.

Healthy Forests Initiative

In August 2002, President George W. Bush initiated the Healthy Forests Initiative to address a variety of impediments to returning the Nation's forests to healthy conditions. The need for healthier forests is essential. Catastrophic damage to forests through wildland fires severely impacts plants, animals, and fisheries, and can lead to diminished soil productivity and erosion. Unhealthy forests are less able to withstand infestations of

invasive species. Detrimental economic consequences to local communities dependent on natural resources often result from a loss of revenue from less tourism and reduced opportunities for the local wood products and ranching industries, as well as the service industry that supports them. In addition, damaged watersheds result in a variety of economic costs to communities as well.

The Healthy Forests Initiative focuses on three main areas:

- Significantly step up efforts to prevent the damage caused by catastrophic wildfires by reducing unnecessary regulatory obstacles that hinder active forest management;
- Expedite procedures for forest thinning and restoration projects; and
- Ensure sustainable forest management and appropriate timber production of the 1994 Northwest Forest Plan are being achieved.

Regulatory actions, whether legislative, judicial, or agency-imposed, have, in some instances, delayed the implementation of forest management practices or hindered rapid response to emergency situations. One goal of the Healthy Forests Initiative is to seek solutions to processes, procedures, and situations that hinder our ability to manage the Nation's natural resources.

Treatment of hazardous fuels is a major step in returning our Nation's forests to a healthy condition. This issue is a major component of the NFP through the 10-year Comprehensive Strategy and Implementation Plan. By finding ways to expedite forest thinning and restoration projects, the Healthy Forests Initiative will provide support to this element of the NFP.

In the Northwest, economic and environmental issues were addressed in the 1994 Northwest Forest Plan. Due to a variety of factors, the intent of the plan has not been fully addressed. Efforts will once again be concentrated on fulfilling the intent of the plan, resulting in healthier, more productive forests, as well as providing economic stimulus to local communities.

A more complete description of the Healthy Forests Initiative is located on the Internet at www.whitehouse.gov/infocus/healthyforests/toc.html.

Process Predicament

The USDA Forest Service is an agency of dedicated, hard-working employees who are committed to wise natural resource management. The agency strives to manage the lands and resources for which it is responsible to meet the requirements and desires of the American public. Unfortunately, the USDA Forest Service operates within a statutory, regulatory, and administrative framework that has kept the agency from effectively addressing rapid declines in forest health. This framework impedes nearly every other aspect of multiple-use management as well. Three problem areas stand out:

- *Excessive analysis*—confusion, delays, costs, and risk management associated with the required consultations and studies;

- *Ineffective public involvement*—procedural requirements that create disincentives to collaboration in national forest management; and
- *Management inefficiencies*—a deteriorating skills base and inflexible funding rules have helped to create problems that are compounded by the sheer volume of the required paperwork and the associated proliferation of opportunities to misinterpret or misapply required procedures.

These problems frequently place line officers in a costly procedural quagmire, where a single project can take years to move forward and where planning costs alone can exceed \$1 million. Even non-controversial projects often proceed very slowly. The time it takes to complete many projects was addressed as part of President Bush's Healthy Forests Initiative, which was announced in August 2002.

The agency estimates that planning and assessment consume 40 percent of total direct work at the national forest level. Although some planning is obviously necessary, USDA Forest Service officials have estimated that improving administrative procedures could shift up to \$100 million a year from unnecessary planning to actual project work to restore ecosystems and deliver services on the ground.

The USDA Forest Service is deeply committed to the principles of sound public land management in a democracy—long-term planning on an ecosystem basis, extensive public involvement, inter-agency consultation and collaboration, and ample opportunities for public redress. In the 21st century, Americans have the tools and techniques they need to work together to stop invasive species, reduce the danger of catastrophic fire, restore ailing watersheds to health, and enjoy their national forests. Permitted to use the tools and apply the techniques of modern management, Americans can look forward to a future of healthy, resilient ecosystems across their national forests and grasslands.

It is time to tailor the USDA Forest Service's statutory, regulatory, and administrative framework to the new era of public land management. Part of the solution will be internal. However, the problem goes far beyond the range of control of any single agency or a single branch of the government. The USDA Forest Service will need to work with partners, both in and out of government, to establish a modern management framework. By working together with partners to create and operate within such a framework, the USDA Forest Service can focus more of its resources on responsible stewardship and thereby improve public trust and confidence in the agency's ability to care for the land and serve people.

Invasive Species

The USDA Forest Service is committed to diminishing the rate of introduction and infestation of invasive species on forests and grasslands. Invasive species, including animals, insects, plants, and associated pathogens, are a significant threat to the integrity and viability of forest and rangeland ecosystems. They contribute to tree mortality and high-intensity wildland fires, causing billions of dollars in damage annually. Invasive species put many resources at risk, including wilderness, wildlife, forage, visual quality,

reforestation, recreation opportunities, as well as other factors such as land values and farming. For example, millions of forested acres are at risk along the leading edge of a gypsy moth front. In Oregon and California, more than 25,000 acres of Port-Orford-cedar root disease have been identified on Federal lands. On the 192 million acres of NFS lands, approximately 4 million acres of noxious native and non-native weeds have been identified.

The USDA Forest Service invasive species program is a coordinated effort implemented through four divisions: S&PF, R&D, NFS, and International Programs. The goal of the program is to reduce adverse social, economic, and ecological impacts of key invasive pests, insects, plants, and pathogens threatening forest, rangeland, wildland, and urban ecosystems in the United States. In part, this goal is being reached by emphasizing partnerships, operations, and research and development activities that prevent, monitor, and control invasive species, and restore impacted ecosystems.

To date, USDA Forest Service efforts have focused almost exclusively on insects, plant pathogens, and terrestrial noxious weeds, such as fire ants, gypsy moths, zebra mussels, Asian long-horned beetle, Sudden Oak Death disease, purple loosestrife, citrus canker, and yellow star thistle. The frequent introduction of invasives, however, requires immediate focus on other species as well, including aquatic weeds, non-native fish, cogon grass that alters habitat of gopher tortoises, species that directly impact migratory songbird habitat, and species that displace valued native animals and plants. One example of the latter is the bullfrog that is invading the habitat of the Oregon spotted frog. Prevention efforts also need to be increased, such as preventing the spread of weed seed along travel corridors and in the backcountry.

The long-term strategy of the USDA Forest Service invasive species program includes the use of extensive partnerships with international government organizations, other Federal agencies, State and local governments, nonprofit organizations, and private landowners. In conjunction with these entities, the USDA Forest Service will work to prevent the introduction of invasive species, eradicate new infestations, manage populations of established invasives, and restore impacted ecosystems. To effectively address invasive species problems, however, it takes appropriate resources and a strong collaboration with our partners.

Watershed Restoration

Forests are key to clean water. Maintaining supplies of clean water and protecting watersheds were major reasons why public domain forests and rangelands were reserved, starting in the late 19th and early 20th centuries. About 80 percent of the Nation's freshwater resources originate on forests, which cover about one-third of the Nation's land area. National forest lands contribute 14 percent of the total national runoff. The forested land absorbs rain, refills underground aquifers, cools and cleanses water, slows storm runoff, reduces flooding, sustains watershed stability and resilience, and provides critical habitat for fish and wildlife. In addition to these ecological services, forests provide abundant water-based recreation and other benefits that improve the quality of

life. The calculated marginal value of water from all national forest lands is about \$3.7 billion per year.

The importance of clean water can not be overstated. As stewards of the much of the Nation's water supply, the USDA Forest Service has a responsibility to ensure that water resources are plentiful, available, and of high quality. However, national forest activities have affected water quality and productivity of the land. Problem watersheds and processes are often masked by the size of the landscape, or are noticeable only when flooding or other disturbances occur. Although most watersheds on national forests appear healthy on a large scale, extensive localized rehabilitation needs still exist on these lands. The agency is working hard identify and restore degraded watersheds to productive conditions.

Disturbances in forest and grassland vegetation from drought, wind, fire, insects, and pathogens occur even in properly functioning ecosystems in watersheds. Some past management practices--such as fire exclusion, poor timber harvesting practices, and human development--have created watersheds that experience more frequent or intense fire disturbances than in the past. Many of these forests and grasslands are overcrowded with increased susceptibility to drought, and insect and disease outbreaks. In addition, the construction of high density and insufficiently maintained road networks pose severe problems and risks for forest resources, both as land disturbance and as access routes that concentrate human activities and pollution.

Healthy ecosystems are an essential part of healthy watersheds. Watershed restoration includes recovery of natural timber and grass stands and fuels composition, decommissioning and obliterating non-critical road systems, and restoring and protecting riparian and wetland areas.

Solutions to watershed issues and restoration require working collectively and collaboratively across mixed ownerships within the watersheds. By working collaboratively with other Federal and State agencies, local communities, private landowners, and organizations, the USDA Forest Service can restore watersheds to healthy and sustainable conditions.

Impacts from Transfer of Funds to Fight Fires

In FY 2002, the United States experienced the most expensive fire season in history. More than 6.7 million acres burned, nearly double the 10-year average. Colorado, Arizona, and Oregon experienced their largest fires in the last century. To combat fires nationwide, the USDA Forest Service transferred approximately \$1 billion from discretionary and mandatory accounts to help cover fire suppression costs. As a result of these transfers, projects at all levels of the organization were deferred. Impacts are as follows:

Program or Fund	Amount Transferred
Research and Development	\$ 23 million
State and Private Forestry	\$ 77 million
National Forest System	\$ 155 million
Wildland Fire Management	\$ 95 million
Capital Improvement and Maintenance	\$ 157 million
Land Acquisition	\$ 143 million
Working Capital Fund	\$ 95 million
Permanent Appropriations and Trust Funds *	\$ 269 million

* Permanent Appropriations and Trust Funds include Knutsen-Vandenberg (K-V), Salvage Sale, Timber Purchaser Elect, Brush Disposal, and Recreation Fee Demonstration Project funds.

The effect of FY 2002 transfers to support fire suppression requirements cannot be easily and fully quantified. Although a number of programs were able to accomplish their FY 2002 goals, there are significant impacts which will continue to be manifested in FY 2003 and beyond. Examples of impacts, though not inclusive, are illustrative of how transfers will affect USDA Forest Service programs.

If funding is replenished in FY 2003, an extremely heavy workload would occur as limited agency personnel would be tasked with trying to meet procedural requirements for developing and awarding grants, agreements, and contracts. It is probable that accomplishments could be delayed until FY 2004 or longer. Additionally, the extra workload would also fall on our cooperators, including States, Territories, Tribes, and non-governmental organizations. For example, research agreements have been deferred, jeopardizing relationships with partners and reducing research capacity; one result is that some critical insect control work has been deferred.

Another example of impacts of fund transfers will be observable through delays in the National Environmental Policy Act (NEPA) process. In many cases, project environmental documentation had to be postponed due to fund transfers. This will have a ripple effect, causing certain projects to be delayed or even cancelled, thus affecting longer-term programmatic efforts. Loss of planning dollars for certain programs will have serious consequences and may result in court actions because of non-performance. Further, if funding is not repaid, it could affect the necessary gathering of data and inventory information for specific NEPA documents.

The examples of agency-wide impacts will continue to be visible. With over twenty percent of the agency's entire budget being transferred to support fire suppression costs, the on-the-ground effect is major and long-term. It will be manifested in many programmatic efforts that are either delayed or foregone in FY 2003 and beyond.

Financial and Program Accountability

Financial and program accountability are essential for the USDA Forest Service to achieve its commitment to land stewardship and public service. The agency, through

aggressive efforts, continues to improve accountability in both areas. As a result, Congress, USDA Forest Service managers, and other agency stakeholders can evaluate agency programs and activities through relevant, reliable, and accurate information, including budget, accounting, and program data. Through continued focus of fiscal resources, additional improvement can be achieved.

These efforts have included implementing activities to comply with the Federal Managers' Financial Integrity Act (FMFIA), Chief Financial Officers Act of 1990, Government Performance and Results Act (GPR), and the Federal Financial Management Improvement Act (FFMIA). Since FY 2000, the USDA Forest Service has been using the Foundation Financial Information System (FFIS), a Standard General Ledger based financial management system fully compliant with Federal financial requirements. A new field-based Budget Formulation and Execution System (BFES) was implemented in FY 2001.

Financial management policies, business practices, and systems have been further updated over the past year as a basis for sustained improvement of records for all agency accounts, including more than \$4 billion of property managed by the USDA Forest Service. Reconciliation teams were formed to improve the data integrity within the agency's accounting system. Through implementation of BFES and FFIS, and adherence to GPR, the agency is moving forward with development of integrated processes and systems that provide linkages among the formulation of budgets, the accomplishment of work on the ground, and the associated cost of the work.

The USDA Forest Service must continue to further improve business and accounting processes and systems, as well as capitalizing on the strengths of the new systems. To sustain the major efforts of FY 2002, the agency must continue to ensure that employees are fully trained in the various aspects of financial management policy; information about agency financial operations is readily available using a variety of reporting tools; and critical financial management processes, policies, and procedures are current, in place, and operating. Computer-based financial system availability has been expanded, and better meets agency requirements. Some older systems that continue to feed data to FFIS, however, often do not meet current requirements for Federal financial management and need to be replaced or eliminated. This effort, led by the USDA, will continue for several years and will require a significant amount of agency resources to complete.

Through a partnership between the agency, USDA Offices of the Chief Financial Officer and Inspector General, and a private accounting firm over the past several years, agency records supporting real property and Fund Balance with Treasury have been greatly improved. Monetary values for real property were established throughout the agency in FY 2001. The monetary value for real property assets is now auditable and provides the information necessary for the management of these assets. The Fund Balance with Treasury was reconciled as of September 30, 2001 to the balances maintained by the U.S. Department of the Treasury. Based on this action and the significant improvements in the development of policies, procedures and reconciliation processes during FY 2002, the reconciliation of the Fund Balance with Treasury is now sustainable and auditable.

A National Fire Plan database to track, monitor, and account for National Fire Plan spending was implemented and used by the USDA Forest Service and other wildland fire management agencies to support reporting of accomplishments and activities. Recording of commitments to enhance funds control was successfully piloted on national contracts called up to support national fire suppression resources.

Efforts in FY 2002 have created the framework for a number of new initiatives that are scheduled for implementation in FY 2003. These include:

- Implementing tools to generate financial and performance reports from web-based accounting databases;
- Continuing refinement and generation of quarterly status of funds analyses that track USDA Forest Service spending;
- Developing financial statements on a quarterly basis to facilitate upward reporting processes;
- Continuing evaluation of information requirements to further reduce the volume of data maintained in the USDA Forest Service general ledger system;
- Reducing data elements, which will result in less data to track, starting with FY 2003 budget planning; and
- More efficient handling of the agency's indirect costs to increase system performance while maintaining accountability.

ANALYSIS OF AGENCY PERFORMANCE

Introduction

The USDA Forest Service FY 2002 Annual Performance Plan committed the agency to delivering a range of natural resource-based benefits to the American people in accordance with the 2000 Strategic Plan goals and objectives. The USDA Forest Service 2000 strategic goals are as follows:

- Goal 1 – Ecosystem Health
- Goal 2 – Multiple Benefits to People
- Goal 3 – Science and Technical Assistance
- Goal 4 -- Effective Public Service

The USDA Forest Service's responsibility as a natural resource management agency is to restore and maintain the health of the land. Through various programs, the USDA Forest Service manages and protects public lands, and provides technical and financial assistance to other governmental entities, nongovernmental organizations, private landowners, and others. The agency strives to provide exemplary service to its customers and to track its accomplishments through the annual performance plans. These plans are the basic management tools used to direct resources and implement key strategies and efforts in achieving long-term goals and objectives.

At the end of this section, a table lists performance goals and accomplishments of the USDA Forest Service during FY 2002 as measured against the goals established in the Annual Performance Plan for FY 2002. At this time, the agency does not have final accomplishments to report for some of the activities and outputs, due to varied reporting cycles with cooperating agencies, mainly State programs of various authorities. Most of the accomplishments affected are within the Cooperative Forestry Staff of State and Private Forestry and report data on a calendar year basis.

Highlights

Several performance highlights are presented below to illustrate the progress the USDA Forest Service made during FY 2002 in "caring for the land and serving people."

National Fire Plan

During FY 2002, the National Fire Plan (NFP) program built on the accomplishments of the USDA Forest Service in FY 2001, the first year of the program. Much was accomplished, both internally and with cooperators. However, fund transfers from NFP projects to support fire suppression impacted projects in the State and Private Forestry, National Forest System, and Forest and Rangeland Research Program areas.

Approximately 1.3 million acres were treated for hazardous fuel reduction. In addition, NFP funds were used to treat fire-damaged lands for insect and pathogen suppression

projects. Due to program impacts from the severe fire season, much of the work will be undertaken in the spring of 2003.

The 10-Year Implementation Plan for the Comprehensive Strategy was signed by the Secretaries of Agriculture and the Interior, along with 17 State governors on May 23, 2002.

The USDA Forest Service, in cooperation with the Department of the Interior, collaborated with tribes and States and continued to work to identify and prioritize fuel treatments. The groups focused on projects to reduce the wildland fire risk to wildland-urban interface communities. This effort is designed to bring together Federal and State land managers, local community leaders, and other partners to develop a cohesive strategy for protecting people and sustaining natural resources.

Research and development projects in FY 2002 supported hazardous fuels reduction through the Joint Fire Science and Forest and Rangeland Research programs. Fuels reduction research focused on prioritizing areas for treatment; determining the impacts of treatments on wildlife, fish, and riparian areas; and developing new uses and systems for harvesting forest undergrowth and small-diameter trees. Other research is under way through FS R&D for key areas of the National Fire Plan.

