



U.S. Department of Agriculture  
Office of Inspector General  
Audit Report

Forest Service  
Audit of Fiscal Year 2001  
Financial Statements



**Audit Report No.  
08401-12-At  
February 2002**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



DATE: February 26, 2002

REPLY TO  
ATTN OF: 08401-12-At

SUBJECT: Forest Service Fiscal Year 2001 Financial Statements Audit

TO: Dale Bosworth  
Chief  
Forest Service

ATTN: Mary Sally Matiellia  
Chief Financial Officer  
Forest Service

This report presents the results of our audit of the U.S. Forest Service's financial statements for the fiscal year ended September 30, 2001. The report contains our disclaimer of opinion and the results of our assessment of the Agency's internal control structure and compliance with laws and regulations.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the specific 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 six months from report issuance.

  
JOYCE N. FLEISCHMAN  
Acting Inspector General

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# EXECUTIVE SUMMARY

## FOREST SERVICE

### AUDIT OF FISCAL YEAR 2001

### FINANCIAL STATEMENTS

### AUDIT REPORT NO. 08401-12-AT

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#### **PURPOSE**

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The Chief Financial Officers (CFO) Act of 1990, as amended, requires the annual preparation and audit of Federal financial statements. The purpose of this audit is to determine whether the financial statements present fairly, in all material respects, the financial position of the Forest Service in accordance with Generally Accepted Accounting Principles in the United States of America. In conjunction with the audit of financial statements, we are required to consider Forest Service's internal control structure to assess whether the Agency's plan of organization and adopted methods and procedures were sufficient to ensure that (1) reliable financial information was obtained, maintained and fairly disclosed in Forest Service's reports and (2) resources were sufficiently safeguarded against waste, loss and misuse. We are also required to test Forest Service's compliance with laws and regulations that could directly affect the financial statements.

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#### **RESULTS IN BRIEF**

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Due to limitations on the scope of our examination, we are unable to express, and do not express, an opinion on the Forest Service Consolidated Balance Sheet as of September 30, 2001, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the period then ended.

United States (U.S.) Generally Accepted Government Auditing Standards (GAGAS) require that we obtain sufficient, competent evidential matter to render an opinion on the financial statements. The Forest Service was not able to provide us with such information. Therefore, we were not able to perform all procedures necessary to render an opinion within the timeframes prescribed by the CFO Act of 1990, as amended. As a result, we are unable to give an opinion on the fiscal year (FY) 2001 Financial Statements of the Forest Service because of limitations on the scope of our work. Thus, the financial statements are unreliable.

Material internal control weaknesses existed in Forest Service's overall financial statement compilation process and in its procedures for compiling the balances for Fund Balances with the U.S. Treasury (FBWT) and General

Property, Plant and Equipment (PP&E). Because of these weaknesses, the Agency was not able to provide timely, sufficient and competent evidential matter to support amounts in the financial statements. The material weaknesses in internal controls, along with the lack of sufficient, competent evidential matter to support amounts in the financial statements, prevented us from performing the audit in accordance with GAGAS and Office of Management and Budget (OMB) Bulletin No. 01-02, Audit Requirements for Federal Financial Statements.

Our examination of Forest Service's internal control structure disclosed that (1) overall financial management controls were not adequate to ensure the collection of timely, complete, and reliable financial information and (2) controls were not sufficient to adequately safeguard assets.

Forest Service had not performed sufficient analyses and reconciliations of its financial system to ensure the accuracy of amounts recorded in the general ledger and the subsidiary (detailed) ledgers prior to submitting the unaudited statements to the Office of Inspector General (OIG). Therefore, the unaudited financial statements provided to us on November 15, 2001, contained numerous errors and the accompanying footnotes were incomplete. Additionally, significant control weaknesses in the general ledger and the subsidiary systems significantly reduced the reliability of account balances reported on the financial statements.

While comparing a detailed trial balance with a summary level trial balance, we noted differences in 41 general ledger accounts that resulted in a net out-of-balance condition of \$6.5 million between budgetary and proprietary accounts. Forest Service officials explained that, while preparing the financial statements, they discovered that the budgetary accounts did not balance to the proprietary accounts. Rather than determining the reason for the differences, Forest Service made adjustments to the trial balance to bring the budgetary and proprietary accounts into balance. Subsequently, the Agency found that 75 general ledger posting entries, totaling almost \$941 million, were not included in the Foundation Financial Information System (FFIS) data warehouse until after the preparation of the financial statements. The missing transactions were the actual cause for budgetary and proprietary accounts not to balance. As of the date of this report, we were unable to identify the specific cause for the entries not being posted timely.

At the end of the FY, Forest Service made 15,337 entries (debits and credits) totaling \$11 billion that affected FBWT, many of which were made to adjust the general ledger to the U.S. Treasury (Treasury) records. In contrast, the FBWT line item reported on the Consolidated Balance Sheet was \$3 billion. We judgmentally selected 144 adjustments comprising approximately \$7.9 billion of the \$11 billion in debits and credits, and found that 105 of the adjustments totaling \$4.7 billion were not sufficiently justified

by the supporting documentation. Additionally, 29 adjustments, totaling \$2.9 billion, had no supporting documentation. The unsupported adjustments were made because Forest Service had not performed required monthly reconciliations of their fund balance accounts.

Forest Service did not have controls in place to ensure the accuracy of reports sent to the Treasury. Additionally, the Agency was not performing timely or complete reconciliations of FBWT as required by the Treasury Financial Manual (TFM).<sup>1</sup> As a result, there is an increased risk of fraud, waste and abuse related to Forest Service funds. As of September 30, 2001, the net out-of-balance condition between Treasury records and the Forest Service general ledger as reported on Treasury's Financial Management Service (FMS) report 6652, Statement of Differences, was approximately \$91 million for disbursements and \$152 million for deposits. Forest Service had not performed monthly reconciliations required by the TFM, and continued to work on the September 30, 2001, reconciliation after we were provided the unaudited financial statements on November 15, 2001.

Forest Service did not ensure that all collection and disbursement activity was accurately reported to Treasury during FY 2001. This occurred because Forest Service had not established procedures to routinely reconcile fund balance accounts in the general ledger with data downloaded into journals used to prepare the Standard Form (SF) 224 Report. As a result, Forest Service failed to report 139,697 collection and disbursement transactions totaling \$18.4 million to Treasury during FY 2001.

As reported in prior years' audits, controls over PP&E continued to be deficient. Despite representations from management that this account was auditable in fiscal year 2001, we found that, although a massive and costly contract to statistically sample property items was undertaken, the lack of adequate documentation supporting valuations was so pronounced the audit could not be conducted. Therefore, accurate and reliable balances could not be determined for the FY 2001 reporting period. This year's audit revealed that the real property is overstated by at least \$570 million (capitalized value). Additionally, our analysis of the Infrastructure (INFRA) real property inventory universe provided on January 3, 2002, revealed 587 assets with negative book values of almost \$20 million. Forest Service units did not provide timely or adequate documentation to support amounts recorded in the property feeder systems including INFRA, Personal Property System (PROP) and Equipment Management Information System (EMIS), and the subsidiary ledgers were not providing timely or accurate depreciation expense calculations. Interfaces between the general ledger and the

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<sup>1</sup> TFM Vol. 1, Part 2, Chapter 3900 - Section 3915, Chapter 5100, Section 5130, and Appendix 2.

subsidiary systems were not working properly, and the Agency had not performed reconciliations to ensure the accuracy of amounts recorded in its financial systems.