Watershed Restoration

The USDA Forest Service developed and used watershed restoration business plans to direct and prioritize collaborative recovery efforts, establish accountability mechanisms, develop and strengthen public and private partnerships, identify on-the-ground work accomplishments, and provide direction in the development of annual reports for large-scale watersheds.

Collaborative watershed restoration efforts during FY 2002 resulted in many environmental improvements throughout the Nation. Examples include the improvement and re-establishment of riparian and wetland habitats, rehabilitation and/or obliteration of low use and unused road networks, improvement of recreational sites and trails, restoration of wildlife and fisheries habitat, instream habitat improvement and stabilization of stream banks, and the production of traditional forest products such as timber.

Invasive Species

Noxious weeds and other invasive species threaten forest and rangeland health nationwide. In FY 2002, aggressive actions were taken to control insect infestations such as gypsy moths in the East and Midwest, southern pine beetles in the South, and Douglas-fir tussock moths and bark beetles in the West. Treatments and research efforts were also made to control Sudden Oak Death disease, cheatgrass in the West, Formosan subterranean termites in the South, exotic pine shoot beetles in the Midwest and

Northeast, and hemlock woolly adelgids in the Northeast and Northwest. Control actions have been undertaken on aquatic invasive species, such as the zebra mussel.

Financial Accountability

In FY 2002, the USDA Forest Service attained an unqualified audit opinion from the Office of the Inspector General. This is the highest audit opinion attainable. The agency achieved this opinion through the hard work and dedication of employees at all levels of the organization. For more details, refer to Appendix B – Office of Inspector General Audit Report

Performance Management in the Future

In FY 2002, the USDA Forest Service began to move toward a new, outcome-oriented budget and planning structure that provides linkages among resources, program activities, and results. Future budgets will integrate data from the strategic goals and objectives and will demonstrate the consequences of various funding levels on actual on-the-ground work accomplished. A results-oriented budget and planning structure will provide Congress, the Department, USDA Forest Service leadership, and the public with a clearer understanding of the benefits attained through taxpayers' dollars that finance the management of the Nation's forests.

The ability of the USDA Forest Service to effectively integrate budget and performance management depends on having appropriate measures, as well as collecting high-quality data to support these measures. In FY 2003, the USDA Forest Service will continue to refine accomplishment reporting requirements and the links to both the Budget Formulation and Execution System and the Foundation Financial Information System. The agency will focus on the relevancy, accuracy, and burden associated with data collection efforts and accounting codes used to charge costs of various activities.

Summary of FY 2002 Performance Measures

The table on the following pages displays revised performance activities and outputs for FY 2002. The USDA Forest Service FY 2002 Performance Plan is based on the USDA Forest Service FY 2000 Strategic Plan. The table identifies activities and outputs by strategic objective as presented in the performance plan.

Most activities for FY 2002 shown in the table have verified accomplishments. Those that have not yet been verified will be updated as the data becomes available.

The effect of FY 2002 transfers to support fire suppression requirements cannot be easily and fully quantified. Although a number of programs were able to accomplish their FY 2002 goals (as shown in the following table), there are significant impacts which will continue to be manifested in FY 2003 and beyond. Examples of impacts, though not inclusive, are illustrative of how transfers will affect USDA Forest Service programs.

If funding is replenished in FY 2003, an extremely heavy workload would occur as limited agency personnel would be tasked with trying to meet procedural requirements for developing and awarding grants, agreements, and contracts. It is probable that accomplishments could be delayed until FY 2004 or longer. Additionally, the extra workload would also fall on our cooperators, including States, Territories, Tribes, and non-governmental organizations. For example, research agreements have been deferred, jeopardizing relationships with partners and reducing research capacity; one result is that some critical insect control work has been deferred.

Another example of impacts of fund transfers will be observable through delays in the National Environmental Policy Act (NEPA) process. In many cases, project environmental documentation had to be postponed due to fund transfers. This will have a ripple effect, causing certain projects to be delayed or even cancelled, thus affecting longer-term programmatic efforts. Loss of planning dollars for certain programs will have serious consequences and may result in court actions because of non-performance. Further, if funding is not repaid, it could affect the necessary gathering of data and inventory information for specific NEPA documents.

The examples of agency-wide impacts will continue to be visible. With over twenty percent of the agency's entire budget being transferred to support fire suppression costs, the on-the-ground effect is major and long-term. It will be manifested in many programmatic efforts that are either delayed or foregone in FY 2003 and beyond.

STRATEGIC GOAL 1: ECOSYSTEM HEALTH

<i>Activities and Outputs by Strategic Objective</i>	<i>FY 1999 Actual</i>	<i>FY 2000 Actual</i>	<i>FY 2001 Actual</i>	<i>FY 2002 Revised Target</i>	<i>FY 2002 Actual - Appropriated funds</i>	<i>FY 2002 Percent Accomplished</i>	<i>FY 2002 Total - All funding sources</i>
IA							
Maintain & Improve Watershed Conditions - Acres improved	35,562	29,899	31,863	21,256	Verifying	NR	
Manage Environmental Compliance and Protection	NR	52	110	23 ^{1/}	43 ^{1/}	187%	
Manage grazing allotments – number of grazing allotment acres administered to 100% of standard	NR	45,225,600	44,010,000	21,016,978	21,016,978	100%	
Decommission classified and unclassified roads – miles decommissioned	2,907	2,545	2,164	1,307	734	56%	
Administer Mineral Operations - Number of operations administered	9,189	NR	8,254	13,329	8,298	62%	8,300
IB							
Manage Stream Habitat - Miles of Stream Enhanced	2,194	1,687	2,193	1,919	2,001	104%	2,416
Manage Lake Habitat - Acres of Lake Enhanced	16,346	18,147	18,428	15,694	18,217	116%	22,207
Manage Terrestrial Habitat - Acres of Terrestrial Habitat Enhanced	266,774	192,373	241,123	247,013	209,472	85%	607,032
Land Impacted for the management and conservation of migratory species - Acres of migratory habitat impacted	NR	75,000	150,000	150,000	NR	N/A	
IC							
Plan Regular Timber Sales – Approved NEPA documents through appeals and litigation ^{2/}	NR	NR	NR	NR	NR	N/A	
Plan Salvage Timber Sales – Approved NEPA documents through appeals and litigation ^{2/}	NR	NR	NR	NR	NR	N/A	

<i>Activities and Outputs by Strategic Objective</i>	<i>FY 1999 Actual</i>	<i>FY 2000 Actual</i>	<i>FY 2001 Actual</i>	<i>FY 2002 Revised Target</i>	<i>FY 2002 Actual - Appropriated funds</i>	<i>FY 2002 Percent Accomplished</i>	<i>FY 2002 Total - All funding sources</i>
IC (continued)							
Prepare Regular Timber Sales – Hundred cubic feet (CCF) of timber volume offered ^{3/}	2,984,558	2,223,952	2,035,164 ^{4/}	3,073,824	2,185,546	71%	
Prepare Salvage Timber Sales - salvage timber volume offered (CCF) ^{3/}	1,381,345	997,119	1,347,181 ^{4/}	1,092,757	1,169,885	107%	
Administer Total Timber Sales – timber volume harvested (CCF) ^{5/}	5,877,142	5,084,853	3,530,158	3,774,952	3,402,989	90%	
Manage Noxious Weeds - Acres treated	87,000	121,946	143,938	105,554	130,868	124%	159,923
Mitigate Hazardous Fuels – non Wildland/Urban Interface (acres mitigated) ^{6/}	1,421,281	772,375	750,146	551,346	493,536	90%	
Mitigate Hazardous Fuels – Wildland/Urban Interface (acres mitigated) ^{6/}	---	---	611,551	800,622	764,367	95%	
Develop Control Strategies for Foreign-Based Invasive Species – Number of projects	NR	4	8	8	8	100%	
National Fire Plan – Forest Land Rehabilitation & Restoration – Number of rehabilitation and restoration projects	N/A	0	329	436	506	116%	

NR – Not reported, N/A – Not applicable

1/ Includes only completed cleanups and environmental compliance audits. Prior years included studies and design work.

2/ Data not gather on this activity; will be dropped in FY 2003.

3/ Activity titles changed from FY 2002 Annual Performance Plan to reflect outputs separately for regular and salvage timber sales programs. For total program, amount must be combined.

4/ Includes FY 2000 Carryover Volumes.

5/ “Administer Total Timber Sales” includes regular and salvage volumes. Data for FY 1999 and FY 2000 were derived from actual board foot volumes reported, using a national average ratio of 5 board feet per cubic foot.

6/ FY 1999 and FY 2000, total treatment acres are reported.

STRATEGIC GOAL 2: MULTIPLE BENEFITS TO PEOPLE

<i>Activities and Outputs by Strategic Objective</i>	<i>FY 1999 Actual</i>	<i>FY 2000 Actual</i>	<i>FY 2001 Actual</i>	<i>FY 2002 Revised Target</i>	<i>FY 2002 Actual – Appropriated funds</i>	<i>FY 2002 Percent Accomplished</i>	<i>FY 2002 Total - All funding sources</i>
2A							
Operate Developed Sites - Number of PAOT days operated to standard.	NR	75,000,000	80,000,000	96,015,369	94,048,707	98%	98,113,981
Manage General Forest Areas - Number of days managed to standard.	NR	219,000	235,000	2,147,058	2,203,978	103%	2,214,313
Provide Interpretation and Education (Recreation) - Number of products provided to standard.	NR	34,000	34,000	17,584	13,924	79%	14,256
Administer Recreation Special Use Authorizations - Number administered to standard.	NR	1,227	1,225	12,495	14,243	114%	14,243
Provide Interpretation and Education (Wildlife) - Number of products provided to standard.	NR	2,885	2,885	2,651	3,886	147%	3,886
2B							
Manage Wilderness - Number of wilderness areas managed to standard.	NR	39	39	101	105	104%	105
Manage Heritage Resources – Number of heritage resources managed to standard.	NR	4,000	4,000	7,037	6,906	98%	6,914
Manage Air Quality - Acres monitored	NR	7,964,000	7,964,000	13,813,023	NR ^{1/}	N/A	
Manage Air Quality - Sites inventoried	0	23	29	30	30	100%	
Manage Air Quality - Sites monitored	35	35	35	35	35	100%	
Manage Air Quality - PSD permit applications reviewed ^{2/}	60	65	102	100	Verifying	NR	
Manage Air Quality - Number of monitoring sites reporting improved or stable air quality	NR	34	34	34	34	100%	

<i>Activities and Outputs by Strategic Objective</i>	<i>FY 1999 Actual</i>	<i>FY 2000 Actual</i>	<i>FY 2001 Actual</i>	<i>FY 2002 Revised Target</i>	<i>FY 2002 Actual – Appropriated funds</i>	<i>FY 2002 Percent Accomplished</i>	<i>FY 2002 Total - All funding sources</i>
2C							
Monitor Forest Plans - Reports Completed	101	87	104	119	92	77%	92
Plan Timber Sales – Approved NEPA documents through appeals and litigation ^{3/}	NR	NR	NR	41	NR	N/A	
Plan Salvage Timber Sales – Approved NEPA documents through appeals and litigation ^{3/}	NR	NR	NR	NR	NR	N/A	
Prepare Timber Sales – Hundred cubic feet (CCF) of timber volume offered ^{4/}	2,984,558	2,223,952	2,035,164 ^{5/}	3,073,824	2,185,546	71%	
Prepare Salvage Timber Sales - salvage timber volume offered (CCF) ^{4/}	1,381,345	997,119	1,347,181 ^{5/}	1,092,757	1,169,885	107%	
Administer Total Timber Sales – timber volume harvested (CCF) ^{6/}	5,877,142	5,084,853	3,530,158	3,774,952	3,402,989	90%	
Administer special forest products (non-convertible) - number of permits administered	NR	NR	NR	221,453	Verifying	NR	
Establish Vegetation – Acres established ^{7/}	268,520	217,215	195,593	NR	160,814	N/A	
Improve Forest & Rangeland Vegetation – Acres improved ^{7/}	NR	NR	4,539,798	1,926,499	170,044	9%	
Preparation of Allotment NEPA - Number of grazing allotments with signed decision documents	464	354	184	367	Verifying	NR	
Process Mineral Operation Proposals- Number of mineral operations proposals processed	12,247	11,171	7,931	8,670	8,328	96%	8,328
Provide Geologic Services – Number of reports completed	NR	NR	NR	1,020	1,048	103%	1,091
Adjust Land Ownership – Acres adjusted	337,396	75,295	35,132	20,174	15,553	77%	15,553
Administer Land Use Authorizations – Number of authorizations administered to standard	18,726	12,108	12,907	10,011	11,498	115%	11,498

<i>Activities and Outputs by Strategic Objective</i>	<i>FY 1999 Actual</i>	<i>FY 2000 Actual</i>	<i>FY 2001 Actual</i>	<i>FY 2002 Revised Target</i>	<i>FY 2002 Actual – Appropriated funds</i>	<i>FY 2002 Percent Accomplished</i>	<i>FY 2002 Total - All funding sources</i>
Process Land Use Proposals – Number of land use proposal processed	5,984	3,907	3,870	2,303	2,791	121%	2,791
Protect Land Ownership Title - Total number of encroachments and title claims with formal activities	332	263	292	498	441	89%	441
Survey Boundary Lines – Miles of boundary line market/maintained	3,102	2,880	3,187	2,637	2,455	93%	2,552
Purchase Land (LALW) – Acres acquired	151,439	139,445	128,913	62,796	42,817	68%	42,817
Conserve Environmentally important forests threatened by conversion to non-forest uses - Legacy Project Acquisition (acres)	19,281	31,263	84,709	200,000	57,009	29%	
Assist Through States in the Implementation of Non-Industrial Private Forestlands (NIPF) Stewardship Management Plans - Acres under NIPF plans	1,866,000	1,437,360	1,616,986	1,407,800	1,640,000	116%	
2D: No activities or outputs identified in the FY2002 Performance Plan							
2E							
Address community and metropolitan area natural and environmental needs - Number of participating communities	10,514	10,547	11,021	6,800	10,521	155%	

NR – Not reported, N/A – Not applicable

1/ Outputs were changed in FY 2002 from acres to number of sites, which are more reliable for counting and verification purposes.

2/ PSD = Prevention of Significant deterioration.

3/ Data not gather on this activity; will be dropped in FY 2003.

4/ Activity titles changed from FY 2002 Annual Performance Plan to reflect outputs separately for regular and salvage timber sales programs. For total program, amount must be combined.

5/ Includes FY 2000 Carryover Volumes.

6/ “Administer Total Timber Sales” includes regular and salvage volumes. Data for FY 1999 and FY 2000 were derived from actual board foot volumes reported, using a national average ratio of 5 board feet per cubic foot.

7/ Target and accomplishment reported for all funding sources.

STRATEGIC GOAL 3: SCIENCE AND TECHNICAL ASSISTANCE

<i>Activities and Outputs by Strategic Objective</i>	<i>FY 1999 Actual</i>	<i>FY 2000 Actual</i>	<i>FY 2001 Actual</i>	<i>FY 2002 Revised Target</i>	<i>FY 2002 Actual - Appropriated funds</i>	<i>FY 2002 Percent Accomplished</i>	<i>FY 2002 Total - All funding sources</i>
3A							
Provide Assistance to Communities – number assisted	2,450 ^{1/}	2,450 ^{1/}	121	660	768	116%	
Provide Assistance to Volunteer Fire Departments – number assisted	2,450 ^{1/}	2,450 ^{1/}	871	2,522	1,134	45%	
Assist natural resource dependant rural communities and businesses - Number of communities working under broad-based local strategic plans	740	928	959	960	970	101%	
Assist Pacific Northwest (PNW) natural resource dependant rural communities and businesses – Number of PNW communities working under broad-based local strategic plans	248	219	231	329	240	73%	
National Fire Plan – Cooperative Fire Protection, State Fire Assistance to Communities	NR	NR	1,070	1,928	1,795	93%	
National Fire Plan – Cooperative Fire Protection, Cooperative Fire Assistance to Volunteer Fire Departments	NR	NR	1,001	4,120	2,647	64%	
National Fire Plan – Cooperative Forestry, Economic Action Program – Assist Natural Resource dependant rural communities and businesses	NR	NR	NR ^{2/}	NR ^{2/}	222	N/A	
3B: No activates or outputs identified in the FY2002 Performance Plan							
3C							
Create/Revise Forest Plans – Number of plans created/revised ^{3/}	11	5	8	7	6	86%	
Maintain Forest Plans – Number of plans amended	NR	15	82	91	198	218%	

<i>Activities and Outputs by Strategic Objective</i>	<i>FY 1999 Actual</i>	<i>FY 2000 Actual</i>	<i>FY 2001 Actual</i>	<i>FY 2002 Revised Target</i>	<i>FY 2002 Actual - Appropriated funds</i>	<i>FY 2002 Percent Accomplished</i>	<i>FY 2002 Total - All funding sources</i>
3C (continued)							
Conduct Assessments - Number of assessments completed	169 ^{4/}	130 ^{4/}	154	142	134	94%	134
Conduct Above Project Inventories - Millions of acres of above-project level inventory completed	63.8 ^{4/}	58.7 ^{4/}	124	NR	30.4	N/A	30.4
Conduct Research on Vegetation Management and Protection - Number of research products, tools and technologies ^{5/}	NR	3,359	2,966	NR	NR	N/A	
Conduct Research on Wildlife, Fish, Water and Air - Number of research products, tools and technologies ^{5/}	NR	1,680	1,426	NR	NR	N/A	
Conduct Research on Resource Valuation and Use - Number of research products, tools and technologies ^{5/}	NR	1,478	1,084	NR	NR	N/A	
Collect, Analyze, and Publish Forest Resource Inventory & Monitoring Data - Number of research products, tools and technologies ^{5/}	NR	202	228	NR	NR	N/A	
Conduct Research - Number of research products, tools and technologies	NR	NR	NR	NR	8,831	N/A	
Forest Inventory & Analysis - Percent of forestlands covered by the annual FIA program ^{6/}	NR	42%	65%	73%	73%	100%	
Conduct Forest Inventory & Analysis - Number of research products, tools and technologies ^{6/}	NR	NR	NR	NR	402	N/A	
Collect, Analyze, and Publish Forest Resource Inventory & Monitoring (SPIA) Data - Number of research products, tools and technologies	NR	0%	7%	7%	Verifying	NR	

<i>Activities and Outputs by Strategic Objective</i>	<i>FY 1999 Actual</i>	<i>FY 2000 Actual</i>	<i>FY 2001 Actual</i>	<i>FY 2002 Revised Target</i>	<i>FY 2002 Actual - Appropriated funds</i>	<i>FY 2002 Percent Accomplished</i>	<i>FY 2002 Total - All funding sources</i>
3C (continued)							
Protect Federal Lands from Insects, Diseases, and Exotic Plants – Forest health protected on federal lands (thousand acres)	NR	175,000	198,000	1,000	302	30%	
Protect Cooperative Lands from Insects, Diseases, and Exotic Plants – Forest health protected on cooperative lands (thousand acres)	NR	562	417	700	950	136%	
National Fire Plan – Forest Health Management on Federal & Cooperative Lands – Forest health protected on Federal & Cooperative Lands (acres)	---	0	Verifying	Verifying	423,000	N/A	
National Fire Plan – Vegetation Management & Protection Research – Number of research products, tools and technologies developed	---	0	63	63	Verifying	NR	
3D: No activates or outputs identified in the FY2002 Performance Plan							

NR – Not reported, N/A – Not applicable

1/ In FY 1999 and FY 2000 the amount reported is the total for both activities for each year. An error in tracking accomplishments in FY 2000 resulted in underreporting. These numbers were revised upwards from what was reported in the FY 2000 Annual Performance Report.