Our examination of Forest Service's compliance with laws and regulations disclosed that the Agency's financial systems did not fully comply with the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. Forest Service's financial systems did not (1) provide for the collection of timely, complete and reliable information; (2) provide for adequate Agency management reporting; (3) adequately support governmentwide or Agency-level policy decisions; (4) efficiently or effectively facilitate the preparation of financial statements, or other financial reports in accordance with Federal accounting and reporting standards; or (5) provide a complete audit trail to facilitate audits.

Management's Discussion and Analysis, requires supplementary information (including stewardship information), and other accompanying information, that contain a wide range of data, some of which does not directly relate to the financial statements. We do not express an opinion on this information. Based on our limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidelines.

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## **KEY RECOMMENDATIONS**

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Based on the deficiencies identified during this audit, we made a series of recommendations to Forest Service to improve its financial management system and internal control structure. Regarding its financial management system, we recommended that Forest Service (1) develop and implement a sustainable financial management plan that includes training, and (2) establish a reliable business process for preparing and validating the financial statements.

We recommended that Forest Service establish and implement internal controls to ensure that assets are adequately safeguarded by assigning sufficient, knowledgeable staff and performing required reconciliations and quality control checks.

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## **AGENCY POSITION**

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Forest Service agreed with our findings and recommendations. On January 23, 2002, Forest Service initiated six strike teams with the objective of developing or modifying

financial polices and procedures to achieve sustainable processes that address the following.

1. FBWT,
2. PP&E,
3. Accounts Receivable,
4. Accounts Payable,
5. Other Liabilities, and
6. the relationship between budgetary and proprietary accounts.

In addition to developing or modifying policies and procedures, each strike team is charged with reconciling subsidiary ledgers with the FFIS general ledger; cleaning up any erroneous historical data in the ledgers; identifying and correcting technical problems in Forest Service's automated accounting systems (e.g., FFIS, INFRA, PROP, EMIS, etc.); identifying and resolving technical problems with reporting software programs (i.e., Automated Cash Reconciliation Worksheet System (ACRWS)); and developing appropriate training material and training Forest Service personnel to carry out sustainable accounting processes.

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# TABLE OF CONTENTS

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<b>EXECUTIVE SUMMARY.....</b>	<b>ii</b>
<b>PURPOSE.....</b>	<b>ii</b>
<b>RESULTS IN BRIEF .....</b>	<b>ii</b>
<b>KEY RECOMMENDATIONS.....</b>	<b>v</b>
<b>AGENCY POSITION .....</b>	<b>vi</b>
<b>TABLE OF CONTENTS.....</b>	<b>vii</b>
<b>REPORT OF THE OFFICE OF INSPECTOR GENERAL .....</b>	<b>1</b>
<b>REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE .....</b>	<b>4</b>
<b>FINDINGS AND RECOMMENDATIONS.....</b>	<b>5</b>
CHAPTER 1 .....	5
OVERALL FINANCIAL MANAGEMENT CONTROLS WERE NOT ADEQUATE TO ENSURE THE COLLECTION OF TIMELY, COMPLETE AND RELIABLE FINANCIAL INFORMATION.....	5
<b>FINDING NO. 1 .....</b>	<b>5</b>
<b>RECOMMENDATION NO. 1.....</b>	<b>7</b>
<b>RECOMMENDATION NO. 2.....</b>	<b>8</b>
<b>RECOMMENDATION NO. 3.....</b>	<b>8</b>
<b>RECOMMENDATION NO. 4.....</b>	<b>8</b>
<b>RECOMMENDATION NO. 5.....</b>	<b>8</b>
<b>RECOMMENDATION NO. 6.....</b>	<b>8</b>
<b>RECOMMENDATION NO. 7.....</b>	<b>8</b>
CHAPTER 2.....	9
CONTROLS WERE NOT SUFFICIENT TO SAFEGUARD ASSETS .....	9
<b>FINDING NO. 2 .....</b>	<b>9</b>



**RECOMMENDATION NO. 8** .....12

**RECOMMENDATION NO. 9** .....12

**RECOMMENDATION NO. 10** .....13

**FINDING NO. 3** .....13

**RECOMMENDATION NO. 11** .....16

**RECOMMENDATION NO. 12** .....16

**RECOMMENDATION NO. 13** .....16

**REPORT OF THE OFFICE OF INSPECTOR GENERAL ON COMPLIANCE WITH  
LAWS AND REGULATIONS** ..... 18

**FINDINGS AND RECOMMENDATIONS**.....20

    CHAPTER 3 .....20

    FINANCIAL SYSTEMS DID NOT FULLY COMPLY WITH FFMIA REQUIREMENTS ...20

**FINDING NO. 4** .....20

**ABBREVIATIONS** ..... 24



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



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## REPORT OF THE OFFICE OF INSPECTOR GENERAL

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**TO:** Dale Bosworth  
Chief  
Forest Service

We attempted to audit the accompanying Consolidated Balance Sheet of the Forest Service as of September 30, 2001, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing, for the FY then ended. The financial statements are the responsibility of Forest Service management.

GAGAS require that we obtain sufficient, competent evidential matter to render an opinion on the financial statements. However, the Forest Service was unable to provide such information. Therefore, we were not able to perform all procedures necessary to render an opinion within the timeframes prescribed by the CFO Act of 1990, as amended. As a result, we are unable to render an opinion on the FY 2001 Financial Statements of the Forest Service because of limitations on the scope of our work. Thus, the financial statements are unreliable.

Because material control weaknesses existed in Forest Service's overall financial statement compilation process and its procedures for compiling the balances for FBWT and PP&E, the Agency was not able to provide timely, sufficient and competent evidential matter to support amounts in the financial statements. The material weaknesses in internal controls along with the lack of sufficient, competent evidential matter to support amounts in the financial statements prevented us from performing the audit in accordance with GAGAS and OMB Bulletin No. 01-02.

Forest Service had not performed sufficient analyses and reconciliations of its financial systems to ensure the accuracy of amounts recorded in the general ledger and the subsidiary (detailed) ledgers prior to submitting the unaudited statements to OIG. Therefore, the unaudited financial statements provided to us on November 15, 2001, contained numerous errors and the accompanying footnotes were incomplete. Many of the conditions observed during this year's audit were reported in our FY 2000 financial statement audit, and have yet to be adequately addressed by the Forest Service.

During our attempts to perform interim testing, we were not able to obtain reliable data extracts to test items such as revenue, accounts receivable, accounts payable and undelivered orders. Forest Service does not utilize FFIS to generate standard reports such as accounts receivable and accounts payable listings at the Agency-level as of a period of time. Because of the complexities of the system and Forest Service's business processes such as that used for cost distribution, Forest Service, the Office of Chief Financial Officer, and OIG spent much time and effort attempting to extract information from FFIS, resulting in delays in completing fieldwork at 41 selected Forest Service units. Since these delays made it impossible for us to complete interim testing before yearend testing started, we refocused our work on FBWT and PP&E because of their importance to the Department's consolidated statements. However, ultimately, Forest Service units were unable to provide timely, adequate documentation to support those amounts either.

Forest Service did not have controls in place to ensure the accuracy of reports sent to the Treasury. Additionally, the Agency was not performing timely or complete reconciliations of FBWT as required by the TFM. As a result, there is an increased risk of fraud, waste, and abuse related to Forest Service funds. As of September 30, 2001, the net out-of-balance condition between Treasury's records and the Forest Service general ledger, as reported on Treasury's Report FMS 6652, Statement of Differences, was approximately \$91 million for disbursements and \$152 million for deposits. Forest Service had not performed monthly reconciliations required by the TFM, and continued to work on the September 30, 2001, reconciliation after we were provided the unaudited financial statements on November 15, 2001.