2/ Funding is for technical and financial assistance to communities to assist with recovery from the effects of wildland fires. Outputs measure does not directly relate to the accomplishments achieved; not all accomplishments are measured.

3/ Starting in FY 2002, output reports the number of revised plans completed in a given year. In previous years, output reported the number of plans under review.

4/ A change in how the measures are calculated occurred in FY 2001. The data for FY 1999 and FY 2000 has been changed to reflect the new definition.

5/ These activities have been rolled into the activity – “Conduct Research – Number of research products, tools and technologies.”

6/ “Conduct Forest Inventory & Analysis – Number of research products, tools and technologies” replaces “Forest Inventory and Analysis – Percent of forests covered by the annual FIA program” for future reporting.

STRATEGIC GOAL 4: EFFECTIVE PUBLIC SERVICE

<i>Activities and Outputs by Strategic Objective</i>	<i>FY 1999 Actual</i>	<i>FY 2000 Actual</i>	<i>FY 2001 Actual</i>	<i>FY 2002 Revised Target</i>	<i>FY 2002 Actual - Appropriated funds</i>	<i>FY 2002 Percent Accomplished</i>	<i>FY 2002 Total - All funding sources</i>
4A: No activates or outputs identified in the FY2002 Performance Plan							
4B							
Enforce National Forest System Drug Control Act – Number of cannabis plants eradicated	?	733,427	733,427	734,000	396,880 ^{1/}	54%	
Enforce Laws & Regulations – Enforcement capability (percent)	28	30	44	44	50	114%	
Investigate Crime – Investigative capability (percent)	49	51	43	43	72	167%	
Maintain facilities – Facilities Condition Index	---	---	NR ^{2/}	NR ^{2/}	63	N/A	
Improve facilities - Number of projects completed.	62	73 ^{3/}	72 ^{3/}	110 ^{4/}	61 ^{4/}	55%	
Maintain transportation system (passenger car roads) – miles maintained to objective standard	NR	51,733	30,056	23,337	27,499	118%	
Maintain transportation system (high clearance and closed roads) – miles maintained to objective standard	NR	69,984	51,576	29,011	49,299	170%	
Improve transportation system (roads) – miles of road capital improvement to objective maintenance level	NR	612	370	1,130	1,131	100%	
Maintain transportation system (trails) – miles of trails maintained to standard	NR	24,065	40,800	26,502	30,649	116%	35,925
Improve transportation system (trails) - miles of trail improvement to standard	NR	1,510	1,245	1,169	1,159	99%	1,422
National Fire plan – Maintain & Improve Forest Service Fire Facilities – number of projects completed	---	0	107	44	10	23%	
4C: No activates or outputs identified in the FY2002 Performance Plan							

<i>Activities and Outputs by Strategic Objective</i>	<i>FY 1999 Actual</i>	<i>FY 2000 Actual</i>	<i>FY 2001 Actual</i>	<i>FY 2002 Revised Target</i>	<i>FY 2002 Actual - Appropriated funds</i>	<i>FY 2002 Percent Accomplished</i>	<i>FY 2002 Total - All funding sources</i>
4D: No activates or outputs identified in the FY2002 Performance Plan							
4E: No activates or outputs identified in the FY2002 Performance Plan							
4F: No activates or outputs identified in the FY2002 Performance Plan							

NR – Not reported, N/A – Not applicable

1/ Marijuana eradication extends beyond the fiscal year, amount reported is for CY 2002 through September 30, 2002.

2/ Protocol was under development and targets were not assigned.

3/ Does not include the number of recreation projects in FY 2000 and FY 2001

4/ Includes major Continuous Improvement Projects (CIP) only. Some projects were not awarded due to transfer of funds for wildland fire suppression costs.

ANALYSIS OF AGENCY'S FINANCIAL POSITION

The USDA Forest Service annually produces a series of financial statements to summarize the financial activity and associated financial position of the agency. The principal statements include a Consolidated Balance Sheet, a Statement of Net Cost, a Statement of Change in Net Position, a Statement of Budgetary Resources, and a Statement of Financing. The agency's goal in producing these statements is to provide relevant, reliable, and accurate financial information related to USDA Forest Service activities. The USDA Forest Service received a waiver for producing comparative statements for FY 2001 and FY 2002. Through analysis of the agency's FY 2002 financial statements, the following key points are highlighted.

Assets

The USDA Forest Service reports \$6.9 billion in assets at the end of FY 2002, of which 99.53 percent is classified primarily in three major categories. First, 56.6 percent is General Property, Plant and Equipment (General PP&E)—primarily forest road surface improvements, culverts, bridges, campgrounds, administrative buildings, other structures, and equipment. Second, 41.1 percent is fund balances with the Department of the Treasury—primarily funds derived from congressional appropriations and funds held in trust for accomplishing purposes specified by law. Third, 2 percent, or approximately \$122 million, is accounts receivable—primarily amounts due from other Federal entities or the public as a result of the delivery of goods, or services, and specific activities performed by the USDA Forest Service.

The approximately \$3.9 billion of General PP&E includes assets acquired by the USDA Forest Service to be used for conducting business activities, such as providing goods or services. General PP&E does not include the value of heritage assets (agency assets that are historical or significant for their natural, cultural, aesthetic, or other importance and generally are expected to be preserved indefinitely) or the value of stewardship assets (primarily land held by the agency as part of the National Forest System and not acquired for, or in connection with, other General PP&E). Although heritage and stewardship assets may be considered as priceless, they do not have a readily identifiable financial value and are not recorded within the financial statements of the USDA Forest Service. An in-depth discussion of stewardship assets is presented in the Required Supplementary Stewardship Information section of this report.

Fund balances of approximately \$2.8 billion recorded with the Department of the Treasury (congressional appropriations and trust funds) are available to the agency to pay authorized expenses and finance purchase commitments.

Liabilities and Net Position

The USDA Forest Service reported \$2.2 billion in liabilities at the end of FY 2002, representing probable future expenditures arising from past events. Federal agencies, by law, cannot make any payments unless Congress has appropriated funds for such payments. A portion of liabilities reported by the USDA Forest Service for FY 2002, however, is currently not funded by congressional appropriations. For example, 27 percent (\$599 million) consists of unfunded amounts needed to pay employees for annual leave they have earned but not yet taken and Federal Employees' Compensation Act benefits that have accrued to employees for death, disability, medical, and other approved costs that have not been paid. Additionally, \$54 million of the reported liabilities are custodial liability funds that belong to non-USDA Forest Service entities. A majority of this amount are funds for payments to States. These amounts are held by the agency in special receipt accounts pending transfer to an appropriate party.

A net position of \$4.65 billion is reported for FY 2002, consisting of 56.7 percent (\$2.7 billion) for unexpended appropriations consisting of undelivered orders as well as unobligated funds and 43.3 percent (\$2.0 billion) as the cumulative results of operations. Unexpended appropriations reflect spending authority made available by congressional appropriation that has not yet been used. Cumulative results of operations reflect the cumulative effect of excess financing over expenses for a budget account since its inception.

Revenues

The USDA Forest Service reported approximately \$541 million of earned revenue before elimination and \$323 million after elimination during FY 2002. The majority of earned revenues received arise from two sources: providing goods and services and reimbursable activities. Goods and services include such items as the sale of forest products (timber and firewood); recreational opportunities (campgrounds); mineral resources; livestock grazing; and special land use fees for power generation, resorts, and other business activities conducted on NFS lands. Reimbursable activities include work completed for individuals and businesses cooperating with the agency, as well as work completed mainly in accordance with the Economy Act for other Federal agencies.

The USDA Forest Service distributes a portion of earned revenues to eligible States in accordance with existing law. In FY 2002, approximately \$375 million of FY2001 receipts were distributed to 41 States and Puerto Rico in accordance with the Secure Rural Schools and Community Self-Determination Act of 2000. This funding benefits public schools and roads in communities hosting national forests and pays for local forest stewardship projects.

Expenses

The FY 2002 Net Cost of Operations for the USDA Forest Service indicates the impact of deducting earned revenues from program costs. The net operating costs for the agency were \$5.4 billion. An analysis of the \$5.9 billion of total gross program costs before eliminations shows that approximately 54 percent (\$3.2 billion) was associated with the National Forests and Grasslands (NFS). The Forest and Rangeland Management program accounted for approximately 4 percent (\$250 million). The State and Private Forestry (S&PF) program accounted for approximately 5 percent (\$290 million). The Fire and Aviation Management program accounted for approximately 36 percent (\$2.1 billion), which includes emergency wildfire suppression activities. The Working Capital Fund (WCF) program costs amounted to \$143 million before elimination and -\$76 million after elimination.

Budgetary Resources

The USDA Forest Service had budget authority of approximately \$5.1 billion in FY 2002. These are general Government funds administered by the Department of the Treasury and appropriated for the agency's use by Congress. A portion of the appropriation, \$474 million, was designated by Congress to repay agency funds transferred from other accounts in FY2000 and FY2001 for emergency wildland fire management requirements. The agency must routinely exercise its statutory authority to transfer from other funds available to fight wildland fires. When such transfers take place, the agency requests appropriations from Congress to repay transferred funds in order to accomplish the purpose for which the funds were first provided.

FINANCIAL MANAGEMENT CONTROLS

This section of the Management Discussion and Analysis (MD&A) provides information on the USDA Forest Service's compliance with the:

- Federal Manager's Financial Integrity Act (FMFIA);
- Inspector General Act Amendments (Audit Followup); and the
- Federal Financial Management Improvement Act (FFMIA).

Financial Systems and Controls

The FMFIA requires agencies to annually provide a statement of assurance regarding the effectiveness of management, administrative and accounting controls, and financial management systems.

The USDA Forest Service believes that maintaining integrity and accountability in all programs and operations is critical for good government; demonstrates responsible stewardship over assets and resources entrusted to our care; ensures high-quality, responsible leadership; ensures the sound delivery of services to our customers; and maximizes desired program outcomes.

New efforts are under way to improve timely implementation and closure of audit recommendations. For FY 2002, the USDA Forest Service is reporting two new material weaknesses, Financial Management Internal Control and Computer Security, and updating the status of four open material weaknesses under Section Two of FMFIA. The USDA Forest Service is requesting closure of three material weaknesses and one financial system nonconformance.

The following table shows significant progress by the USDA Forest Service in aggressively pursuing initiatives to fully integrate the accounting system, link all financial systems electronically, and provide data integrity and consistency.

Management Controls: Federal Managers Financial Integrity Act	
Section Two Material Weaknesses	Correction Date
Timber Sale Administration	Requesting Closure in FY2003
Financial System	Completion of All Corrective Actions FY 2003
Special Use Permits	Published its Categorical Exclusions Regulation for Special Uses Actions in the Federal Register for notice and comments; Completion of All Corrective Actions FY 2003
Personal Property	Requesting Closure in FY2003
Contracting	Requesting Closure in FY2003
Performance Reporting	New measures implemented in FY2002; Completion of All Corrective Actions FY 2004
Timber Sale Environmental Analysis	Developed an Administrative Control Plan FY 2001; Completion of All Corrective Actions FY 2004
Financial Management Internal Controls	Completion of corrective actions FY 2003
Computer Security	Completion of corrective actions FY 2003

Section Four System Nonconformances	Correction Date
Real Property Management Information System	Requesting Closure in FY2003

Management Followup to OIG/GAO Recommendations

The USDA Forest Service continues to resolve open audit recommendations. As of September 30, 2002, the USDA Forest Service has 28 audits with 139 open recommendations that are 1 year old and older.

Financial Management

The USDA Forest Service has aggressively acted to correct the agency's financial systems, thereby improving the quality of financial data. FY 2002 marks the third year using Foundation Financial Information System (FFIS), which is fully compliant with Federal financial requirements and incorporates the U.S. Standard General Ledger.

Federal Financial Management Improvement Act (FFMIA) Compliance

The FFMIA of 1996 requires that Federal agencies use the U.S. Standard General Ledger, comply with Federal accounting standards, and establish financial management systems that support full disclosure of financial data, including the full cost of Federal programs and activities. If an agency is not in compliance with these requirements, the FFMIA requires that the agency head establish a remediation plan to bring agency's financial management systems into substantial compliance.

2002 Remediation Plan

For 2001, the Office of Inspector General (OIG) reported in its opinion of the USDA Forest Service's financial statements that the agency's financial management systems were in non-compliance in the areas listed in the following table:

FFMIA Requirement	Area of Noncompliance	Target Completion Date
1. All feeder systems are integrated or electronically interfaced with the core financial system.	INFRA Real Property sub-system is not interfaced with the FFIS.	TARGET COMPLETED
2. Internal controls over data entry, transaction processing and reporting shall be applied	2.a. General ledger adjustments were made so that FFIS account balances would agree with Treasury records.	December 31, 2002

FFMIA Requirement	Area of Noncompliance	Target Completion Date
<p>shall be applied consistently throughout the system to ensure the validity of information and the protection of Federal government resources.</p>	<p>2.b. Inaccurate posting models, which were established by the USDA Office of the Chief Financial Officer Associate CFO for Financial Systems, resulted in erroneous general ledger account balances.</p>	<p>TARGET COMPLETED</p>
	<p>2.c. Invalid obligations and payables were entered into FFIS.</p>	<p>TARGET COMPLETED</p>
	<p>(2c. continued) Audit trails and support for billings and receivables are inadequate. Field units did not obtain monthly listings to verify the accuracy and validity of accounts receivable. Amounts were reported as accounts receivable even though not valid. Some accounts receivable transactions were duplicated.</p>	<p>TARGET COMPLETED</p>
<p>3. Agency financial management systems shall enable the agency to prepare, execute, and report on the agency's budget in accordance with OMB Circulars A-11, A-34, and other OMB circulars and bulletins.</p>	<p>USDA Forest Service violated the Anti-Deficiency Act in FY 2000 by overobligating Wildland Fire Management Appropriations</p>	<p>TARGET COMPLETED</p>
<p>4. Adequate training and user support shall be provided to the users of financial management systems.</p>	<p>Forest Service users lacked specific training on setting up agreements in the Project Cost Accounting System and processing billings and advance liquidation documents.</p>	<p>December 31, 2002</p>
<p>5. Financial management systems shall provide financial reports in a timely and useful fashion.</p>	<p>Forest Service should develop and utilize monthly reports, which are more helpful to field units.</p>	<p>TARGET COMPLETED</p>

2003 Remediation Plan

At the time this section of the report was finalized, the FY 2002 auditors' opinion has not been issued. No material weaknesses, reportable conditions, or issues of noncompliance have been identified, so the USDA Forest Service's remediation plan is pending. When the auditors' report is issued, the Executive Summary and Agency Position will be included in the Report of the Forest Service as Appendix B.

Limitations of Financial Statements

Pursuant to the requirements of the Chief Financial Officer (CFO) Act of 1990, as amended by Government Performance and Results Act (GPRA), the USDA Forest Service prepared financial statements to report the financial position and results of USDA Forest Service operations. The FY 2002 financial statements consist of the Consolidated Balance Sheet, Statement of Net Cost, Statement of Change in Net Position, Statement of Budgetary Resources, Statement of Financing, Required Supplementary Stewardship Information, and Required Supplementary Information. The following limitations apply to the preparation of the FY 2002 financial statements:

- The USDA Forest Service prepared the financial statements to report the financial position and results of operations of the organization, pursuant to the requirements of 31 U.S.C. 3515 (b).;
- While the agency prepared the statements from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget (OMB), the statements are different from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records; and
- The statements should be read with the realization that they are for a component of a sovereign entity. Liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation. Payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

**U.S. Department of Agriculture
Forest Service
CONSOLIDATED BALANCE SHEET
As of September 30, 2002
(In Thousands)**

Assets:

Intragovernmental:	
Fund Balance with Treasury (Note 3)	\$ 2,824,948
Accounts Receivable, (Note 4)	66,110
Investments	2,040
Advances to Others	30
Total Intragovernmental	<u>2,893,128</u>
Cash	73
Accounts Receivable, Net (Note 4)	55,626
Inventory and Related Property, Net	22,207
General Property, Plant & Equipment, Net (Note 6)	3,890,915
Advances to Others	7,763
	<u>7,763</u>
Total Assets (Note 2)	<u><u>\$ 6,869,712</u></u>

Liabilities:

Intragovernmental:	
Accounts Payable	\$ 988
Other (Note 8)	545,577
Total Intragovernmental	<u>546,565</u>
Accounts Payable	374,537
Environmental and Disposal Liabilities	7,069
Other (Note 8)	1,287,614
Total Liabilities (Note 7)	<u>2,215,785</u>

Net Position:

Unexpended Appropriations	2,638,108
Cumulative Results of Operations	2,015,819
Total Net Position	<u>4,653,927</u>

Total Liabilities and Net Position	<u><u>\$ 6,869,712</u></u>
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The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Forest Service
CONSOLIDATED STATEMENT OF NET COST
For the Year Ended September 30, 2002
(In Thousands)

Intragovernmental Gross Costs	\$ 679,311
Less: Intragovernmental Earned Revenues	(170,095)
Intragovernmental Net Costs	<hr/> 509,216
Gross Costs With the Public	
Grants	606,678
Indemnities	11,510
Stewardship Land Acquisition	107,593
Operating Costs	3,698,369
Depreciation Expense	300,360
Reimbursable Costs	190,093
Other	133,578
Less: Earned Revenue from the Public	(152,626)
Net Costs with the Public	<hr/> 4,895,555
Net Cost of Operations (Notes 10 and 13)	<hr/> \$ 5,404,771 <hr/>

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Forest Service
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2002
(In Thousands)

	<u>Results of Operations</u>	<u>Unexpended Appropriations</u>
Beginning Balances	\$ 3,452,585	\$ 2,847,662
Prior Period Adjustments (Note 12)	<u>(1,375,243)</u>	<u>-</u>
Beginning Balances, as adjusted	2,077,342	2,847,662
 Budgetary Financing Sources:		
Appropriations Received	-	1,278,935
Appropriations Transferred-in/out	-	(161,063)
Other Adjustments (rescissions, etc.)	-	3,497,097
Appropriations Used	4,855,441	(4,824,523)
Transfers in/out without Reimbursement	320,722	-
 Other Financing Sources:		
Donations and Forfeitures of Property	4,280	-
Transfers in/out without Reimbursement, Net	(41,332)	-
Imputed Financing	188,824	-
Other	<u>15,313</u>	<u>-</u>
Total Financing Sources	5,343,248	(209,554)
 Net Cost of Operations	 5,404,771	 -
 Ending Balances	 <u>\$ 2,015,819</u>	 <u>\$ 2,638,108</u>

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Forest Service
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2002
(In Thousands)

Budgetary Resources:

Budget Authority:		
Appropriations Received	\$	5,095,687
Net Transfers		(102,407)
Unobligated Balance:		
Beginning of Period (Note 15)		1,251,351
Net Transfers, Actual		110,006
Spending Authority from Offsetting Collections:		
Earned		
Collected		883,972
Receivable from Federal Sources		(157,139)
Change in Unfilled Customer Orders		
Advance Received		(42,179)
Without Advance from Federal Sources		26,379
Subtotal		<u>711,034</u>
Recoveries of Prior Year Obligations		68,289
Permanently not Available		(18,568)
Total Budgetary Resources	\$	<u><u>7,115,392</u></u>

Status of Budgetary Resources:

Obligations Incurred (Note 14):		
Direct	\$	5,217,161
Reimbursable		685,845
Subtotal		<u>5,903,006</u>
Unobligated Balance:		
Apportioned		897,946
Exempt from Apportionment		(4,817)
Unobligated Balance Not Available		319,258
Total Status of Budgetary Resources	\$	<u><u>7,115,392</u></u>

Relationship of Obligations to Outlays:

Obligated Balance, Net, Beginning of Period (Note 15)	\$	1,496,066
Obligated Balance, Net, End of Period:		
Accounts Receivable		(91,873)
Unfilled Customers Orders from Federal Sources		(146,088)
Undelivered Orders		984,926
Accounts Payable		426,709
Outlays:		
Disbursements		6,287,869
Collections		(841,793)
Subtotal		<u>5,446,076</u>
Less: Offsetting Receipts		851,463
Net Outlays	\$	<u><u>4,594,613</u></u>

The accompanying notes are an integral part of these statements.

**U.S Department of Agriculture
Forest Service
CONSOLIDATED STATEMENT OF FINANCING
For the Year Ended September 30, 2002
(In Thousands)**

Resources Used to Finance Activities:

Budgetary Resources Obligated	
Obligations Incurred	\$ 6,065,323
Less: Spending Authority from Offsetting Collections and Recoveries	797,742
Obligations net of Offsetting Collections and Recoveries	<u>5,267,581</u>
Less: Offsetting Receipts	851,407
Net Obligations	<u>4,416,174</u>
Other Resources	
Donations and Forfeitures of Property	4,280
Transfers In/Out without Reimbursement	(41,332)
Imputed Financing From Costs Absorbed by Others	188,824
Other	15,313
Net Other Resources Used to Finance Activities	<u>167,085</u>
Total Resources Used to Finance Activities	4,583,259

Resources Used To Finance Items not part of the Net Cost of Operations:

Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	165,858
Resources that Fund Expenses Recognized in Prior Periods	(162,916)
Budgetary Offsetting Collections and Receipts that do not affect Net Cost of Operations	(162,259)
Resources that Finance the Acquisition of Assets	(1,082,292)
Other Resources or Adjustments to Net Obligated Resources that do not affect Net Costs of Operations	505,217
	<u>(736,392)</u>
Total Resources used to Finance Items Not Part of the Net Cost of Operations	(736,392)
Total Resources Used to Finance the Net Cost of Operations	<u>5,319,651</u>

Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Periods:	
Increase in Annual Leave Liability	6,755
Increase in Exchange Revenue Receivable from the Public	(266,142)
Other	2,540
Total components of Net Cost of Operations that will Require or Generate Resources in Future Periods (Note 18)	<u>(256,847)</u>
Components not Requiring or Generating Resources:	
Depreciation and Amortization	300,360
Revaluation of Assets or Liabilities	40,804
Other	803
Total Components of Net Cost of Operations that will not Require or Generate Resources	<u>341,967</u>
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	<u>85,120</u>
Net Cost of Operations	<u>\$ 5,404,771</u>

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The USDA Forest Service was established on February 1, 1905, as an agency of the United States within the U.S. Department of Agriculture (USDA), for the purpose of maintaining and managing the Nation's forest reserves. It operates under the guidance of the Under Secretary for Natural Resources and Environment (NRE). The USDA Forest Service policy is implemented through nine regional offices, six research offices, one State and Private Forestry area office, the Forest Products Laboratory, and the International Institute of Tropical Forestry, with 868 administrative units functioning in 44 states, Puerto Rico, and the Virgin Islands.

The USDA Forest Service's mission includes the following major segments:

- National Forests and Grasslands - Protection and management of approximately 192 million acres of National Forest System land, which includes 34.8 million acres of designated wilderness areas. In addition, the Forest Service partners with other nations and organizations to foster global natural resource conservation and sustainable development of the world's forest resources;
- Forest and Rangeland Management - Research and development of forestry and rangeland management practices to provide scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the Nation's 1.6 billion acres of forests and associated rangelands;
- State and Private Forestry - Utilization of cooperative agreements with State and local governments, tribal governments, forest industries, and private landowners to help protect and manage non-Federal forests and associated rangeland and watershed areas;
- Fire and Aviation Management – The Fire and Aviation Management Program protects life, property, and natural resources on the 192 million acres of NFS lands, and covers an additional 20 million acres of adjacent State and private lands.
- Working Capital Fund – The working capital fund is used for the purchase or construction of buildings and improvements as well as for furnishing supply and equipment services in support of Forest Service programs.

The accompanying financial statements of the USDA Forest Service include the accounts of all funds under the USDA Forest Service's control.

B. BASIS OF PRESENTATION AND ACCOUNTING

Basis of Presentation

These financial statements were prepared to report the financial position and results of operations and changes in net position of the USDA Forest Service, as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. They have been prepared from the books and records of the USDA Forest Service in accordance with generally accepted accounting principles (GAAP), and in accordance with the Office of Management and Budget Bulletin 01-09, *Form and Content of Agency Financial Statements*. The USDA Forest Service has an Office of Management and Budget approved waiver, which provides an exemption from producing comparative financial statements as part of its fiscal year 2002 financial statements.

Basis of Accounting

Transactions are recorded on an accrual and a budgetary basis of accounting. Under the accrual method, revenues are recognized when earned and expenses when a liability is incurred, regardless of when cash is exchanged. Under the budgetary basis, however, funds availability is recorded based upon legal considerations and constraints. Any prior period adjustments are recorded in accordance with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*.

C. FUND BALANCE WITH THE U.S. TREASURY AND CASH

The U.S. Department of the Treasury processes cash receipts and disbursements on behalf of the USDA Forest Service. Funds on deposit with the U.S. Department of the Treasury are primarily special, trust, and appropriated funds that are available to pay current liabilities and finance authorized purchase commitments.

Cash consists of undeposited collections, and currency for change making and petty cash.

D. ADVANCES

Payments made by the USDA Forest Service in advance of the receipt of goods and services are recorded as advances at the time of payment and recognized as expenditures/expenses when the related goods and services are received. Advance payments are a provision of some contracts and cooperative agreements to facilitate procurements and joint projects with small businesses, non-profit organizations, and local environmental groups. For example, the USDA Forest Service may make an advance payment to a county government under a cooperative agreement to make repairs on a local bridge.

E. INVENTORY AND RELATED PROPERTY

This category reflects only Working Capital Fund (WCF) operating materials and supplies, which consist of tree seeds for a variety of tree species and tree seedlings (nursery stock). The WCF sells these items primarily to Forest Service units, state forestry commissions, and schools. The tree seeds

and seedlings are used for reforestation. Customers are billed for items purchased; thus, costs of providing these items are recovered. Management has established no allowance against these inventories because losses from spoilage, obsolescence, damage, etc., are considered immaterial.

F. GENERAL PROPERTY, PLANT AND EQUIPMENT

General Property, Plant, and Equipment (PP&E) includes real and personal property used in ordinary business operations that have a useful life of 2 years or more. Real and personal property is recorded at cost or estimated cost. As of October 1, 2001, the USDA Forest Service raised its capitalization thresholds for new acquisitions of real property from \$5 thousand to \$25 thousand and for internal use software from \$5 thousand to \$100 thousand. Its threshold for personal property remained at \$5 thousand.

G. LIABILITIES

Liabilities represent the amount of monies or other resources that are likely to be paid by the USDA Forest Service as a result of a transaction or event that has occurred. The USDA Forest Service cannot satisfy a liability, however, without an appropriation. Liabilities for which there is no appropriation, and for which there is no certainty that an appropriation will be enacted, are classified as unfunded liabilities. The Government, acting in its sovereign capacity, can abrogate liabilities. Note 7, Liabilities Not Covered by Budgetary Resources, segregates liabilities between those covered by budgetary resources and not covered by budgetary resources.

H. ENVIRONMENTAL AND DISPOSAL LIABILITIES

The USDA Forest Service's estimated government-related environmental liabilities relate principally to the future remediation of certain landfills, buildings and other related sites in accordance with all applicable federal, state and local laws. Such estimates do not consider the effect of future inflation or new technology, laws or regulations.

I. COMMITMENTS AND CONTINGENCIES

The full value of probable and estimable amounts related to unsettled litigation and other claims against the USDA Forest Service is recognized as a liability and expense. Expected amounts related to litigation and other claims include amounts to be paid by the Department of the Treasury on behalf of the USDA Forest Service from a permanent appropriation for judgments and from other appropriations. The USDA Forest Service is a party in various other administrative proceedings, legal actions, environmental lawsuits, and other claims brought by or against the USDA Forest Service. In the opinion of the USDA Forest Service management and the opinion of legal counsel, the ultimate resolution of these proceedings is currently indeterminable.

J. IMPUTED PENSION AND OTHER RETIREMENT BENEFITS

In accordance with Federal government accounting guidance, the USDA Forest Service recognizes the liability and associated expense of employee pensions and other retirement benefits (including health care and other post-employment benefits) at the time the employee's services are rendered.

Pension expenses, retirement health benefits, and related liabilities are recorded at estimated actuarial present value of future benefits, less the estimated actuarial present value of normal cost contributions

made by, and for, covered employees. Other post-employment benefit expenses and related liabilities are recognized when the future outflow of resources is probable and measurable on the basis of events occurring on or before the reporting date.

K. WORKERS' COMPENSATION LIABILITY

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to Federal civilian employees injured on the job, employees who have incurred a work related occupational disease, and beneficiaries of employees whose death is attributable to a job related injury or occupational disease. Claims incurred for benefits for the USDA Forest Service's employees under FECA are administered by the U.S. Department of Labor (DOL) and are ultimately paid by the U.S. Department of Agriculture. Consequently, the USDA Forest Service recognizes a liability for this compensation that is composed of two components: (1) an accrued liability that represents money owed for claims paid through the current fiscal year and (2) an actuarial liability that represents the expected liability for approved compensation cases beyond the current fiscal year.

L. EMPLOYEE ANNUAL, SICK, AND OTHER LEAVE

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of leave are expended as taken.

M. RETIREMENT PLANS

The USDA Forest Service employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). On January 1, 1984, CSRS employees were required by Congress to begin paying contributions to Social Security. At that time, the Office of Personnel Management began creating the administrative provisions of FERS. FERS officially became effective January 1, 1987, pursuant to Public Law 99-335. The time between January 1, 1984 and January 1, 1987 is called the "interim period". Employees hired after December 31, 1983, are covered by FERS and Social Security.

For employees covered under FERS, the USDA Forest Service withholds, in addition to Social Security, 1 percent of gross earnings. For employees covered under the CSRS, the USDA Forest Service withholds 8.51 percent of their gross earnings. The USDA Forest Service matches the employees' contribution and the sum is transferred to CSRS. The USDA Forest Service does not report CSRS assets, accumulated plan benefits, or unfunded liabilities (if any) applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management.

On April 1, 1987, the Federal government initiated the Thrift Savings Plan (TSP), which is a retirement savings and investment plan for Federal employees covered by both FERS and CSRS. FERS employees may contribute up to 12 percent of their gross pay to the TSP. The USDA Forest Service automatically contributes 1 percent of a FERS employee's gross salary to the TSP. For the first 3 percent of gross pay contributed by a FERS employee, the USDA Forest Service will match the contribution dollar for dollar. For the next 2 percent contributed, the USDA Forest Service will match 50 cents per dollar contributed. CSRS employees may contribute up to 7 percent of their gross pay, but there is no matching contribution.

The maximum amount of employee contributions to the TSP is established on a calendar year basis. The maximum amount that FERS employees can contribute to the TSP in calendar year 2002 is the lesser of \$11 thousand or 12 percent of their gross pay. The maximum amount that CSRS employees can contribute to the plan in calendar year 2002 is the lesser of \$11 thousand or 7 percent of their gross pay. The sum of employee and the USDA Forest Service contributions is transferred to the TSP, which is administered by the Federal Retirement Thrift Investment Board.

N. REVENUES AND OTHER FINANCING SOURCES

The USDA Forest Service is funded principally through Congressional appropriations and other authorizations from the Budget of the United States. The USDA Forest Service receives annual, multiyear and no year appropriations that are used, within statutory limits, for operating and capital expenditures. Other funding sources are derived through reimbursements for services performed for other Federal and non-federal entities, sale of goods to the public, gifts from donors, and interest on invested funds.

Appropriations are recognized as revenues at the time the related programs or administrative expenses are incurred. Appropriations expended for property and equipment are recognized as expenses when an asset is consumed in operations. Other revenues are recognized when earned; that is when goods have been delivered or services rendered.

In accordance with Federal government accounting guidance, the USDA Forest Service classifies revenue as either “exchange revenue” or “non-exchange revenue.” Exchange revenue arises from transactions that occur when each party to the transaction sacrifices value and receives value in return. In some cases, the USDA Forest Service is required to remit exchange revenue receipts to the U.S. Department of the Treasury (Treasury). In other instances the USDA Forest Service is authorized to use all or a portion of its exchange revenues for specific purposes. Non-exchange revenue is revenue the Federal government is able to demand or receive because of its sovereign powers.

The USDA Forest Service reports the full cost of products and services generated from the consumption of resources. Full cost is the total amount of resources used to produce a product or provide a service unless otherwise noted. In accordance with SFFAS No.7, *Accounting for Revenue and Other Financing Sources*, the USDA Forest Service’s pricing policies are set to recover full cost except where mandated by law or otherwise for the public good such as in the case of grazing fees.

NOTE 2. NON-ENTITY ASSETS

Total assets consist of both entity and non-entity. Non-entity assets are those assets not available for use in the operations of the USDA Forest Service and consist primarily of amounts recorded in the National Forest Fund account, Budget Clearing account, and General Fund Proprietary Receipts such as collections of fines and penalties.