As reported in prior years' audits, controls over PP&E continued to be deficient, and accurate and reliable balances could not be determined for the FY 2001 reporting period. Forest Service units did not provide a) timely or adequate documentation to support amounts recorded in the subsidiary ledgers, and property feeder systems, including INFRA, PROP and EMIS, or b) timely or accurate depreciation expense calculations. Interfaces between the general ledger and the subsidiary systems were not working properly, and the property subsidiary systems were not accurately computing depreciation expenses or accumulated depreciation.

Due to the extent of the limitations noted above, we were not able to satisfy ourselves as to the value of Forest Service's assets, liabilities and net position as of September 30, 2001, as well as its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the FY then ended. Therefore, we are unable to express, and we do not express, an opinion on these financial statements.

This report is intended solely for the information and use of the management of Forest Service, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

  
JOYCE N. FLEISCHMAN  
Acting Inspector General

February 14, 2002



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## REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE

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**TO:** Dale Bosworth  
Chief  
Forest Service

We attempted to audit the accompanying financial statements of the Forest Service, as of, and for the FY ended September 30, 2001, and have issued our report thereon, dated February 14, 2002. In planning and performing our audit, we considered Forest Service's internal control over financial reporting by obtaining an understanding of the Agency's internal control structure, determined whether internal controls had been placed in operation, assessed control risk, and performed 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. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA) of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters 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 structure that, in our judgment, could adversely affect the Agency'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. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted certain matters discussed in the following findings involving the internal control and its operation that we considered to be reportable conditions and material weaknesses.

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## FINDINGS AND RECOMMENDATIONS

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CHAPTER 1	<b>OVERALL FINANCIAL MANAGEMENT CONTROLS WERE NOT ADEQUATE TO ENSURE THE COLLECTION OF TIMELY, COMPLETE AND RELIABLE FINANCIAL INFORMATION</b>
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### FINDING NO. 1

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Our review of Forest Service's FY 2001 financial statements disclosed that internal controls over the Agency's financial reporting process were not adequate to ensure the collection of timely, complete and reliable

financial information. Specifically, we could place no reliance on the trial balances used to generate the financial statements because Forest Service failed to provide us with a single, approved, reliable trial balance taken directly from the FFIS general ledger to support the financial statements. This occurred because Forest Service management had not established a reliable and effective business process to prepare the financial statements. Further, we could place no reliance on data in the FFIS general ledger because Forest Service made 98,445 entries (debits and credits) to the general ledger totaling in excess of \$69.4 billion; many of which were unsupported, unapproved, or erroneous. Significant adjustments that were not part of a normal yearend closing were made in a very short period of time after the end of the FY to compensate for the lack of controls over financial reporting throughout the entire year. (See Finding Nos. 2 and 3.)

#### Unreliable Trial Balances

We could place no reliance on the trial balances used to generate the financial statements because Forest Service failed to provide us with a single, approved, reliable trial balance taken directly from the FFIS general ledger to support the financial statements. In fact, Forest Service provided us with multiple versions of its trial balance; none of which could be traced directly to the statements.

During our review of the unaudited financial statements, Forest Service provided us with seven different trial balances to support the statements. We could place no reliance on spreadsheets Forest Service purported to represent its general ledger balance because the trial balances provided

were not taken directly from the general ledger and the Agency made unsupported changes and inappropriate adjustments to "plug" the accounts into balance.

While comparing a detailed trial balance with a summary-level trial balance, we noted differences in 41 general ledger accounts that resulted in a net out-of-balance condition of \$6.5 million between budgetary and proprietary accounts. Forest Service officials explained that, while preparing the financial statements, they discovered that the budgetary accounts did not balance to the proprietary accounts. Rather than determining the reason for the differences, Forest Service made adjustments to the trial balance to bring the budgetary and proprietary accounts into balance. Subsequently, the Agency found that 75 general ledger posting entries, totaling almost \$941 million, were not included in the FFIS data warehouse until after the preparation of the financial statements. The missing transactions were the actual cause for budgetary and proprietary accounts not to balance. As of the date of this report, we were unable to identify the specific cause for the entries not being posted timely.

#### Unreliable General Ledger

We could place no reliance on data in the FFIS general ledger because Forest Service made 98,445 entries (debits and credits) to the general ledger totaling in excess of \$69.4 billion. Many of these significant adjustments were unsupported, unapproved, or erroneous, because they (1) were not part of a normal yearend closing and (2) were made shortly after the end of the FY to compensate for having no controls over financial reporting throughout the entire year.

- At the end of the FY, Forest Service made 15,337 entries (debits and credits) totaling \$11 billion that affected FBWT, many of which were made to adjust the general ledger to Treasury records. In contrast, the FBWT line item reported on the Consolidated Balance Sheet was \$3 billion. We judgmentally selected 144 adjustments comprising approximately \$7.9 billion of the \$11 billion in debits and credits, and found that 105 of the adjustments totaling \$4.7 billion were not sufficiently justified by the supporting documentation. Additionally, 29 adjustments, totaling \$2.9 billion, had no supporting documentation. The unsupported adjustments were made because Forest Service had not performed required monthly reconciliations of their fund balance accounts. (See Finding No. 2.)
- We concluded that the adjustments had caused material misstatements in some accounts. For example, Forest Service made three adjustments totaling approximately \$200 million to increase accounts receivable and decrease FBWT in order to "plug" the general ledger into agreement with Treasury records, rather than

determine the reason for the differences. We concluded that the entries resulted in a \$200 million overstatement of Accounts Receivable because there was no evidence that any entity or entities owed Forest Service this amount. Supporting documentation disclosed that the adjustment would be reversed in FY 2002 and further researched. This condition was also reported in last year's audit when we identified a \$261 million overstatement in the Balance Sheet line item titled Cash and Other Monetary Assets caused by Forest Service's attempt to adjust FBWT to Treasury records without determining the reasons for the differences. Although Forest Service reversed the erroneous entry to Cash and Other Monetary Assets during FY 2000, the Agency never researched the differences during FY 2001.

- Forest Service did not ensure that large dollar adjustments were posted accurately to FFIS. For example, on August 29, 2001, Forest Service made two adjustments to balance the FFIS general ledger with the INFRA subledger as of September 30, 2000. Forest Service intended to decrease the total capitalized value in FFIS by almost \$1.4 billion and to decrease the accumulated depreciation by approximately \$1.3 billion. The purpose of these two adjustments was to force FFIS to match INFRA. However, the adjustments entered into FFIS were truncated and the capitalized value was only decreased by approximately \$14 million and the accumulated depreciation only decreased by approximately \$12.7 million. Forest Service did not become aware that the adjustments were posted incorrectly until December 18, 2001, after repeated requests from OIG that the FFIS general ledger be reconciled to the INFRA subledger.
- Forest Service overstated accounts receivable and earned revenue by approximately \$21.7 million by twice entering an adjustment to create an unbilled receivable for a reimbursable agreement.

Because of the deficiencies noted above, we could place no reliance on the Forest Service's general ledger and trial balance. Therefore, Forest Service should develop and implement a sustainable process to improve financial management that incorporates the following recommendations.

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**RECOMMENDATION NO. 1**

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Identify key financial and nonfinancial managers and staff, at both the Washington Office and field locations, whose support is critical to the success of financial management improvement and make them accountable for improving financial management.



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**RECOMMENDATION NO. 2**

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Provide training to change the Agency's culture in order to make financial management improvement an Agency-wide priority. Educate nonfinancial managers on how to use financial information to improve operational planning and decision-making.

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**RECOMMENDATION NO. 3**

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To establish a reliable and effective business process for preparing the financial statements, identify all major functions performed by the financial management team (e.g., FBWT, accounts receivable). For each major function, develop and implement written procedures to establish management controls and efficient business processes over all financial activities, including adjustments to the general ledger.

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**RECOMMENDATION NO. 4**

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Prepare financial statements from a single, official trial balance that has been verified for accuracy and approved by Forest Service management.

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**RECOMMENDATION NO. 5**

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Establish a procedure to validate that the general ledger is in balance for budgetary and proprietary accounts and includes all recorded transactions prior to preparing yearend financial statements.

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**RECOMMENDATION NO. 6**

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Ensure that all accounting adjustments are adequately supported and have been reviewed and approved by Forest Service management. Adjustments should be supported by documentation sufficient to enable auditors to independently verify that the transactions are proper.

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**RECOMMENDATION NO. 7**

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Ensure that all system deficiencies are documented, forwarded to the system owner and monitored for correction.

We found that controls were not sufficient to safeguard assets. Internal control improvements are needed for FBWT and PP&E to ensure that Forest Service assets are adequately safeguarded. Internal controls over the safeguarding of assets relates to the prevention or timely detection of unauthorized transactions and unauthorized access to assets that could result in losses that are material to the financial statements. Good internal controls are necessary to help prevent or detect material losses that could result from unauthorized acquisition, use, or disposition of assets.

Forest Service's Consolidated Balance Sheet, as of September 30, 2001, reported total assets of approximately \$8.48 billion. The total FBWT and PP&E comprise a combined total of \$7.95 billion or 94 percent of Forest Service total assets.

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**FINDING NO. 2**

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We have reported since 1992, and continue to report this year, that the Forest Service's FBWT accounts have not been properly reconciled with Treasury records. We attribute the FY 2001 deficiencies to Forest Service's failure to establish and/or follow adequate internal control and business processes, and not assigning sufficient, knowledgeable staff to this task. Forest Service's balance sheet, as of September 30, 2001, reported total FBWT of approximately \$3 billion; 35 percent of its total assets. We extended our review of FBWT until January 31, 2002, but as of that date, we were still unable to determine the correct FBWT amount.

The FBWT account is an asset account representing the future economic benefit of monies that can be spent for authorized purposes. Forest Service accumulates its fund balance from numerous disbursement and receipt transactions, which are recorded in its Standard General Ledger (SGL) and related sub accounts. Forest Service is required to report monthly its disbursement and receipt activities to Treasury on a SF 224, Statement of Transactions. Treasury then takes this report and compares the data against comparable data submitted by financial institutions and Treasury Regional Finance Centers, and notifies Forest Service of any differences on a Statement of Differences Report (FMS 6652). Forest Service is then required to investigate and reconcile these differences, and report any required adjustments. Additionally, Treasury reports to Forest Service its month-end account balance on an Undisbursed Appropriation Account Ledger (FMS 6653). Forest Service must also reconcile its FBWT accounts to this closing balance. These reconciliations

and verifications of financial information are critical internal controls that ensure the integrity of the Forest Service's accounting system. Although there are several reports and forms used by Forest Service and Treasury in the reconciliation process, the most critical are the SF 224 and the FMS 6652.

Prior to April 2000, Forest Service shared functions with the National Finance Center (NFC) for reconciling its FBWT. Since then, Forest Service has assumed sole responsibility for this function. However, when Forest Service assumed this responsibility, it did not establish and/or follow required processes and controls to ensure that the reconciliations were done timely and properly, and that reports to Treasury were accurate. This breakdown of management control is illustrated by the following examples.

- As of January 31, 2002, Forest Service had not resolved FY 2001 FBWT transaction differences of \$152 million in deposits and \$91 million in disbursements between its records and Treasury's records as reflected on the FMS 6652 report.
- Forest Service did not accurately report all activity on its SF 224 to Treasury because it did not routinely reconcile the SF 224 to its general ledger. Specifically, throughout FY 2001, it did not report a total of 139,697 collection and disbursement transactions on the SF 224's. These transactions totaled \$18.4 million.
- Forest Service did not reconcile differences of \$26.4 million between the FMS 6653, Appropriation Account Ledger, and its general ledger, and differences of \$82 million between the FMS 6655, Receipt Account Ledger, and its general ledger.

Differences on the FMS 6652 Report were not resolved.

Forest Service did not adequately resolve differences on the FMS 6652 report. Forest Service had not performed required monthly reconciliations during the FY and had not adequately investigated and cleared the differences as of the end of our fieldwork. Since assuming the responsibility for the reconciliations in April 2000, Forest Service had not assigned sufficient, knowledgeable staff to complete the reconciliations. Even though we have reported the lack of adequate reconciliations as a material internal control deficiency for several years, Forest Service management failed to properly monitor the reconciliation process, underestimated the resources needed to accomplish this critical task, and did not ensure that appropriate corrective actions were taken throughout FY 2001.

A November 29, 2001, letter to Forest Service from Treasury Financial Management Service's Cash Analysis Branch expressed concern that

Forest Service had not cleared unreconciled Statements of Differences for six or more months. The letter emphasized that

*Timely reconciliation guards the Government's cash assets from waste, fraud and abuse. Timely reconciliation assures that your agency is properly managing the budget authority granted by Congress and reduces the Treasury's need to borrow from the public.*

Treasury also offered to provide training or long-term on-site assistance to Forest Service in performing the reconciliations.

During FY 2000, the U.S. Department of Agriculture implemented a new reconciliation tool, ACRWS, to support the Department's cash reconciliation efforts. Detailed transactions from the FFIS general ledger and from Treasury's Government On-line Accounting Link System (GOALS) are loaded into ACRWS, and matched to produce listings of unmatched collection and disbursement transactions so that the Agency can more efficiently identify and research the reasons for the differences reported on the FMS 6652. Implementation issues involving the set up and use of ACRWS hampered Forest Service's reconciliation efforts. According to Agency officials, data downloaded to ACRWS during FY 2001 was not timely, accurate, and complete for the following reasons.

- For the first three months of the FY, Forest Service did not have security clearances to download data from GOALS. NFC had downloaded Treasury information from GOALS for Forest Service during those three months. However, the data files were overwritten before the information was loaded into ACRWS.
- Nightly download files from the general ledger were not always created.
- Transmission errors occurred while the data was being downloaded from the general ledger.
- Periodically, download routines would crash, and the database administrators would not always restart the downloads properly (i.e., steps in the download were skipped).

The lack of accurate and complete data in the ACRWS tool impeded Forest Service's ability to identify and timely correct differences between their records of collections and disbursements and Treasury records. If Forest Service had established quality assurance checks to reconcile data downloaded to ACRWS with fund balance accounts in the general ledger, the Agency would have discovered that all transactions had not been downloaded from FFIS to ACRWS.

All activity was not reported to Treasury on the SF 224

Forest Service did not ensure that all collection and disbursement activity was accurately reported to Treasury during FY 2001. This occurred because Forest Service had not established procedures to routinely reconcile fund balance accounts in the general ledger with data downloaded into journals used to prepare the SF 224 report. The downloads from the FFIS general ledger to the SF 224 journals are performed using the same software routine as downloads from the general ledger to ACRWS. Therefore, the same issues that caused inaccurate and incomplete downloads from the FFIS general ledger to ACRWS also caused the SF 224 reports to be inaccurate and incomplete. As a result, Forest Service failed to report 139,697 collection and disbursement transactions totaling \$18.4 million to Treasury during FY 2001. If reconciliations had been performed, Forest Service would have discovered the errors before reporting to Treasury.

Amounts on the FMS 6653 and FMS 6655 reports were not reconciled to the general ledger.