As of September 30, 2002, total non-entity assets consist of:

In Thousands	
Intragovernmental	
Fund Balance with Treasury	\$ 609,033
Accounts Receivable	<u>195</u>
Total Intragovernmental	609,228
Accounts Receivable	<u>58,915</u>
Total Non-Entity Assets	668,143
Total Entity Assets	<u>6,201,569</u>
Total Assets	<u><u>\$ 6,869,712</u></u>

NOTE 3. FUND BALANCE WITH TREASURY

The U.S. Department of the Treasury processes cash receipts and disbursements. Funds with the U.S. Department of the Treasury are primarily special, trust and appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. Fund balances with the U.S. Department of the Treasury include both entity and non-entity fund balances. It is the policy of the USDA Forest Service to record the amount of Fund Balance with Treasury consistent with the balances reflected according to the records of the U.S. Department of the Treasury. Fund Balances at September 30, 2002 consisted of the following:

In Thousands	
A. Fund Balances:	
(1) Trust Funds	\$ 308,076
(2) Revolving Funds	107,817
(3) Appropriated Funds	2,214,795
(4) Other Fund Types	<u>194,260</u>
Total	<u><u>\$ 2,824,948</u></u>
B. Status of Fund Balances with Treasury	
(1) Unobligated Balance	
(a) Available	957,845
(b) Unavailable	83,117
(2) Obligated Balance not yet Disbursed	1,203,480
(3) Suspense, Deposit, and Other Funds	<u>580,506</u>
Total	<u><u>\$ 2,824,948</u></u>

NOTE 4. ACCOUNTS RECEIVABLE

Intragovernmental accounts receivable represent amounts due under reimbursable and cooperative agreements with Federal entities for services provided by USDA Forest Service. An allowance for receivables deemed uncollectible was not established for these amounts because monies due from other Federal entities are considered fully collectible.

Accounts receivable (Non-Federal) are comprised primarily of reimbursements and refunds of fire prevention and suppression activities. An allowance for receivables deemed uncollectible was established for 20 percent or 80 percent, according to the age of the receivable. Governmental accounts receivable as of September 30, 2002 was as follows:

(In Thousands)

Accounts Receivable	\$ 197,626
Allowance for Doubtful Accounts	<u>(142,000)</u>
Accounts Receivable, Net	<u>\$ 55,626</u>

Non-entity accounts receivable are comprised primarily of timber harvest. An allowance for timber-related receivables is established based on analysis of individual accounts.

NOTE 5. FORFEITED AND SEIZED PROPERTY

A seizure is the act of taking possession of goods in consequence of a violation of public law. Seized property consists of monetary instruments, real property, and tangible personal property in the actual or constructive possession of the seizing and the custodial agencies. Such property is not legally owned by the USDA Forest Service until judicially or administrative forfeited. Seized evidence includes cash, weapons, non-monetary valuables, and illegal drugs.

Pursuant to Federal Financial Accounting and Auditing Technical Release No. 4, *Reporting On Non-Valued Seized and Forfeited Property*, the value of seized property with no legal market in the United States (e.g., weapons, chemicals, drug paraphernalia, gambling devices) is not included on the consolidated balance sheet.

The following table represents the USDA Forest Service seized property at September 30, 2002:

Seized Property Category	In Thousands
Financial & Other Monetary Instruments (Cash)	\$ 28
Personal Property (20 Items)	131
Non-Valued Items (See Below*)	
Total	<u>\$ 159</u>

* *Non-Valued items are further detailed below:*

The USDA Forest Service has custody of illegal drugs and weapons taken as evidence for legal proceedings. In accordance with Federal Financial Accounting and Auditing Technical Release No.4, *Reporting on Non-Valued Seized and Forfeited Property*, the USDA Forest Service reported the total amount of seized drugs below by quantity (Kilograms) only. Illegal drugs and weapons have no salable value to the Federal government and are destroyed upon resolution of legal proceedings. Seized property at September 30, 2002 was as follows:

Evidence	(KG)
Cocaine	0.06566
Marijuana	5362.682
Cannabis Cultivation –Plant	17,427 (Plants)
Methamphetamine	0.61919
Mushrooms	0.089
Weapons (firearms)	546 items

NOTE 6. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

Depreciation of General Property, Plant and Equipment (PP&E) for the USDA Forest Service is recorded on the straight-line method based on the useful lives listed below. As of September 30, 2002 the USDA Forest Service’s PP&E consists of the following:

In Thousands				
Property Class	Useful Life (Years)	Cost	Accumulated Depreciation	Book Value
Personal Property	5-20	\$ 998,190	\$ (607,552)	\$ 390,638
Real Property	10-50	7,206,355	(3,706,078)	3,500,277
Total		\$ 8,204,545	\$ (4,313,630)	\$ 3,890,915

NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources as of September 30, 2002 consist of the following:

In Thousands	
Intragovernmental	
Judgment Fund	\$ 189,300
FECA	63,910
Governmental	
Actuarial FECA	365,607
Leave	170,098
Contingent Liabilities	37,400
Payment to States	105,073
Environmental and Disposal Liabilities	7,069
Total Liabilities Not Covered by Budgetary Resources	<u>938,457</u>
Total Liabilities Covered by Budgetary Resources	<u>1,277,328</u>

Total Liabilities

\$ 2,215,785

NOTE 8. OTHER LIABILITIES

The following table segregates Other Liabilities between Covered and Not Covered by Budgetary Resources and between Intragovernmental and Governmental as of September 30, 2002.

In Thousands

Other Liabilities Covered By Budgetary Resources

	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental			
Employer Contributions & Payroll Tax	\$ -	\$ 6,718	\$ 6,718
Other Accrued Liabilities	-	58,777	58,777
Advances From Others	-	26,101	26,101
Trust and Deposit Liabilities	-	181,076	181,076
Custodial Liability	-	23,355	23,355
Other Liabilities	-	(3,660)	-3,660
Total Intragovernmental	<u>\$ -</u>	<u>\$ 292,367</u>	<u>\$ 292,367</u>

	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Other Accrued Liabilities	\$ -	\$ 477,170	\$ 477,170
Advances From Others	-	31,443	31,443
Trust and Deposit Liabilities	-	23,579	23,579
Purchaser Road Credits	-	42,024	42,024
Custodial Liability	-	31,138	31,138
Other Liabilities	-	4,082	4,082
Total Governmental	<u>\$ -</u>	<u>\$ 609,436</u>	<u>\$ 609,436</u>

Other Liabilities Not Covered By Budgetary Resources

	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental			
Treasury Judgment Fund	\$ 189,300	\$ -	\$ 189,300
Unfunded FECA	36,668	27,242	63,910
Total Intragovernmental	<u>\$ 225,968</u>	<u>\$ 27,242</u>	<u>\$ 253,210</u>

	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Actuarial FECA	\$ 365,607	\$ -	\$ 365,607
Payments to States	105,073	-	105,073
Unfunded Annual Leave	9,098	161,000	170,098
Contingent Liabilities	37,400	-	37,400
Total Governmental	<u>517,178</u>	<u>161,000</u>	<u>678,178</u>
Total Other Liabilities	<u>\$ 743,146</u>	<u>\$ 1,090,045</u>	<u>\$ 1,833,191</u>

As of September 30, 2002 the USDA Forest Service major components of other liabilities are as follows:

Advances From Others: Advances from Others consist of monies on deposit for cooperative work project agreements with the public.

Trust and Deposit Liabilities: Trust and Deposit Liabilities, Governmental, consist primarily of cash prepayments and deposits from timber purchasers before the actual harvest of timber. The remaining Trust and Deposit Liabilities include liabilities that have been temporarily included in suspense accounts.

Custodial Liabilities: Custodial liability consists of amounts held in special receipt accounts that belong to non-USDA Forest Service entities. (See Note 20 for more on custodial liability.)

Purchaser Road Credits: Purchaser Road Credits are liabilities arising under timber sales contracts issued through April 1999 that are still in effect. Under the terms of certain timber sales contracts, timber purchasers are allowed to construct roads to gain access to timber. If the USDA Forest Service has a use for the roads upon contract completion, the timber purchaser is given a credit, referred to as a purchaser road credit (PRC), for the value of the roads, to the extent their service lives exceed the contract's duration. Effective April 1999, in accordance with 16 U.S.C. § 535a, such purchaser road credits are prohibited on newly issued timber contracts.

The amount of the PRC granted to contractors in connection with pre-April 1999 contracts is based on a USDA Forest Service engineering estimate made at the time of the timber sale. A PRC is established when the USDA Forest Service accepts the road. At that time, an asset (a component of Property, Plant and Equipment) and a liability (Unearned Revenue) is recorded for the amount of the PRC established.

On applicable contracts, the timber purchaser can use the PRC as an offset to payments on timber harvested. As the PRC is used in lieu of cash in paying for timber harvested, the amount in Unearned Revenue is reduced and current year revenue is recognized. If all PRCs have not been applied when the contract is closed, they are canceled and the amounts are removed from the Unearned Revenue account. PRCs that are not applied against the timber sale contract price are, in effect, donated to the Federal Government.

Treasury Judgment Fund: The USDA Forest Service pays small tort claims out of its own funds. Other legal actions exceeding \$2.5 thousand, however, fall under the Federal Tort Claims Act. These are paid from the Claims, Judgments, and Relief Acts Fund (Judgment Fund) maintained by the Department of the Treasury. Absent a specific statutory requirement, the USDA Forest Service is not required to record a liability or reimburse the Judgment Fund for payments for tort claims made on its behalf. These payments, however, are recognized as an expense and an imputed financing source in the Statements of Net Cost and Changes in Net Position. Payments reported from torts and court of claims for FY 2002 amounted to \$9,184 thousand.

The Contract Disputes Resolution Act (CDRA) governs litigation arising from contract disputes (such as from timber sales contracts). Subsection 612(c) provides that CDRA payments made on behalf of Federal agencies by the Judgment Fund shall be reimbursed to the Fund. Consequently, the debtor Federal agency is required to record a payable to the Judgment Fund. Those amounts remain a

receivable on Financial Management Service's (Department of Treasury) books and a payable on the debtor agency's books until reimbursement to the Fund is made by the agency. At September 30, 2002 the Department of Treasury indicated that the USDA Forest Service is liable for \$189,300 thousand.

Federal Employees' Compensation Act Liabilities: Liabilities under the Federal Employees' Compensation Act (FECA) are incurred as a result of workers' compensation benefits that have accrued to employees, but have not yet been paid by the USDA Forest Service. Workers' compensation benefits include the current and expected future liability for death, disability, medical, and other approved costs. The U.S. Department of Labor actuarially determines the expected future liability for the U.S. Department of Agriculture as a whole, including the USDA Forest Service. The USDA Forest Service is billed annually as its claims are paid by the DOL. Payment to the DOL is deferred for 2 years so that the bills may be funded through the budget. Payments to the DOL are recognized as an expense in the Statement of Net Cost. The amounts of unpaid FECA billings constitute the accrued FECA payable.

The total components of accrued FECA payable as of September 30, 2002 are as follows:

In Thousands	
Not Covered By Budgetary Resources, Intragovernmental	
Liability for FECA	\$ 63,910
 Not Covered By Budgetary Resources, Governmental	
Expected Future Liability for FECA	365,607
Total	\$ 429,517

Pending Litigation and Unasserted Claims (Contingencies): As of September 30, 2002, the USDA Forest Service has five legal actions pending, based on information provided by legal counsel management believes it is probable of an adverse decision. The estimated loss is \$37,400 thousand.

The USDA Forest Service has other pending legal actions for which the likelihood of adverse outcomes is reasonably possible. The potential loss related to these actions totals approximately \$1,660,000 thousand.

NOTE 9. LEASE LIABILITIES

The USDA Forest Service enters into leasing agreements through the General Service Administration (GSA) and through leasing authority delegated by GSA to enter into leases of general facilities (buildings and office space), equipment as well as land. Leases may include renewal options for periods of one or more years. Most leases are cancelable upon certain funding conditions. The future USDA Forest Service operating lease agreement payments as of September 30, 2002 are as follows:

Asset Category			
(In Thousands)			
<u>Fiscal Year</u>	<u>Personal Property</u>	<u>Real Property</u>	<u>Totals</u>
FY 2003	\$ 1,112	\$ 47,686	\$ 48,798
FY 2004	698	43,966	44,664
FY 2005	395	41,334	41,729
FY 2006	174	38,365	38,539
FY 2007	38	35,869	35,907
After FY 2007	<u>14</u>	<u>237,177</u>	<u>237,191</u>
Total	<u>\$ 2,431</u>	<u>\$ 444,397</u>	<u>\$ 446,828</u>

NOTE 10. PROGRAM COSTS BY SEGMENT

The USDA Forest Service reflects costs through five primary responsibility segments: National Forests and Grasslands, Forest Rangeland Management, State and Private Forestry, Fire and Aviation Management and the Working Capital Fund.

The following table illustrates program costs by segments.

**USDA Forest Service
Program Costs by Segment
For The Year Ended September 30, 2002**

In Thousands

	National Forests and Grasslands	Forest and Rangeland Management	State and Private Forestry	Fire and Aviation Management	Working Capital Fund	Total	Working Capital Fund Elimination	Total Net of Working Capital Fund Elimination
Intragovernmental Gross Costs	\$ 484,430	\$ 15,080	\$ 13,396	\$ 385,596	\$ (1,056)	\$ 897,446	\$(218,135)	\$ 679,311
Less: Intragovernmental Earned Revenue	(134,542)	(20,229)	(5,794)	(9,530)	(218,135)	(388,230)	218,135	(170,095)
Intragovernmental Net Costs	349,888	(5,149)	7,602	376,066	(219,191)	509,216	-	509,216
Gross Costs With the Public :								
Grants	376,213	3,642	216,899	9,897	27	606,678	-	606,678
Indemnities	10,151	253	194	893	19	11,510	-	11,510
Stewardship Land Acquisition	107,593	-	-	-	-	107,593	-	107,593
Operating Costs	1,760,486	206,286	51,748	1,608,200	71,649	3,698,369	-	3,698,369
Depreciation Expense	252,033	2,084	423	3,285	42,535	300,360	-	300,360
Reimbursable Costs	102,322	22,293	2,683	62,795	-	190,093	-	190,093
Other	99,935	(66)	8	5,286	29,415	133,578	-	133,578
Less: Earned Revenues from the Public	(90,055)	(2,636)	(99)	(59,836)	-	(152,626)	-	(152,626)
Net Costs with the Public	2,617,678	231,856	271,856	1,630,520	143,645	4,895,555	-	4,895,555
Net Cost of Operations	\$ 2,967,566	\$ 226,707	\$ 279,458	\$ 2,006,586	\$ (75,546)	\$ 5,404,771	\$ -	\$ 5,404,771

NOTE 11. COST OF STEWARDSHIP PP&E

Stewardship assets acquired through purchase in fiscal year 2002 amounted to \$107,592 thousand and consisted of land, easements, and right-of-way. Stewardship land is all land that is not general-purpose land, i.e., land that does not have a general purpose building on it. Stewardship land costs include purchase cost and any salary costs, survey costs, title costs, closing costs, restoration costs and any other expenses necessary to prepare the land for its intended use.

NOTE 12. PRIOR PERIOD ADJUSTMENTS

In FY 2002, the USDA Forest Service discovered and corrected accounting errors that occurred in previous fiscal years. A summary of the adjustments follows:

	(In Thousands)	Cumulative Results Of Operations
Beginning Balance, as previously stated	\$	3,452,585
Corrections related to:		
General PP & E		(915,061)
Accounts Payable		(312,121)
Net Position		(305,541)
Accounts Receivable		(76,347)
Other		<u>233,827</u>
Total Prior Period Adjustments		<u>(1,375,243)</u>
Beginning Balance as Restated	\$	<u><u>2,077,342</u></u>

NOTE 13. GROSS COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION

The breakdown of USDA Forest Service’s net costs by Budget Functional Classification is as follows:

Gross Cost and Earned Revenue by Budget Functional Classification:

In Thousands			
Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
300 Natural Resources and Environment	\$ 5,226,684	\$ 345,512	\$ 4,881,172
350 Agriculture	349	191	158
450 Community and Regional Development	249	-	249
800 General Government	500,210	(22,982)	523,192
Total	<u>\$ 5,727,492</u>	<u>\$ 322,721</u>	<u>\$ 5,404,771</u>

Intragovernmental Total Cost and Earned Revenue by Budget Functional Classification:

In Thousands			
Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
300 Natural Resources and Environment	\$ 679,185	\$ 170,092	\$ 509,093
350 Agriculture	82	3	79
800 General Government	44	-	44
Total	<u>\$ 679,311</u>	<u>\$ 170,095</u>	<u>\$ 509,216</u>

NOTE 14. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

The Office of Management and Budget (OMB) usually distributes budgetary resources in an account or fund by specific time periods, activities, projects, objects or a combination of these categories. Apportionments by fiscal quarters are classified as category A apportionments. All other apportionments are classified as category B apportionments. USDA Forest Service apportionments are not made on a quarterly basis; therefore, they are classified as Category B apportionments.

NOTE 15. ADJUSTMENTS TO BEGINNING BALANCE OF BUDGETARY RESOURCES

Reporting Requirements for Transfer Appropriation Accounts – OMB Bulletin No. 01-09, Section 9.36 prescribes that the parent should report the activity in its financial statement, unless the allocation is material to the child’s financial statements. If the allocation transfer is material to the child’s financial statements, the child should report the activity relating to the allocation in all of its financial statements, except the Statement of Budgetary Resources. The parent should continue to report the appropriation and the related budgetary activity in its Statement of Budgetary Resources. It

is the responsibility of the parent to ensure that the reporting to Treasury, through FACTS I, is consistent with the presentation in the financial statements. The USDA Forest Service is required to report two treasury symbols as “child”: the Transfer Appropriation accounts relate to Department of Labor, Job Corps Civilian Conservation, and Department of Transportation, Federal Highway Trust Fund. Job Corps is a Department of Labor residential training program for unemployed and under-employed young people, financed by the Department of Labor, conducted on campuses on National Forest land, and supervised by USDA Forest Service employees. Based on the above guidance, both accounts were excluded from the Statement of Budgetary Resources in FY 2002 resulting in adjusted beginning balances.