Forest Service did not reconcile differences of \$26.4 million between the FMS 6653, Appropriation Account Ledger, and its general ledger, and differences of \$82 million between the FMS 6655, Receipt Account Ledger, and its general ledger. These reconciliations are also required by Treasury, and serve important functions.

- Reconciliations between the FMS 6653 and the Agency's general ledger are important to help identify spending transactions originating from other agencies' that impact Forest Service's FBWT.
- Reconciliations between the FMS 6655 and the Agency's general ledger are important to help ensure that all of Forest Service's collections and deposits are properly recorded.

The lack of reconciliations between the Agency's general ledger and the FMS 6653 and FMS 6655 reports also hinders the Forest Service's ability to effectively monitor its budgetary resources and allocate the resources to program operations.

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**RECOMMENDATION NO. 8**

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Develop and implement written procedures for performing routine reconciliations as required by Treasury.

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**RECOMMENDATION NO. 9**

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Assign sufficient, knowledgeable staff to perform the reconciliations. Accept Treasury's offer to provide training and assistance with the FBWT reconciliation process.

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**RECOMMENDATION NO. 10**

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Establish quality control checks to ensure that all collection and disbursement transactions in the general ledger are reported to Treasury on the SF 224 reports and loaded to ACRWS.

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**FINDING NO. 3**

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As reported in prior years' audits, controls over general property, plant and equipment were deficient to the extent that accurate balances could not be determined. The control weakness continued for the FY 2001 reporting period.

Forest Service units did not have adequate documentation to support amounts recorded in the property inventory feeder systems including INFRA, PROP, and EMIS, and the subsidiary ledgers were not providing timely or accurate depreciation expense calculations. Interfaces between the general ledger and the subsidiary systems were not working properly, and the Agency had not performed timely reconciliations between the general ledger and subsidiary systems to ensure the accuracy of amounts recorded on its financial statements. Even though much effort has been placed in attempting to improve the recording and reporting of property assets, we continue to find deficiencies in Forest Service's controls over recording and reporting asset values to the extent that we cannot opine on, but do question, the accuracy of the \$4.96 billion value reported on the September 30, 2001, balance sheet for general property, plant, and equipment.

As of September 30, 2001, Forest Service reported on its balance sheet general property, plant, and equipment values totaling \$4.96 billion or 58 percent of total assets. Of the \$4.96 billion, real property assets were valued at \$4.4 billion and personal property assets at \$553 million.

**Real Property Assets**

Forest Service accounts for real property as either individual items such as a single building or pools of like assets such as roads. Our review of the pooled and individual asset account balances as of September 30, 2001, disclosed (1) values for many assets were not properly supported, (2) material differences between values recorded in the general ledger and those recorded in the property inventory records were not reconciled and properly adjusted, (3) material negative book balances were not investigated to determine their causes and to correct the account balances, and (4) values for pre-1995 pooled assets were duplicated. Because of the deficiencies, we question the accuracy of the \$4.4 billion value for real property assets as reported on the September 30, 2001, balance sheet.

Pooled assets - During FY 2000, Forest Service, in cooperation with OIG, developed a methodology for valuing pre-FY 1995 road cost. Forest Service developed cost matrices to estimate road prism and surfacing costs. Our review of the FY 2000 financial statements found that the cost matrices were supportable and properly applied to roads constructed prior to FY 1995; therefore, the values recorded for pre-FY 1995 assets were reliable. However, this year's audit revealed that the pre-FY 1995-pooled assets were overstated by at least \$570 million (capitalized value). Forest Service's accounting practices provides for charging road costs to the road prism, road surfacing, or minor culverts accounts. Because minor culverts are considered part of road prism/surface cost, the accounting practice calls for closing out, at yearend, the minor culvert costs to one of the other two accounts as appropriate. Although the \$570 million was divided, as appropriate, and transferred to the other two accounts, Forest Service overlooked closing (zeroing) out that amount from the minor culverts account resulting in a duplication of capitalized costs and overstatement on the balance sheet.

In this year's audit, we found that the values for some roads constructed during and after FY 1995 were not adequately supported. At 35 Forest Service units visited, auditors judgmentally selected the year with the largest expenditures for road prism, road surfacing, and culverts. As of January 31, 2002, the units were not able to provide supporting documentation for almost \$6 million (15 percent) of the \$40.5 million in costs recorded for the selected years. For example, one National Forest had erroneously capitalized \$1.6 million received in FY 1997 for repair and replacement of road culverts damaged during a flood. However, repairs were not made, and this money was not used, as of our fieldwork in September 2001.

Individual Real Property Assets - Our prior audits of Forest Service's financial statements dating back to FY 1992 have reported longstanding deficiencies in values recorded for individual real property assets. Such assets consist of Buildings, Administrative Sites, Recreation Sites, Improvements to Recreation Sites, Dams, and Utility Systems. In FY 1996, Forest Service and OIG worked together to determine ways to value assets for which no documentation existed to support the costs. The assets may have been acquired decades ago and their cost either was never documented or documentation was not retained. A hierarchy was developed for property acquired prior to FY 1995 so that it could be valued utilizing acceptable information in prior Forest Service accounting records or utilizing valid appraisals or cost estimates. Actual documentation was required for assets acquired during or after FY 1995. However, our financial statement audits for FY's 1997 through 2000 disclosed that the Forest Service field units were not following the documentation requirements and that the Agency's records still contained significant errors and many values were not supported with sufficient documentation.

To evaluate the propriety of the reported property value as of September 30, 2001, we statistically sampled 400 individual real property assets recorded in the property inventory system. An additional sample of 187 assets was randomly selected during field visits to check back to the property inventory records to evaluate completeness of the records. Of the total 587 sampled assets, we questioned the values associated with 288. For example, the auditors sent 107 of the 288 questioned sample assets to independent appraisers for valuation because there was no documentation to support the values or the documentation provided obviously misstated the assets' values. Because of the extent of valuation errors, and lack of reliable information, we could not determine the effect on the balance sheet at the completion of fieldwork.

Our analysis of the INFRA real property inventory universe provided on January 3, 2002, revealed 587 assets with negative book values of almost \$20 million. Therefore, the total net book value of the real property assets was understated by \$20 million on the balance sheet. Forest Service had not performed analyses on the property records to determine the cause of the irregularities. Therefore, proper adjustments to the inventory account balances were never made.

We also found inaccurate reporting for Construction in Progress (CIP) of real property assets. Forest Service reported, as of September 30, 2001, \$47 million as CIP. Forest Service provided us a reconciliation showing \$23 million recorded in INFRA as CIP as of September 30, 2001. Our analysis of the INFRA data showed only \$15 million recorded in CIP. On February 6, 2002, Forest Service advised us that they were unable to provide a firm CIP value. The difference occurred because Forest Service units had improperly (1) established job codes to capture CIP costs, (2) included reconstruction of individual real property assets as CIP, (3) included pooled assets such as road costs as CIP, and (4) recorded CIP costs directly into an asset account even though the assets had not been placed into service. Also, a posting model error in FFIS resulted in some CIP transactions not being fed from FFIS into the INFRA subledger.

### **Personal Property Assets**

Forest Service had not reconciled values in its personal property feeder systems with the FFIS general ledger and made necessary adjustments. When reconciliations were attempted in December 2001, the Agency found significant differences between the EMIS and PROP feeder systems and FFIS. These out-of-balance conditions were not fully reconciled and properly adjusted. Therefore, we question the accuracy of the \$553 million value for personal property reported on the September 30, 2001, balance sheet.

Personal property assets consisted of primarily vehicles and computer equipment. Forest Service records its personal property in one of two



systems, PROP for General Fund property or EMIS for Working Capital Fund Property (e.g., vehicles, nursery assets, and computer systems). PROP and EMIS are subsystems of the Property Management Information System that integrates fiscal accounting with property accountability. PROP and EMIS were interfaced with FFIS during FY 2000, so that all Agency financial data would be reflected in one system.

After repeated requests from OIG for the PROP and EMIS reconciliations, Forest Service identified the following differences between the property systems and general ledger that had not been resolved and adjusted as necessary.

- EMIS had over \$57 million more in capitalized value and \$62 million more in accumulated depreciation than was recorded in FFIS.
- NFC reconciliations disclosed that there were other differences between PROP and FFIS. PROP showed \$4 million more capitalized value than FFIS for equipment and \$10.3 million less in capitalized value than FFIS for software. The reconciling differences (absolute value of \$86 million) were due to (1) duplicate recording, (2) not recording assets in one of the systems, and (3) use of incorrect document types.

We also found that 30 aircraft acquired as Heritage Assets were improperly recorded in the general ledger at a capitalized value of approximately \$11.8 million, with a book value of approximately \$5.4 million. Values should not be recorded for Heritage Assets.

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**RECOMMENDATION NO. 11**

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Prior to preparing the balance sheet perform frequent analyses of property records to identify abnormal book balances and make necessary corrections.

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**RECOMMENDATION NO. 12**

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Reconcile differences between property inventory records and the general ledger routinely and make necessary fiscal adjustments.

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**RECOMMENDATION NO. 13**

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Update property procedures and the desk guide to include current standard accounting requirements and ensure staff is properly trained.

This report is intended solely for the information and use of the management of Forest Service, the OMB and Congress and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Joyce N. Fleischman" with a long horizontal flourish extending to the right.

JOYCE N. FLEISCHMAN  
Acting Inspector General

February 14, 2002



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



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## REPORT OF THE OFFICE OF INSPECTOR GENERAL ON COMPLIANCE WITH LAWS AND REGULATIONS

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**TO:** Dale Bosworth  
Chief  
Forest Service

We attempted to audit the accompanying financial statements of the Forest Service as of and for the FY ended September 30, 2001, and have issued our report thereon dated February 14, 2002.

The management of Forest Service is responsible for compliance with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the Principal Financial Statements are free of material misstatement, we performed tests of 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 amounts and certain other laws and regulations specified in OMB Bulletin 01-02, including the requirements referred to in the FFMIA of 1996. We tested compliance with:

- Antideficiency Acts of 1906 and 1950;
- Budget and Accounting Procedures Act of 1950;
- Chief Financial Officers Act of 1990, as amended;
- Debt Collection Improvement Act (DCIA) of 1996;
- Federal Financial Management Improvement Act of 1996;
- FMFIA of 1982; and
- Government Performance and Results Act of 1993.

As part of the audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems, as required by the FMFIA, and compared the Forest Service's most recent FMFIA report, with the evaluation we conducted of the Forest Service's internal control structure. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether the Forest Service's financial management systems substantially comply with (1) the Federal Financial Management System Requirements, (2) applicable accounting standards, and (3) the SGL at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA, Section 803(a).

The results of our tests disclosed instances, described in our "Findings and Recommendations" section, where the Forest Service's financial management systems, as a whole, did not substantially comply with two of the three requirements in the preceding paragraph. Our review did not disclose any material instances of noncompliance with the SGL at the transaction level.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or the sensitivity of the matter would cause it to be perceived as significant by others. The results of our tests of compliance with the laws and regulations described in the preceding paragraphs exclusive of FFMIA disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and OMB Bulletin 01-02. Material instances of noncompliance noted during our audit are presented in the "Findings and Recommendations" section of this report.

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## FINDINGS AND RECOMMENDATIONS

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<b>CHAPTER 3</b>	<b>FINANCIAL SYSTEMS DID NOT FULLY COMPLY WITH FFMIA REQUIREMENTS</b>
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### FINDING NO. 4

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Forest Service's financial systems did not substantially comply with the FFMIA because they did not (1) provide for the collection of timely, complete, and reliable financial information; (2) provide for adequate Agency management reporting; (3) adequately support governmentwide or Agency-level policy decisions; (4) efficiently or effectively facilitate the preparation of financial statements, or other financial reports in accordance with Federal accounting and reporting standards; or (5) provide a complete audit trail to facilitate audits.

The FFMIA of 1996 was passed to improve Federal financial management by ensuring that financial management systems could provide reliable, consistent disclosure of financial data. FFMIA requires each Agency to implement and maintain systems that comply substantially with:

- Federal financial management system requirements,
- Applicable Federal accounting standards, and
- SGL at the transaction level.

FFMIA requires, among other things, that agencies implement and maintain financial management systems that substantially comply with federal financial management system requirements. These requirements are detailed in the Financial Management Systems Requirements series issued by the Joint Financial Management Improvement Program and in OMB Circular A-127, Financial Management Systems, and OMB's Implementation Guidance for the FFMIA, issued September 9, 1997.

The financial management systems in the Federal Government must be designed to support the vision articulated by the Government's financial management community. This vision requires financial management systems to support the partnership between program and financial managers and to assure the integrity of information for decision-making and measuring of performance, including the ability to:

- Collect accurate, timely, complete, reliable, and consistent information;
- Provide for adequate Agency management reporting;
- Support governmentwide and Agency level policy decisions;
- Support the preparation and execution of Agency budgets;
- Facilitate the preparation of financial statements, and other financial reports in accordance with Federal accounting and reporting standards;
- Provide information to central agencies for budgeting, analysis, and governmentwide reporting, including consolidated financial statements; and
- Provide a complete audit trail to facilitate audits.

#### Collection of Timely, Complete, and Reliable Information

Because Forest Service management had not established a reliable and effective business process to prepare the financial statements, and because material unsupported, unapproved, or erroneous yearend adjustments were made to compensate for the lack of controls over financial reporting throughout the year, the Agency could not generate timely, complete, and reliable financial information. (See Finding No. 1.) As a result, the financial statements are unreliable.

#### Adequate Agency Management Reporting

Forest Service had not established procedures to facilitate adequate Agency management reporting. As a result, the Agency did not accurately report all disbursement and collection activity on the Treasury SF 224, Statement of Transactions, reports and did not adequately resolve and report back on whether Treasury needed to make adjustments based on the FMS 6652, Statement of Differences. (See Finding No. 2.)

Additionally, the General Accounting Office (GAO), based on a request from a member of Congress, had prepared a response, dated September 21, 2001, stating that GAO was “precluded from making an accurate determination of the total federal costs associated with timber sales program for fiscal years 1998 and 1999”, because of “serious accounting and financial reporting deficiencies” that existed at Forest Service during that period. The report pointed out that OIG had not been able to render an opinion on the Agency’s annual financial statements because its financial systems did not produce timely and reliable financial management

information. As reported in Finding Nos. 1 through 3 of this report, those conditions still exist.

#### Support of Governmentwide or Agency-Level Policy Decisions

Forest Service was not performing timely or complete reconciliations of the differences on the FMS 6652 for FBWT as required by Treasury. As Treasury officials pointed out in a November 29, 2001, letter to Forest Service: "Timely reconciliation assures that your Agency is properly managing the budget authority granted by Congress and reduces the Treasury's need to borrow from the public." Additionally, the lack of reconciliations between the agency's general ledger and the FMS 6653 and FMS 6655 reports hinders the Forest Service's ability to effectively monitor its budgetary resources and allocate the resources to program operations. (See Finding No. 2.)