The impact on the Statement of Budgetary Resources is as follows:

In Thousands

Unobligated Balance, Beginning of Period:

FY 2001 Ending Balance	Adjustment	FY 2002 Beginning Balance
\$ 1,342,828	(91,477)	1,251,351

Obligated Balance, Net, Beginning of Period:

FY 2001 Ending Balance	Adjustment	FY 2002 Beginning Balance
\$ 1,540,125	(44,059)	1,496,066

NOTE 16. PERMANENT INDEFINITE APPROPRIATIONS

The following permanent indefinite appropriations exist for the purpose shown, with funds available until expended.

APPROPRIATION NAME	PURPOSE
Brush Disposal	Deposits from timber purchasers are used for disposal of brush and other debris from cutting operations on timber sale areas.
Licensee Programs, Smokey Bear and Woodsy Owl	Royalty income from character licensing is used to promote forest fire prevention and environmental quality.
Forestlands Restoration and Improvements	Forfeitures of cash and surety bonds are used by Forest Service to complete improvement or rehabilitation work left unfinished by permittees or timber purchasers.
Recreation Fee Collection Costs	Up to 15% of recreation fee revenue may be used to cover fee collection costs.
Recreation Fee Demonstration Program	Recreation fee revenue is used for operation, maintenance, and improvements of recreation areas and related habitat.
Timber Roads – Purchaser Election Program	Deposits from timber purchasers are used by the Forest Service for roads and bridges required for timber sales.
Timber Salvage Sales	Income from the sale of damaged timber is used to design, engineer, and supervise the preparation of future salvage sales.
Timber Sale Pipeline Restoration Fund	Income from the sale of healthy timber is used to prepare more timber sales and reduce the backlog of recreation projects.

APPROPRIATION NAME	PURPOSE
Road and Trails for States	10% of the National Forest receipts are used for roads and trails within the national forests in the states where the receipts were collected.
Midewin National Tallgrass Prairie Rental Fees	Income from user fees and sales is used for the costs of restoration, prairie improvement, and administration.
Midewin National Tallgrass Prairie Restoration Fund	Income from user fees and sales is used for the costs of restoration, the visitor center, and facilities construction.
Operation and Maintenance of Quarters	Rental fees for government-owned housing are used to maintain those residences.
Land Between the Lakes Management Fund	Income from recreation user fees is used for management costs, including salaries and expenses.
Payment to Minnesota	Income from national forests in Minnesota is used for an annual payment to benefit the Boundary Waters Canoe Area.
Payments to Counties – National Grasslands Fund	Income from national grasslands is used for an annual payment to counties where the grasslands are located.
Payments to States – National Forest Fund	Income from national forests is used to partially fund payments to states where the forests are located.

NOTE 17. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

The Budget of the United States Government with actual numbers for the fiscal year has not yet been published. It is expected to be published in February 2003. Copies may be obtained from the Government Printing Office when available.

NOTE 18. EXPLANATION OF THE RELATIONSHIP BETWEEN LIABILITIES NOT COVERED BY BUDGETARY RESOURCES AND THE CHANGE IN COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS.

The USDA Forest Service’s FY 2002 difference between the liabilities not covered by budgetary resources and the change in components requiring or generating resources in future periods result from liabilities not covered by budgetary resources being recorded in current year to the Statement of Net Cost; while liabilities not covered by budgetary resources are cumulative over fiscal years. The components of the Net Cost of Operations that will require or generate resources in the future are as follows:

Increase in Annual Leave Liability	\$ 6,755
Increase in Exchange Revenue Receivable from the Public	(266,142)
Other (FECA Liability)	<u>2,540</u>
Total Components of Net Cost of Operations that will Require or Generate Resources in the Current Period	<u>\$ (256,847)</u>

NOTE 19. DESCRIPTION OF TRANSFERS THAT APPEAR AS A RECONCILING ITEM ON THE STATEMENT OF FINANCING

The USDA Forest Service has the following routine transfers without reimbursement:

Transfers In

Trading Partner	Account Title	Purpose
Department of Labor	Job Corps Civilian Conservation	Provide training for underemployed youths.
Department of Transportation	Federal Highway Trust Fund	Maintenance and upkeep of federal highway traversing National Forest lands.

NOTE 20. INCIDENTAL CUSTODIAL COLLECTIONS

The USDA Forest Service, as of September 30, 2002, had collected the following funds, of which portions are due to states and counties. The largest component of custodial collections comes from the sale of products and services from the National Forests and National Grasslands. These amounts payable are included in Other Liabilities as Custodial Liability:

(In Thousands)	
Beginning Balance	\$ 280,469
Revenue Activity:	
Sources of Collections:	
National Forest Fund Receipts	21,648
Payments and Receipts, National Grasslands	11,253
Miscellaneous	<u>3,514</u>
Total Cash Collections	36,415
 Total Custodial Revenue and Beginning Balance	 <u>316,884</u>
 Disposition of Collections:	
Transferred to Others:	
States and Counties (Payments to States)	(306,799)
(Increase)/Decrease in Amounts Yet to be Transferred	<u>(10,085)</u>
Total Disposition	<u>(316,884)</u>
 Net Custodial Activity	 <u>\$ -</u>

NOTE 21. DEDICATED COLLECTIONS

The USDA Forest Service recognizes the following funds as dedicated collections. These funds are used as dedicated for the benefit of enhancing and maintaining National Forest System lands including reforestation. Donations are handled on a cash basis and all others are accounted for on the accrual basis.

TRUST FUNDS

TREASURY SYMBOL	FUND/NAME	PURPOSE	AUTHORITY
12X8028	Cooperative Work	Advances from cooperators	16 USC 498,72(c),72a,76b,81
12X8029	Mount Saint Helens Highway	Repair highways	23 USC 203,207
12X8034	Gifts, Donations and Bequests for Forest and Rangeland Research	Segregate donations for research	16 USC 1643b
12X8039	Land Between the Lakes Trust Fund	Donations to National Recreation Area	112 Stat.2681-317
12X8046	Reforestation Trust Fund	Reforestation	16 USC 1606a
1269X8083	Federal Aid to Highways	Maintain Federal highways in Forest Service land	31 USC 3515
12X8203	Gifts and Bequests	Segregate general donations	7 USC 2269

SPECIAL FUNDS

FUND – NAME	PURPOSE	AUTHORITY
12X5004 – Land Acquisition	Watershed Management	96 Stat. 1983
12X5010 – Recreation Fees	Collection costs	107 Stat. 1610
12X5072 – Fees, Operations and Maintenance of Recreation Facilities	Maintain recreational facilities	101 Stat. 1330-265
12X5201 – Payments to States, National Forest Fund	Revenue Sharing Grant	16 USC 500
12X5202 – Timber Roads, Purchaser Election	Timber sale area purchasers' roads	16 USC 472(I)(2)
12X5203 – Roads and Trails for States, National Forest Fund	Recreation road and trail improvements	16 USC 501
12X5204 – Timber Salvage Sales	Prepare salvage sale and reforest after sale	16 USC 472(a)
12X5206 – Expenses, Brush Disposal	Timber operators amounts for brush disposal	16 USC 490
12X5207 – Range Betterment	Improvements to grazing lands	16 USC 580h
12X5212 – Construction of Facilities or	Inactive	94 Stat. 3372

FUND – NAME	PURPOSE	AUTHORITY
Land Acquisition		
12X5213 – Payment to Minnesota (Cook, Lake, and Saint Louis Counties) from the National Forests Fund	Revenue sharing grant	16 USC 577g, 577g-1
12X5214 – Licensee Program	Smokey Bear, Woodsey Owl Licensing royalties used for fire prevention	31 USC 488a
12X5215 – Restoration of Forest Lands and Improvements	Environmental restoration	16 USC 579c
12X5216 – Acquisition of Lands to Complete Land Exchanges	Land exchange and acquisition for forest management purposes	96 Stat. 1984; 16 USC 484a
12X5217 – Tongass Timber Supply Fund	Management of timber supply in Alaska	16 USC 539d, 539c
12X5219 – Operation and Maintenance of Quarters	Government-owned quarters rents finance maintenance	5 USC 5911
12X5220 – Resource Management Timber Receipts	Accelerate management practices of natural resources	102 Stat. 1809
12X5223 – Quinault Special Management Area	Management of special Quinault tribal area	102 Stat. 3328
12X5224 – Strawberry Valley Land Transfer	Transfer of specific land tract	102 Stat. 2828; 2829
12X5225 – Pacific Yew	Management of Pacific Yew species, natural source of Taxol pharmaceuticals	106 Stat. 862
12X5264 – Timber Sales Pipeline Restoration Fund	Prepare certain volume of timber sales, ready to advertise	110 Stat. 1321-206 Sec. 327
12X5268 – Recreation Fee Demonstration Program	Maintenance of recreation areas, support of recreation program at Demonstration sites	16 USC 4601-6a
12X5277 – Midewin National Prairie Rental Fee Account	Maintenance of Midewin	110 Stat. 602
12X5278 – Midewin National Tall-Grass Prairie Restoration Fund	Restoration of Midewin	110 Stat. 602
12X5360 – Land Between the Lakes Management Fund	Maintenance of National Recreation Area	112 Stat. 2681-315
12X5361 – Administrative Rights-of-Way and Other Land Uses Fund	Maintenance of commercial filming sites	113 Stat. 1501A-196, Sec. 331
12X5363 – Valles Caldera Fund	Maintenance of Valles Caldera Preserve, NM	114 Stat. 605
12X5462 – Hardwood Technology Transfer and Applied Research Fund	Support and stimulation of hardwood forestry practices	112 Stat. 297-298, Sec. 343(e)
12X5896 – Payments to Counties, National Grasslands	Revenue-sharing grant	7 USC 1012

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

STEWARDSHIP, PROPERTY, PLANT AND EQUIPMENT

The Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Recommended Accounting Standards (SRAS) No. 8 provides the following definitions:

- **Stewardship Assets**- Property owned by the Federal Government that physically resembles Property, Plant and Equipment, but differs in that the value may be indeterminable or have little meaning.
 - **Heritage Assets**
 - **Stewardship Land**
- **Stewardship Investments**- Expenses and investments incurred for education and training of the public that is intended to increase national economic productive capacity (investment in human capital), and research and development intended to produce future benefits.
- **Stewardship Responsibilities**- Information on the financial impact of continuing to provide current programs and services

Heritage Assets

The USDA Forest Service estimates that about 300 thousand heritage assets are on land that it manages. This information was estimated from the 9 Forest Service Regions and the Department of the Interior Report to Congress. Some of these assets are listed on the National Register of Historic Places and some are designated as National Historic Landmarks. The USDA Forest Service heritage resource specialists on the 155 national forests maintain separate inventories of heritage assets. Most of these assets receive no annual maintenance. A long-term methodology to better assess the extent and condition of these assets is being formulated. A module in the Agency's real property management Infrastructure (INFRA) system has been developed and implemented for heritage assets. The extreme fire season and competing priorities however have prevented full population of the database.

The following table shows number of heritage assets by category and condition for FY 2002.

Category	2002 Estimated (Sites)	Condition
Total Heritage Assets	302,063	Poor-Fair
Eligible for the National Register of Historic Places	47,175	Poor-Fair
Listed on the National Register	3,491	Fair
Sites with structures listed on the National Register	1,383	Poor-Fair
National Historic Landmarks	17	Fair

See Independent Auditors' Report

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Heritage Assets Definitions

Historic Structures: Constructed works consciously created to serve some human purpose. They include buildings, monuments, logging and mining camps, and ruins.

National Historic Landmarks: Includes sites, buildings, or structures that possess exceptional value in commemorating or illustrating the history of the United States, and exceptional value or quality in illustrating and interpreting the heritage of the United States. The Secretary of the Interior is the official designator of National Historic Landmarks.

National Register of Historic Places: Includes properties, buildings, and structures that are significant in U.S. history, architecture, and archaeology, and in the cultural foundation of the Nation.

Eligible for the National Register: Those sites formally determined as eligible for the National Register through the Keeper of the National Register or documented by consultation with State Historic Preservation Offices. Previous reports included all sites potentially eligible for the National Register.

See Independent Auditors' Report

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Stewardship Land

The Forest Service manages over 192 million acres of public land, the majority of which is classified as stewardship assets. These stewardship assets are valued for:

- Environmental resources;
- Recreational and scenic values;
- Cultural and paleontological resources;
- Vast open spaces; and
- Resource commodities and revenue they provide to the Federal government, states and counties.

The following table shows the net change in acres between FY 2001 and FY2002 in National Forests by various purposes.

Description	FY 2001 Ending Balance (Acres)	FY 2002 Net Change (Acres) (2)	FY 2002 Ending Balance (Acres)	Condition (1)
National Forests (acres)	187,826,753	-11,074	187,815,679	Varies
National Forest Purposes *	143,848,797	15,322	143,864,119	Varies
National Forest Wilderness Areas	34,812,657	-59,890	34,752,767	Varies
National Forest Primitive Areas	173,762	0	173,762	Varies
National Wild and Scenic River Areas	945,155	512	945,667	Varies
National Recreation Areas	2,910,364	0	2,910,364	Varies
National Scenic Areas	129,178	1,257	130,435	Varies
National Scenic - Research Areas	6,637	0	6,637	Varies
National Game Refuges and Wildlife - Preserve Areas	1,166,374	31,725	1,198,099	Varies
National Monument Areas	3,659,862	0	3,659,862	Varies
National Monument Volcanic Areas	167,427	0	167,427	Varies
National Historic Areas	6,540	0	6,540	Varies
National Grasslands	3,838,685	489	3,839,174	Varies
Purchase Units	355,236	6,452	361,688	Varies
Land Utilization Projects	1,876	0	1,876	Varies
Research & Experiment Areas	65,731	-860	64,871	Varies
Other Areas	295,814	0	295,814	Varies
National Preserves*	0	89,716	89,716	Varies
Total NFS Acreage	192,384,095	84,723	192,468,818	
Road Miles (3)	380,999	1,301	382,300	
Trail Miles (4)	133,087	0	133,087	

* National Preserves acres were included in National Forest Purposes acres last year.

See Independent Auditors' Report

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

(1) **Condition of National Forest Service Land:** The USDA, Forest Service monitors the condition of NFS lands based on information compiled by two national inventory and monitoring programs. Annual inventories of forest status and trends are conducted by the Forest Inventory and Analysis (FIA) program in 45 states covering 65 percent of the forested lands of the lower 48 states. The Forest Health Monitoring (FHM) program is active in 48 states providing surveys and evaluations of forest health conditions and trends. While most of the 192 million acres of forestland on NFS lands continue to produce valuable benefits (i.e. clean air, clean water, habitat for wildlife, and products for human use), significant portions are at risk to pest outbreaks and/or catastrophic fires. Between 1997 and 2001, tree mortality caused by insects and diseases was detected by aerial surveys on approximately 8 million acres of NFS forestland. About 33 million acres of NFS forestland are at risk to future mortality from insects and diseases (based on the current Insect and Disease Risk Map). Nearly 73 million acres of NFS forestland are prone to catastrophic fire based on current condition and departure from historic fire regimes (Fire Regimes 1& 2 and Condition Classes 2&3). Approximately 9.5 million acres are at risk to both pest caused mortality and fire. Invasive species of insects, diseases and plants continue to impact our native ecosystems by causing mortality to, or displacement of, native vegetation. The National Fire Plan has focused our efforts to prevent and suppress future fires adequately and restore acres that are at risk. Risk to fires was reduced by fuel hazard treatments on 1.4 million acres of NFS lands in 2001 and 1.2 million acres in 2002. Insect and disease prevention and suppression treatments were completed on over one million acres of NFS lands in 2001 and nearly one million acres in 2002.

(2) **Net Change:** At the time of submission of this information the net change values include the net effects of the USDA, Forest Service land transactions with the exception of the Northern regions 2002 transactions. This information will be updated to include the Northern Region's information as soon as it becomes available. Land that is needed to protect critical wildlife habitat, cultural and historic values; to support the purposes of congressional designation; and for recreation and conservation purposes is acquired through purchase or exchange.

(3) **Road Miles:** Net change to the total road miles occur through new construction and correction of errors in the systems inventory, to include miles of unclassified roads that had previously been excluded.

(4) **Trail Miles:** The number of miles reported continues to be based on a 1996 inventory. The number of trail miles has not since been updated. Reconstruction of existing trails has been the predominant activity over the previous 5 years.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Stewardship Land Definitions

Land Utilization Projects: A unit reserved and dedicated by the Secretary of Agriculture for forest and range research and experimentation.

National Forests: A unit formerly established and permanently set aside and reserved for National Forest purposes. The following categories of NFS lands have been set-aside for specific purposes in designated areas:

- Wilderness Areas: Areas designated by Congress as part of the National Wilderness Preservation System.
- Primitive Areas: Areas designated by the Chief of the Forest Service as primitive areas. They are administered in the same manner as wilderness areas, pending studies to determine sustainability as a component of the National Wilderness Preservation System.
- Wild and Scenic River Areas: Areas designated by Congress as part of the National Wild and Scenic River System.
- Recreation Areas: Areas established by Congress for the purpose of assuring and implementing the protection and management of public outdoor recreation opportunities.
- Scenic-Research Areas: Areas established by Congress to provide use and enjoyment or certain ocean headlands and to insure protection and encourage the study of the areas for research and scientific purposes.
- Game Refuges and Wildlife Preserve Areas: Areas designated by Presidential Proclamation or by Congress for the protection of wildlife.
- Monument Areas: Areas including historic landmarks, historic and prehistoric structures, and other objects for historic or scientific interest, declared by Presidential Proclamation or by Congress.

National Grasslands: A unit designated by the Secretary of Agriculture and permanently held by the USDA under Title III of the Bankhead-Jones Tenent Act.