GAO's September 21, 2001, response regarding the timber sales program also pointed out that there is a need for an accurate accounting of timber costs to help ensure proper program management and accountability and to serve as a basis for estimating future costs when preparing budgets, and Forest Service had in the past produced the reports based on responses to the directions and expectations of certain committees in Congress.

#### Efficiently and Effectively Facilitate the Preparation of Financial Reports

Forest Service had not timely performed analyses and reconciliations necessary to ensure the accuracy of amounts recorded in the general ledger, recorded in subsidiary (detailed) ledgers, or amounts reported to the Treasury. We could place no reliance on the trial balances used to generate the financial statements because Forest Service was unable to provide us with a single, approved reliable trial balance taken directly from the FFIS general ledger to support the financial statements. Additionally, we could place no reliance on data in the FFIS general ledger because Forest Service made material unsupported, unapproved, and erroneous adjustments at yearend to compensate for the lack of controls over financial reporting throughout the entire year. (See Finding No. 1.)

### Complete Audit Trail

Forest Service did not provide sufficient documentation to allow OIG to trace trial balance summary totals back to originating general ledger account balances.

All issues discussed in this finding have been discussed and related recommendations made, in our Report on Internal Control Structure.

This report is intended solely for the information and use of the management of Forest Service, the OMB and Congress and is not intended to be and should not be used by anyone other than these specified parties.



JOYCE N. FLEISCHMAN  
Acting Inspector General

February 14, 2002



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# ABBREVIATIONS

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## A

ACRWS: Automated Cash Reconciliation Worksheet System..... v

## C

CFO: Chief Financial Officers Act..... i

CIP: Construction in Progress..... 15

## E

EMIS: Equipment Management Information System..... iii

## F

FBWT: Fund Balance with the U.S. Treasury ..... ii

FFIS: Foundation Financial Information System..... ii

FFMIA: Federal Financial Management Improvement Act..... iv

FMFIA: Federal Managers Financial Integrity Act ..... 4

FMS: Financial Management Service..... iii

FY: Fiscal year..... i

## G

GAGAS: Generally Accepted Government Auditing Standards ..... i

## I

INFRA: Infrastructure..... iii

## O

OIG: Office of the Inspector General..... ii

OMB: Office of Management and Budget..... ii

## P

PP&E: Property, Plant and Equipment..... ii

PROP: Personal Property Management System..... iii

## S

SF: Standard Form..... iii

SGL: Standard General Ledger ..... 9

## T

TFM: Treasury Financial Manual..... iii

Treasury: U.S. Treasury ..... ii

**U**

U.S.: United States..... i

# Report of the U.S. Department of Agriculture Forest Service FY 2001

## Incorporating Financial and Performance Accountability

### Contents

Message from the Chief	1
Executive Summary	2
USDA Forest Service Management's Discussion and Analysis	
<b>Mission, Organizational Structure, and Programs</b>	4
USDA Forest Service Mission Statement	4
USDA Forest Service Organizational Structure	5
USDA Forest Service Land Management	7
Overview of USDA Forest Service Programs	8
<b>Major Issues Facing the USDA Forest Service</b>	11
Community and Land Protection	11
Public and Employee Safety	11
Invasive Species	12
Recreation in Our National Forests	13
Watershed Restoration	14
Financial and Program Accountability	15
Analysis of Agency Performance	17
Analysis of Agency's Financial Position	21
Financial Management Controls	24
Financial Systems and Controls ( <i>FMFLA Report</i> )	24
Management Followup to OIG/GAO Recommendations	25
Federal Financial Management Improvement Act (FFMIA)	27
Limitations of Financial Statements	28
<i>Appendixes</i>	
<i>A--Principal Financial Statements and Notes</i>	
<i>Consolidated Balance Sheet</i>	
<i>Statement of Net Cost</i>	
<i>Statement of Change in Net Position</i>	
<i>Statement of Budgetary Resources</i>	
<i>Statement of Financing</i>	
<i>Notes to the Principal Financial Statements</i>	
<i>B--Required Supplementary Stewardship Information</i>	
<i>Stewardship Land</i>	
<i>Heritage Assets</i>	
<i>Human Capital</i>	
<i>Research and Development</i>	
<i>Deferred Maintenance</i>	
<i>C-- Glossary of Acronyms and Abbreviations</i>	

## Message from the Chief

This past year presented significant challenges for the USDA Forest Service and the Nation, including the tragic loss of four firefighters in the Thirty Mile Fire and the terrorist attacks on September 11, 2001. Our lives are forever changed as a result of these events.

The loss of four firefighters in the Thirty Mile Fire is a tragedy that must not be repeated. The USDA Forest Service must provide effective but safe response to wildland fires. We are committed to taking every possible action to guarantee the safety of our firefighters and changes are being made to improve firefighter safety and reduce risks.

I am proud the USDA Forest Service provided assistance, through the Federal Emergency Management Agency, to the recovery efforts in New York City and at the Pentagon after the terrorist attacks in September. The USDA Forest Service provided incident management teams, fire crews, and other personnel for logistical, planning, communications, and distribution support.

As a result of the catastrophic fire season in FY 2000, a National Fire Plan was developed by the USDA Forest Service and the Department of the Interior. Bipartisan legislation resulted in significant funding in FY 2001. The 10-Year Cohesive Strategy, a framework for implementing the National Fire Plan, was developed with cooperators at all levels of government as well as from conservation and commodity groups, and community-based restoration groups. We are also working very hard on recovery, rehabilitation, and prevention efforts. Work on Federal lands is being coupled with technical and economic assistance to States, tribal governments, local communities, and individuals to address the numerous impacts of fire and other natural disasters.

We worked very hard in FY 2001 to improve USDA Forest Service financial accountability. A major area of focus was on tracking more than \$4 billion of real property managed by the agency. We also have completed our second full year of operating the Foundation Financial Information System, a fully compliant and integrated financial management system. System efforts such as these will enable the USDA Forest Service to be a leader in Federal financial management.

These activities and many others are moving the agency forward in its mission "to sustain the health, diversity, and productivity of the Nation's forests and grasslands to meet the needs of present and future generations." This *Report of the Forest Service FY 2001* provides a cohesive and comprehensive picture of agency accountability, incorporating both financial and performance information. As we move forward, we have a tremendous opportunity to apply what we have learned over the last century of natural resource management. We will build on our successes to improve our natural resource and public service mission and to ensure that our Nation's public land legacy remains the envy of the world.

Thanks to all who contributed to our success in FY 2001.

/s/ Dale N. Bosworth  
DALE N. BOSWORTH  
Chief

## Executive Summary

For more than a century, the USDA Forest Service has served as a world leader in the management, protection, and utilization of forest, rangeland, and aquatic ecosystems. In addressing many challenges in Fiscal Year (FY) 2001, the USDA Forest Service:

- Began implementing a 10-Year Comprehensive Strategy to reduce wildland fire risks to communities and the environment and to ensure employee and public safety.
- Addressed the increasing threat of invasive species to the integrity and viability of forest and rangeland ecosystems.
- As a continuing priority, continued to meet the Nation's outdoor recreation needs while efficiently maintaining the critical infrastructure enjoyed by the public.
- Continued to emphasize restoration and enhancement of watersheds.
- Addressed financial and performance accountability to maintain momentum towards obtaining an unqualified audit opinion.

In response to a devastating FY 2000 fire season, the National Fire Plan was implemented. The plan focuses on reducing the impacts of wildland fire on rural communities, reducing the long-term threat from catastrophic fires, and ensuring sufficient firefighting readiness. To achieve these goals, the USDA Forest Service is working with communities to reduce hazardous fuel buildups, restoring fire affected ecosystems, and equipping communities with wildland firefighting tools for reduced fire risk. In addition, the USDA Forest Service is reducing the risks to life, property, and ecosystems by training employees on how to respond to emergency incidents that may threaten homeland security or become national disasters and emergencies.