Purchase Units: A unit of land designated by the Secretary of Agriculture or previously approved by the National Forest Reservation Commission for purposes of Weeks Law acquisition. The law authorizes the federal government to purchase lands for stream-flow protection, and maintain the acquired lands as national forests.

Research and Experimental Area: A unit reserved and dedicated by the Secretary for forest and range research experimentation.

Other Areas: Areas administered by the Forest Service that are not included in one of the above groups.

Stewardship Investments

Human Capital – Job Corps Civilian Conservation Center – FY 2002

Net Cost of Operations: \$104 Million.

See Independent Auditors' Report

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

In partnership with the U.S. Department of Labor (DOL), the USDA Forest Service operates 18 Job Corps Civilian Conservation Centers. Job Corps is the only Federal residential employment and education training program for economically challenged young people, ages 16-24. The purpose of the program is to provide young adults with the skills necessary to become employable, independent, and productive citizens. Job Corps is funded from DOL with the program year beginning on July 1 and ending on June 30 of each year. During FY 2002 (July 1st to June 30th), there were 8,976 participants with 3,748 placements. The average starting hourly wage for our Forest Service Job Corps students was \$8.49, which is above the DOL national average rate.

Established in 1964, Job Corps has trained and educated about 219,000 young people. The program is administered in a structured, coeducational, residential environment that provides, education, vocational and life skills training, counseling, medical care, work experience, placement assistance and follow-up, recreational opportunities, and biweekly monetary stipends. Job corps students can choose from a wide variety of careers such as urban forestry, heavy equipment operations and maintenance, business clerical, carpentry, culinary arts, painting, cement and brick masonry, welding, auto mechanics, health services, building and apartment maintenances, warehousing, and plastering. The 18 centers had 2,056 women students training in nontraditional vocations last program year. The program received the National Job Corps Association Community Partners Alpha Award for the partnership of the Frenchburg Job Corps Center and the Hazard Community College in assisting young people earn college credits. Over 700 Job Corps students assisted the agency in its fire fighting efforts. An Interagency Agreement with the Secretaries of Interior, Labor, and Agriculture was signed for the establishment of the first National Apprentice Training Program—which will allow Job Corps students to participate. The Firefighter Apprentice of the Future representative is one of our female Job Corps students.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Research and Development - Forest and Rangeland Research –

FY 2002 Net Cost of Operations \$267 Million

Forest Service Research and Development provides reliable science based information that is incorporated into natural resource decisionmaking. Efforts consist of developing new technology, and then adapting and transferring this technology to facilitate more effective resource management. Some major research areas include:

- Vegetation Management and Protection;
- Wildlife, Fish, Watershed, and Air;
- Resource Valuation and Use Research; and
- Forest Resources Inventory and Monitoring.

Research staff is involved in all areas of the Forest Service supporting Agency goals by providing more efficient and effective methods where applicable.

A representative summary of FY 2002 accomplishments include:

- Estimated 316 new interagency agreements and contracts;
- Estimated 221 interagency agreements and contracts continued;
- Estimated 1,326 articles published in journals;
- Estimated 1,829 articles published in all other publications;
- 6 patents granted; and
- 37 rights to inventions established.

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REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION**DEFERRED MAINTENANCE****Overview**

Deferred maintenance is maintenance that was scheduled to be performed and was delayed until a future period. Deferred maintenance represents a cost that the government has elected not to fund and, therefore, the costs are not reflected in the financial statements. Maintenance is defined to include preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieve its expected life. It excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to service needs different from, or significantly greater than, those originally intended. Deferred maintenance is reported for general Property, Plant and Equipment (PP&E), stewardship assets, and heritage assets. It is also reported separately for critical and non-critical amounts of maintenance needed to return each class of asset to its acceptable operating condition.

As of 9/30/02 Deferred Maintenance Totals by Asset Class (\$ In Thousands)

Asset Class	Overall Condition (1)	Cost to Return to Acceptable Condition	Critical Maintenance (2)	Non-Critical Maintenance (3)
Buildings and Admin. Facilities	Varies	\$ 518,153	\$ 189,342	\$ 328,811
Dams	Varies	29,975	9,438	20,536
Heritage	Varies	73,187	42,090	31,097
Range Improvements	Varies	491,062	490,899	163
Recreation Facilities **	Varies	291,071	99,224	191,847
Roads and Bridges	Varies	4,954,964	1,161,371	3,793,594
Trails **	Varies	137,888	51,316	86,573
Wildlife, fish, threatened & endangered species.	Varies	4,287	3,017	1,270
Totals *		\$ 6,500,586	\$ 2,046,697	\$ 4,453,890

Total Forest Service "system" road mileage is 382,300 miles as of 09/30/2002.

** The Forest Service used the FY 2001 Deferred Maintenance values for General Forest Area under the recreation facilities component and for Trails under the Trails component. These components are in a computer application transition and the process for collecting data was not operational.

* Overall agency indirect cost of managing the program is 19% (not included in the figures above).

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REQUIRED SUPPLEMENTARY INFORMATION

(1) Overall Condition: Condition of major classes of property range from poor to good depending on location, age, and type of property. There is currently no comprehensive national assessment of USDA Forest Service property. The current deferred maintenance estimates were based on statistical and random sampling. The USDA Forest Service is working on a long-range plan to make condition assessments on all major classes of property.

(2) Critical Maintenance: A requirement that addresses a serious threat to public health or safety, a natural resource, or the ability to carry out the mission of the organization.

(3) Non-Critical Maintenance: A requirement that addresses potential risk to the public or employee safety or health (e.g. compliance with codes, standards, or regulations). Addresses potential adverse consequences to natural resources or mission accomplishment.

The USDA Forest Service uses condition surveys to estimate deferred maintenance on all major classes of PP&E. There is no deferred maintenance for fleet vehicles and computers that are managed through the agency's working capital fund. Each fleet vehicle is maintained according to schedule. The cost of maintaining the remaining classes of equipment is expensed.

Condition of Administrative Facilities: The condition of administrative facilities is summarized by the following:

- 22 percent of buildings are obsolete, over 50 years old,
- 27 percent of buildings are in poor condition needing major alterations and renovations,
- 24 percent of buildings are in fair condition needing minor alterations and renovations, and
- 27 percent of buildings are in good condition needing only routine maintenance and repairs.

Condition of Dams: The overall condition of dams is below acceptable. The condition of dams is acceptable when the dam meets current design standards and does not have any deficiencies that threaten the safety of the structure or public, or are needed to restore functional use, correct unsightly conditions, or prevent more costly repairs.

Condition of General Property, Plant and Equipment: The standards for acceptable operating condition for various classes of general PP&E, stewardship and heritage assets are as follows:

- **Buildings:** Comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys.
- **Dams:** Managed according to Forest Service Manual 7500, Water Storage and Transmission, and Forest Service Handbook 7509.11, Dams Management as determined by condition surveys.

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REQUIRED SUPPLEMENTARY INFORMATION

- Heritage Assets: These assets include archaeological sites that require determinations of National Register of Historic Places status, National Historic Landmarks, and significant historic properties. Some heritage assets may have historical significance, but their primary function within the agency is as visitation or recreation sites and, therefore, may not fall under the management responsibility of the heritage program.
- Range Structures: The condition assessment was based on: 1) a determination by knowledgeable range specialists or other district personnel of whether or not the structure would perform the originally intended function, and 2) a determination through the use of a protocol system to assess conditions based on age. A long-range methodology is used to gather this data.
- Developed Recreation Sites: This category that includes campgrounds, trailheads, trails, wastewater facilities, interpretive facilities, and visitor centers. All developed sites are managed in accordance with Federal laws and regulations (CFR 36). Detailed management guidelines are contained in the Forest Service Manual (FSM 2330, Publicly Managed Recreation Opportunities) and regional and forest level user guides. Standards of quality for developed recreation sites were developed under the meaningful measures system and established for the following categories: health and cleanliness, settings, safety and security, responsiveness, and the condition of facility.
- Roads and Bridges: Conditions of the National Forest System Road system are measured by various standards that include applicable regulations for the Highway Safety Act developed by the Federal Highway Administration, best management practices for road construction and maintenance developed by the Environmental Protection Agency and the states to implement the non-point source provisions of the Clean Water Act, road management objectives developed through the forest planning process prescribed by the National Forest Management Act, and the requirements of Forest Service Manuals and Handbooks.
- Trails: Trails are managed according to Federal law and regulations (CFR 36). More specific direction is contained in the Forest Service Manual (FSM 2350, Trail, River, and Similar Recreation Opportunities) and the Forest Service Trails Management Handbook (FSH 2309.18).
- Wildlife, Fish, and Threatened and Endangered Species Structure: Field biologists at the forest used their professional judgment to determine deferred maintenance. Deferred maintenance was considered as upkeep that had not occurred on a regular basis. The amount was considered critical if resource damage or species endangerment would likely occur if maintenance was deferred much longer.

Forest Service
Required Supplementary Information
Intragovernmental Accounts

For the Fiscal Year Ended September 30, 2002
(In Dollars)

<u>Assets:</u>	<u>Fund Balance</u> <u>with Treasury</u>	<u>Accounts</u> <u>Receivable</u>	<u>Investments</u>	<u>Other</u>
<i>Trading Partner (Code):</i>				
Unknown (00)		10,854,604	-	879,971
Library of Congress (03)		-	-	-
Government Printing Office (04)		-	-	-
General Accounting Office (05)		-	-	-
Congressional Budget Office (08)		-	-	-
Other Legislative Branch Agencies (09)		-	-	-
The Judiciary (10)		-	-	-
Executive Office of the President (11)		-	-	-
Department of Agriculture (12)		21,278,288	-	50,000
Department of Commerce (13)		(187,281)	-	-
Department of Interior (14)		1,627,718	-	(6,181)
Department of Justice (15)		420,621	-	-
Department of Labor (16)		6,794,803	-	-
Department of the Navy (17)		-	-	-
U.S. Postal Service (18)		139,827	-	594
Department of State (19)		-	-	-
Department of the Treasury (20)	2,824,948,345	4,004	2,039,704	-
Department of the Army (21)		4,152,596	-	-
Resolution Trust Corporation (22)		-	-	-
U.S. Tax Court (23)		-	-	-
Office of Personnel Management (24)		-	-	-
National Credit Union Administration (25)		-	-	-
Federal Retirement Thrift Investment Board (26)		-	-	-
Federal Communications Commission (27)		-	-	-
Social Security Administration (28)		35,574	-	-
Federal Trade Commission (29)		-	-	-
U.S. Nuclear Regulatory (31)		-	-	-
Smithsonian Institution (33)		-	-	-
International Trade Commission (34)		-	-	-
Department of Veterans Affairs (36)		-	-	-
Merit Systems Protection Board (41)		-	-	-
Pennsylvania Avenue Development Corporation (42)		-	-	-
U.S. Equal Employment Opportunity Commission (45)		-	-	-
Appalachian Regional Commission (46)		-	-	-
General Services Administration (47)		4,418	-	-
Independent Agencies (48)		-	-	-
National Science Foundation (49)		-	-	-
Securities and Exchange Commission (50)		-	-	-
Federal Deposit Insurance Corporation (51)		-	-	-

Forest Service
Required Supplementary Information
Intragovernmental Accounts

For the Fiscal Year Ended September 30, 2002
(In Dollars)

Federal Labor Relations Authority (54)	-	-	-
Advisory Commission on Intergovernmental Relations (55)	-	-	-
Central Intelligence Agency (56)	-	-	-
Department of the Air Force (57)	169,037	-	-
Federal Emergency Management Agency (58)	142,001	-	-
National Foundation on the Arts and the Humanities (59)	-	-	-
Railroad Retirement Board (60)	-	-	-
Consumer Product Safety Commission(61)	-	-	-
Office of Special Counsel (62)	-	-	-
National Labor Relations Board (63)	-	-	-
Tennessee Valley Authority (64)	-	-	-
Federal Maritime Commission (65)	-	-	-
United States Information Agency (67)	-	-	-
Environmental Protection Agency (68)	221,763	-	-
Department of Transportation (69)	2,474,645	-	(899,731)
Overseas Private Investment Corporation (71)	-	-	-
Agency for International Development (72)	162	-	-
Small Business Administration (73)	-	-	-
American Battle Monuments Commission (74)	-	-	-
Department of Health and Human Services (75)	(1,135)	-	-
Independent Agencies (76)	-	-	-
Farm Credit (78)	-	-	-
National Aeronautics and Space Administration (80)	652,699	-	-
Export-Import Bank of the United States (83)	-	-	-
Armed Forces Retirement Home (84)	-	-	-
Department of Housing and Urban Development (86)	137,412	-	-
National Archives and Records Administration (88)	-	-	-
Department of Energy (89)	16,072,627	-	-
Selective Service System (90)	-	-	-
Department of Education (91)	-	-	-
Federal Mediation and Conciliation Service (93)	-	-	-
Arms Control and Disarmament Agency (94)	-	-	-
Independent Agencies (95)	-	-	-
U.S. Army Corps of Engineers (96)	198,543	-	5,377
Office of the Secretary of Defense-Defense Agencies (97)	916,769	-	(200)
Treasury General Fund (99)	-	-	-
Total Assets	2,824,948,345	66,109,695	2,039,704
			29,831

Forest Service
Required Supplementary Information
Intragovernmental Accounts

For the Fiscal Year Ended September 30, 2002
(In Dollars)

<u>Liabilities:</u>	<u>Resources Payable to Treasury</u>	<u>Accounts Payable</u>	<u>Debt</u>	<u>Other</u>
<i>Trading Partner (Code):</i>				
Unknown (00)		(29,149)	-	(374,665,841)
Library of Congress (03)		-	-	-
Government Printing Office (04)		-	-	40,151
General Accounting Office (05)		-	-	-
Congressional Budget Office (08)		-	-	-
Other Legislative Branch Agencies (09)		-	-	-
The Judiciary (10)		-	-	-
Executive Office of the President (11)		-	-	-
Department of Agriculture (12)		(112,874)	-	(35,417,354)
Department of Commerce (13)		-	-	(103,284)
Department of Interior (14)		21,339	-	(68,642,675)
Department of Justice (15)		14,312	-	(5,648,754)
Department of Labor (16)		-	-	(63,909,626)
Department of the Navy (17)		-	-	45,000
U.S. Postal Service (18)		-	-	-
Department of State (19)		-	-	(327,906)
Department of the Treasury (20)		-	-	(36,924,309)
Department of the Army (21)		(6,530)	-	(279,235)
Resolution Trust Corporation (22)		-	-	-
U.S. Tax Court (23)		-	-	-
Office of Personnel Management (24)		-	-	(8,435,798)
National Credit Union Administration (25)		-	-	-
Federal Retirement Thrift Investment Board (26)		-	-	-
Federal Communications Commission (27)		-	-	-
Social Security Administration (28)		-	-	-
Federal Trade Commission (29)		-	-	-
U.S. Nuclear Regulatory (31)		-	-	(1,845)
Smithsonian Institution (33)		-	-	-
International Trade Commission (34)		-	-	-
Department of Veterans Affairs (36)		-	-	16,213
Merit Systems Protection Board (41)		-	-	-
Pennsylvania Avenue Development Corporation (42)		-	-	-
U.S. Equal Employment Opportunity Commission (45)		-	-	750
Appalachian Regional Commission (46)		-	-	-
General Services Administration (47)		-	-	(11,624,251)
Independent Agencies (48)		-	-	-
National Science Foundation (49)		-	-	-
Securities and Exchange Commission (50)		-	-	-

Forest Service
Required Supplementary Information
Intragovernmental Accounts

For the Fiscal Year Ended September 30, 2002
(In Dollars)

Federal Deposit Insurance Corporation (51)	-	-	-
Federal Labor Relations Authority (54)	-	-	-
Advisory Commission on Intergovernmental Relations (55)	-	-	-
Central Intelligence Agency (56)	-	-	-
Department of the Air Force (57)	-	-	-
Federal Emergency Management Agency (58)	-	-	(348,304)
National Foundation on the Arts and the Humanities (59)	-	-	(200,000)
Railroad Retirement Board (60)	-	-	-
Consumer Product Safety Commission(61)	-	-	-
Office of Special Counsel (62)	-	-	-
National Labor Relations Board (63)	-	-	10,669
Tennessee Valley Authority (64)	-	-	-
Federal Maritime Commission (65)	-	-	-
United States Information Agency (67)	-	-	-
Environmental Protection Agency (68)	-	-	7,702
Department of Transportation (69)	-	-	(78,727)
Overseas Private Investment Corporation (71)	-	-	-
Agency for International Development (72)	-	-	(4,347,113)
Small Business Administration (73)	-	-	-
American Battle Monuments Commission (74)	-	-	-
Department of Health and Human Services (75)	-	-	(38,316)
Independent Agencies (76)	-	-	-
Farm Credit (78)	-	-	-
National Aeronautics and Space Administration (80)	-	-	(70,486)
Export-Import Bank of the United States (83)	-	-	-
Armed Forces Retirement Home (84)	-	-	-
Department of Housing and Urban Development (86)	-	-	-
National Archives and Records Administration (88)	-	-	-
Department of Energy (89)	-	-	(177,019)
Selective Service System (90)	-	-	-
Department of Education (91)	-	-	-
Federal Mediation and Conciliation Service (93)	-	-	(38)
Arms Control and Disarmament Agency (94)	-	-	-
Independent Agencies (95)	-	-	-
U.S. Army Corps of Engineers (96)	(900,606)	-	66,108,894
Office of the Secretary of Defense-Defense Agencies (97)	25,450	-	(565,012)
Treasury General Fund (99)	-	-	-
Total Liabilities	-	(988,059)	(545,576,515)

Forest Service
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Intragovernmental Accounts

For the Fiscal Year Ended September 30, 2002
(In Dollars)

Earned Revenue Federal:

<i>Trading Partner (Code):</i>	Earned Revenue <u>Federal</u>
Unknown (00)	(15,239,793)
Library of Congress (03)	-
Government Printing Office (04)	-
General Accounting Office (05)	-
Congressional Budget Office (08)	-
Other Legislative Branch Agencies (09)	-
The Judiciary (10)	-
Executive Office of the President (11)	-
Department of Agriculture (12)	(11,097,431)
Department of Commerce (13)	(399,599)
Department of Interior (14)	(35,277,436)
Department of Justice (15)	(414,536)
Department of Labor (16)	(56,627,889)
Department of the Navy (17)	(9,169)
U.S. Postal Service (18)	(889,634)
Department of State (19)	(43,432)
Department of the Treasury (20)	(615,816)
Department of the Army (21)	(9,127,615)
Resolution Trust Corporation (22)	-
U.S. Tax Court (23)	-
Office of Personnel Management (24)	-
National Credit Union Administration (25)	-
Federal Retirement Thrift Investment Board (26)	-
Federal Communications Commission (27)	-
Social Security Administration (28)	(36,012)
Federal Trade Commission (29)	-
U.S. Nuclear Regulatory (31)	-
Smithsonian Institution (33)	-
International Trade Commission (34)	-
Department of Veterans Affairs (36)	-
Merit Systems Protection Board (41)	-
Pennsylvania Avenue Development Corporation (42)	-
U.S. Equal Employment Opportunity Commission (45)	-
Appalachian Regional Commission (46)	-
General Services Administration (47)	(6,952,220)
Independent Agencies (48)	-
National Science Foundation (49)	-
Securities and Exchange Commission (50)	-
Federal Deposit Insurance Corporation (51)	-
Federal Labor Relations Authority (54)	-
Advisory Commission on Intergovernmental Relations (55)	-

Forest Service
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For the Fiscal Year Ended September 30, 2002
(In Dollars)

Central Intelligence Agency (56)	-
Department of the Air Force (57)	(165,037)
Federal Emergency Management Agency (58)	5,816,299
National Foundation on the Arts and the Humanities (59)	50,000
Railroad Retirement Board (60)	-
Consumer Product Safety Commission(61)	-
Office of Special Counsel (62)	-
National Labor Relations Board (63)	-
Tennessee Valley Authority (64)	-
Federal Maritime Commission (65)	-
United States Information Agency (67)	-
Environmental Protection Agency (68)	(851,050)
Department of Transportation (69)	(6,916,478)
Overseas Private Investment Corporation (71)	-
Agency for International Development (72)	(5,766,700)
Small Business Administration (73)	-
American Battle Monuments Commission (74)	-
Department of Health and Human Services (75)	564
Independent Agencies (76)	-
Farm Credit (78)	-
National Aeronautics and Space Administration (80)	(982,217)
Export-Import Bank of the United States (83)	-
Armed Forces Retirement Home (84)	-
Department of Housing and Urban Development (86)	(444,950)
National Archives and Records Administration (88)	-
Department of Energy (89)	(22,018,333)
Selective Service System (90)	-
Department of Education (91)	-
Federal Mediation and Conciliation Service (93)	-
Arms Control and Disarmament Agency (94)	-
Independent Agencies (95)	-
U.S. Army Corps of Engineers (96)	(771,586)
Office of the Secretary of Defense-Defense Agencies (97)	(1,314,614)
Treasury General Fund (99)	-
Total Earned Revenue Federal	<u>(170,094,682)</u>

Forest Service
Required Supplementary Information
Intragovernmental Accounts

For the Fiscal Year Ended September 30, 2002
(In Dollars)

Cost to Generate Earned Revenue Federal:

<i>Functional Classification:</i>	Federal and <u>Non-Federal</u>
050 National Defense	-
150 International Affairs	-
250 General Science, Space, and Technology	-
270 Energy	-
300 Natural Resources and Environment	5,226,684,163
350 Agriculture	349,142
370 Commerce and Housing Credit	-
400 Transportation	-
450 Community and Regional Development	248,695
500 Education, Training, Employment, and Social Services	-
550 Health	-
570 Medicare	-
600 Income Security	-
650 Social Security	-
700 Veterans Benefits and Services	-
750 Administration of Justice	-
800 General Government	500,209,680
900 Net Interest	-
920 Allowances	-
950 Undistributed Offsetting Receipts	-
999 Multifunction Account	-
Total Cost to General Revenue	<u>5,727,491,680</u>

Forest Service
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For the Fiscal Year Ended September 30, 2002
(In Dollars)

Cost Federal:

<i>Trading Partner (Code):</i>	Cost <u>Federal</u>
Unknown (00)	(529,649,358)
Library of Congress (03)	32,160
Government Printing Office (04)	5,852,935
General Accounting Office (05)	-
Congressional Budget Office (08)	-
Other Legislative Branch Agencies (09)	-
The Judiciary (10)	-
Executive Office of the President (11)	-
Department of Agriculture (12)	588,640,478
Department of Commerce (13)	1,719,769
Department of Interior (14)	65,216,962
Department of Justice (15)	2,209,070
Department of Labor (16)	29,124,909
Department of the Navy (17)	138,746
U.S. Postal Service (18)	661,663
Department of State (19)	1,071
Department of the Treasury (20)	24,217,628
Department of the Army (21)	1,403,837
Resolution Trust Corporation (22)	-
U.S. Tax Court (23)	-
Office of Personnel Management (24)	415,862,217
National Credit Union Administration (25)	-
Federal Retirement Thrift Investment Board (26)	-
Federal Communications Commission (27)	-
Social Security Administration (28)	-
Federal Trade Commission (29)	-
U.S. Nuclear Regulatory (31)	-
Smithsonian Institution (33)	32,000
International Trade Commission (34)	-
Department of Veterans Affairs (36)	586,743
Merit Systems Protection Board (41)	-
Pennsylvania Avenue Development Corporation (42)	-
U.S. Equal Employment Opportunity Commission (45)	2,250
Appalachian Regional Commission (46)	-
General Services Administration (47)	64,614,543
Independent Agencies (48)	-
National Science Foundation (49)	85,000
Securities and Exchange Commission (50)	-
Federal Deposit Insurance Corporation (51)	-
Federal Labor Relations Authority (54)	-
Advisory Commission on Intergovernmental Relations (55)	-
Central Intelligence Agency (56)	-

Forest Service
Required Supplementary Information
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For the Fiscal Year Ended September 30, 2002
(In Dollars)

Department of the Air Force (57)	211,410
Federal Emergency Management Agency (58)	113,613
National Foundation on the Arts and the Humanities (59)	-
Railroad Retirement Board (60)	-
Consumer Product Safety Commission(61)	-
Office of Special Counsel (62)	1,019
National Labor Relations Board (63)	-
Tennessee Valley Authority (64)	-
Federal Maritime Commission (65)	-
United States Information Agency (67)	-
Environmental Protection Agency (68)	865,277
Department of Transportation (69)	(49,979)
Overseas Private Investment Corporation (71)	-
Agency for International Development (72)	-
Small Business Administration (73)	-
American Battle Monuments Commission (74)	-
Department of Health and Human Services (75)	424,493
Independent Agencies (76)	-
Farm Credit (78)	-
National Aeronautics and Space Administration (80)	271,138
Export-Import Bank of the United States (83)	-
Armed Forces Retirement Home (84)	-
Department of Housing and Urban Development (86)	-
National Archives and Records Administration (88)	-
Department of Energy (89)	691,771
Selective Service System (90)	-
Department of Education (91)	-
Federal Mediation and Conciliation Service (93)	4,280
Arms Control and Disarmament Agency (94)	-
Independent Agencies (95)	-
U.S. Army Corps of Engineers (96)	2,268,630
Office of the Secretary of Defense-Defense Agencies (97)	3,756,571
Treasury General Fund (99)	-
Total Cost Federal	<u><u>679,310,846</u></u>

Forest Service
Required Supplementary Information
Intragovernmental Accounts

For the Fiscal Year Ended September 30, 2002
(In Dollars)

Non-exchange Revenue Federal:

<i>Trading Partner (Code):</i>	<u>Transfers-In</u>	<u>Transfers-Out</u>	<u>Other</u>
Unknown (00)	257,849,460	97,569,448	-
Library of Congress (03)	-	-	-
Government Printing Office (04)	-	-	-
General Accounting Office (05)	-	-	-
Congressional Budget Office (08)	-	-	-
Other Legislative Branch Agencies (09)	-	-	-
The Judiciary (10)	-	-	-
Executive Office of the President (11)	-	-	-
Department of Agriculture (12)	629,031,855	509,922,399	44,571,000
Department of Commerce (13)	-	-	-
Department of Interior (14)	-	-	-
Department of Justice (15)	-	-	-
Department of Labor (16)	-	-	-
Department of the Navy (17)	-	-	-
U.S. Postal Service (18)	-	-	-
Department of State (19)	-	-	-
Department of the Treasury (20)	-	-	9,183,813
Department of the Army (21)	-	-	-
Resolution Trust Corporation (22)	-	-	-
U.S. Tax Court (23)	-	-	-
Office of Personnel Management (24)	-	-	135,069,386
National Credit Union Administration (25)	-	-	-
Federal Retirement Thrift Investment Board (26)	-	-	-
Federal Communications Commission (27)	-	-	-
Social Security Administration (28)	-	-	-
Federal Trade Commission (29)	-	-	-
U.S. Nuclear Regulatory (31)	-	-	-
Smithsonian Institution (33)	-	-	-
International Trade Commission (34)	-	-	-
Department of Veterans Affairs (36)	-	-	-
Merit Systems Protection Board (41)	-	-	-
Pennsylvania Avenue Development Corporation (42)	-	-	-
U.S. Equal Employment Opportunity Commission (45)	-	-	-
Appalachian Regional Commission (46)	-	-	-
General Services Administration (47)	33,627	33,627	-
Independent Agencies (48)	-	-	-
National Science Foundation (49)	-	-	-
Securities and Exchange Commission (50)	-	-	-
Federal Deposit Insurance Corporation (51)	-	-	-
Federal Labor Relations Authority (54)	-	-	-
Advisory Commission on Intergovernmental Relations (55)	-	-	-
Central Intelligence Agency (56)	-	-	-

Forest Service
Required Supplementary Information
Intragovernmental Accounts

For the Fiscal Year Ended September 30, 2002
(In Dollars)

Department of the Air Force (57)	-	-	-
Federal Emergency Management Agency (58)	-	-	-
National Foundation on the Arts and the Humanities (59)	-	-	-
Railroad Retirement Board (60)	-	-	-
Consumer Product Safety Commission(61)	-	-	-
Office of Special Counsel (62)	-	-	-
National Labor Relations Board (63)	-	-	-
Tennessee Valley Authority (64)	-	-	-
Federal Maritime Commission (65)	-	-	-
United States Information Agency (67)	-	-	-
Environmental Protection Agency (68)	-	-	-
Department of Transportation (69)	-	-	-
Overseas Private Investment Corporation (71)	-	-	-
Agency for International Development (72)	-	-	-
Small Business Administration (73)	-	-	-
American Battle Monuments Commission (74)	-	-	-
Department of Health and Human Services (75)	-	-	-
Independent Agencies (76)	-	-	-
Farm Credit (78)	-	-	-
National Aeronautics and Space Administration (80)	-	-	-
Export-Import Bank of the United States (83)	-	-	-
Armed Forces Retirement Home (84)	-	-	-
Department of Housing and Urban Development (86)	-	-	-
National Archives and Records Administration (88)	-	-	-
Department of Energy (89)	-	-	-
Selective Service System (90)	-	-	-
Department of Education (91)	-	-	-
Federal Mediation and Conciliation Service (93)	-	-	-
Arms Control and Disarmament Agency (94)	-	-	-
Independent Agencies (95)	-	-	-
U.S. Army Corps of Engineers (96)	-	-	-
Office of the Secretary of Defense-Defense Agencies (97)	-	-	-
Treasury General Fund (99)	-	-	-
Total Non-exchange Revenue Federal	886,914,943	607,525,475	188,824,199

U.S. Department of Agriculture
Forest Service
Combining Statement of Budgetary Resources
by Responsibility Segment
For The Year Ended September 30, 2002
(In Thousands)

	National Forests and Grasslands	Forest Research	State and Private Forestry	Working Capital Fund	Wildland Fire Management	Total
Budgetary Resources:						
Budget Authority:	\$ 2,727,573	\$ 241,368	\$ 292,250	\$ -	\$ 1,834,496	\$ 5,095,687
Appropriations Received	-	-	-	-	-	-
Borrowing Authority	-	-	-	-	-	-
Contract Authority	-	-	-	-	-	-
Net Transfers	36,485	(16)	5,524	-	(144,400)	(102,407)
Other	-	-	-	-	-	-
Unobligated Balance:						
Beginning of Period (Note 15)	1,022,324	76,605	32,933	23,221	96,268	1,251,351
Net Transfers, Actual	6	-	-	-	110,000	110,006
Anticipated Transfers Balances	-	-	-	-	-	-
Spending Authority from Offsetting Collections:						
Earned	-	-	-	-	-	-
Collected	150,080	23,290	7,782	228,439	474,381	883,972
Receivable from Federal Sources	(55,902)	(82,528)	(7,544)	(2,184)	(8,981)	(157,139)
Change in Unfilled Customer Orders	-	-	-	-	-	-
Advance Received	(32,219)	3,987	2,687	26	(16,661)	(42,179)
Without Advance from Federal Sources	9,930	14,852	(370)	-	1,967	26,379
Anticipated for the Rest of Year, Without Advances	-	-	-	-	-	-
Transfers from Trust Funds	-	-	-	-	-	-
Subtotal	71,890	(40,399)	2,555	226,281	450,706	711,034
Recoveries of Prior Year Obligations	37,880	2,255	418	8,160	19,576	68,289
Temporarily not Available Pursuant to Public Law	-	-	-	-	-	-
Permanently not Available	(11,747)	(2,013)	(663)	-	(4,146)	(18,568)
Total Budgetary Resources	\$ 3,884,412	\$ 277,800	\$ 333,017	\$ 257,662	\$ 2,362,502	\$ 7,115,392
Status of Budgetary Resources:						
Obligations Incurred (Note 14):						
Unobligated Balance:	\$ 3,057,093	\$ 279,869	\$ 285,613	\$ 161,695	\$ 2,118,736	\$ 5,903,006
Apportioned	-	-	-	-	-	-
Exempt from Apportionment	657,232	14,675	51,213	(163,160)	337,986	897,946
Other Available	(4,817)	-	-	-	-	(4,817)
Unobligated Balance Not Available	174,904	(16,744)	(3,809)	259,126	(94,220)	319,258
Total Status of Budgetary Resources	\$ 3,884,412	\$ 277,800	\$ 333,017	\$ 257,662	\$ 2,362,502	\$ 7,115,392

U.S. Department of Agriculture
Forest Service
Combining Statement of Budgetary Resources
by Responsibility Segment
For The Year Ended September 30, 2002
(In Thousands)

National Forests and Grasslands	Forest Research	State and Private Forestry	Working Capital Fund	Wildland Fire Management	Total
	776,562	375,413	129,445	176,789	1,496,066
	-	-	-	-	-
	(14,545)	3,509	(3,953)	(115,234)	(91,873)
	(98,738)	(1,510)	-	(4,726)	(146,088)
	307,360	355,475	16,397	222,016	984,926
	311,170	(11,760)	19,271	83,187	426,709
	3,336,500	322,808	253,449	2,097,719	6,287,869
	(117,862)	(10,468)	(228,465)	(457,720)	(841,793)
	3,218,638	312,339	24,984	1,639,998	5,446,076
	534,067	6,293	218,409	69,448	851,463
	\$ 2,684,571	\$ 306,046	\$ (193,425)	\$ 1,570,550	\$ 4,594,613

Relationship of Obligations to Outlays:
 Obligated Balance, Net, Beginning of Period (Note 15)
 Obligated Balance Transferred, Net
 Obligated Balance, Net, End of Period:
 Accounts receivable
 Unfilled Customers Orders from Federal Sources
 Undelivered Orders
 Accounts Payable

Outlays:
 Disbursements
 Collections
 Subtotal
 Less: Offsetting Receipts
 Net Outlays

Forest Service
 Required Supplementary Information
 Working Capital Fund - Segment Information
 For the Fiscal Year Ending September 30, 2002
 (In Thousands)

Condensed Information	Departmental Working Capital Fund	Forest Service Working Capital Fund	Total Working Capital Funds
Assets			
Fund Balance	-	107,817	-
Accounts Receivable	-	1,592	-
Property, Plant, and Equipment	-	337,941	-
Other Assets	-	22,108	-
Total Assets	-	469,458	-
Liabilities and Net Position			
Accounts Payable	-	17,082	-
Deferred Revenues	-	-	-
Other Liabilities	-	(37,936)	-
Unexpended Appropriations	-	4,520	-
Cumulative Results of Operations	-	485,793	-
Total Liabilities and Net Position	-	469,459	-
Product or Business Line	Cost of Goods and Services Provided	Related Exchange Revenue	Excess of Costs Over Exchange Revenue
Departmental Working Capital Fund:			
Office of the Chief Financial Officer	-	-	-
Office of Communications	-	-	-
Office of the Chief Information Officer	-	-	-
Office of Departmental Administration	-	-	-
Office of Executive Secretariat	-	-	-
Total Departmental Working Capital Fund	-	-	-
Forest Service Working Capital Fund:			
Other	146,027	(218,135)	(72,108)
Total Forest Service Working Capital Fund	146,027	(218,135)	(72,108)
Total Working Capital Funds	146,027	(218,135)	(72,108)