Coordinated by State and Private Forestry, Research and Development, National Forest System, and International Programs, the USDA Forest Service developed an invasive species program. The program's goal of reducing adverse social, economic, and ecological impacts of key invasive pests, insects, plants, and diseases threatening forest, rangeland, wildland, and urban ecosystems in the United States includes the long-term strategy of using extensive partnerships with international governmental organizations, other Federal agencies, State and local governments, nonprofit organizations, and private landowners.

To meet outdoor recreation needs and to reduce cost, the USDA Forest Service has focused on providing recreation opportunities while protecting natural resources, improving visitor satisfaction of facilities and services, improving USDA Forest Service relationships with public and private entities, establishing professional partnerships and governmental cooperative efforts, and completing management plans for wild and scenic rivers.

The USDA Forest Service continues to demonstrate innovative ways to improve watershed, forest, range, water, and habitat conditions with a number of multiyear projects in partnership with other Federal agencies and State, local, and tribal governments. Additionally, USDA Forest Service is increasing cooperative efforts with States involved in water rights adjudications for developing alternative solutions to

**maintaining sustainable water supplies. This will involve the investment of water mitigation restoration projects.**

**In response to a clear need to improve financial and performance accountability and to obtain an unqualified audit opinion on its annual financial statements, the USDA Forest Service reorganized its financial management to focus on issues preventing the attainment of an unqualified audit opinion. Major issues that were addressed include reliability of the real and personal property accounting and realigning the year-end closing, financial statement, and financial audit liaison responsibilities. As a result of these changes and the performance of the FY 2001 year-end process, further reengineering of processes, focusing on account reconciliations, and with the assistance of the Department of Agriculture, the USDA Forest Service will have an improved opportunity of attaining an unqualified audit opinion in FY 2002.**

**In addition to addressing these significant issues, the USDA Forest Service achieved or exceeded a significant portion of its performance targets in FY 2001. For example, under the strategic goal of ensuring sustainable ecosystems, the indicator of number of acres of aquatic Threatened and Endangered Species (TES) lake habitat improved showed a substantial increase. The USDA Forest Service treated 1,496 acres of aquatic TES lake habitat, 1,562 percent more than planned. Under the strategic goal of multiple benefits for people within capabilities of ecosystems, the indicator of number of special use permits administered to standard showed a substantial increase. The USDA Forest Service administered 12,907 permits, 98 percent more than planned. In areas where target definition weaknesses were identified, the agency will prepare a definable, measurable, and verifiable standard for future year accounting and reporting purposes.**

**U.S. Department of Agriculture  
Forest Service  
Management's Discussion and Analysis**

**Mission, Organizational Structure, and Programs**

**USDA Forest Service 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 the public and with partners such as Trout Unlimited, the Nature Conservancy, and the Society of American Foresters.

As one of the lead Federal agencies in natural resource conservation, 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 ecosystem approach to management 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 ensures sustainable ecosystems by restoring and maintaining species diversity and ecological productivity. These activities support recreation, water, timber, minerals, fish, wildlife, wilderness, and aesthetic values for current and future generations. Further, the Research and Development (R&D) division of the USDA Forest Service is one of the world's leading forestry research organizations. By conducting and sponsoring basic and applied scientific research, the USDA Forest Service leads the way in increasing the basic biological and physical knowledge of the composition, structure, and function of forest, rangeland, and aquatic ecosystems.

Through technical and financial assistance, the USDA Forest Service supports the 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. The USDA Forest Service Strategic Plan is integral in guiding the USDA Forest Service in meeting agency mission objectives.

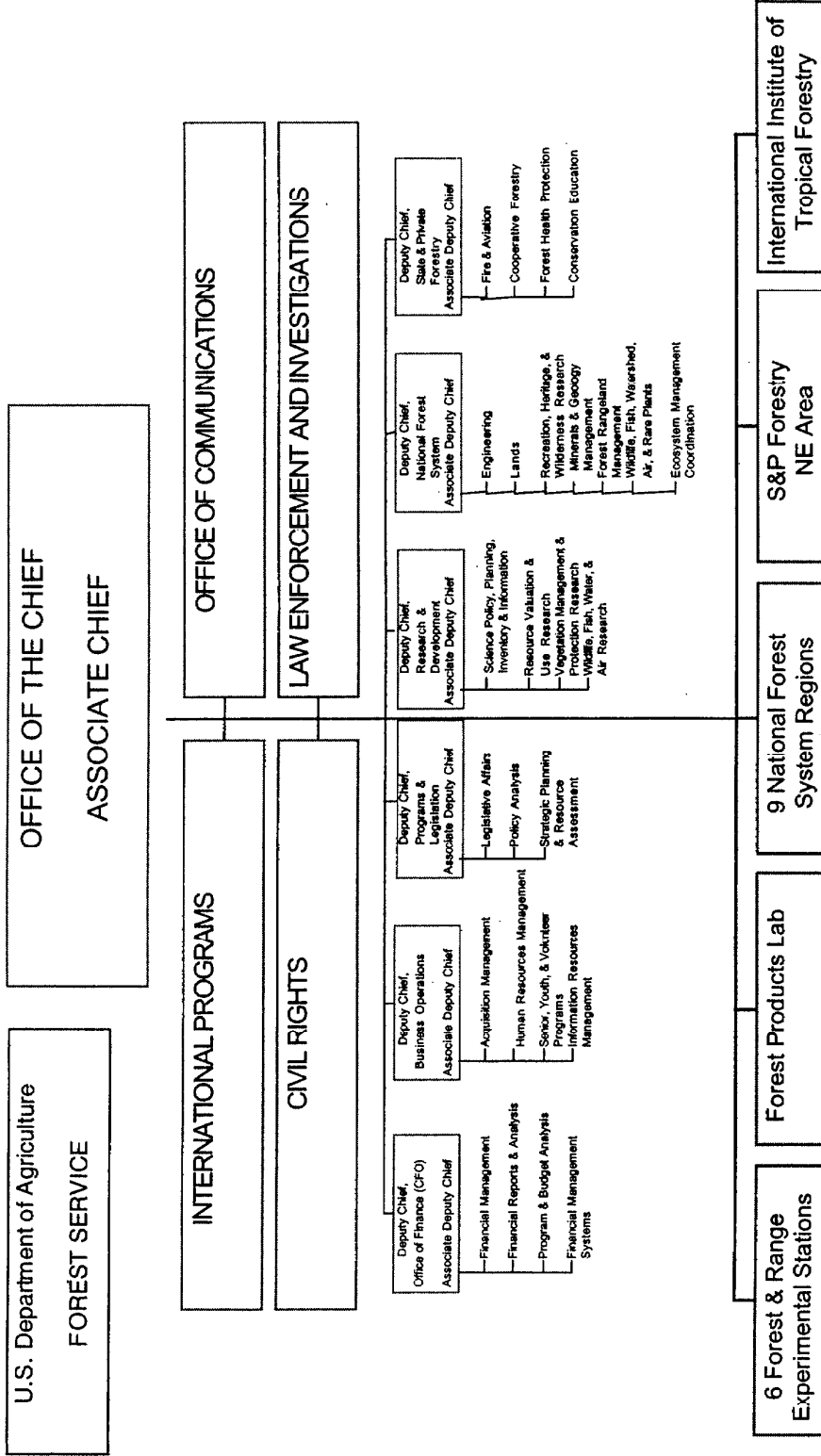
## **USDA Forest Service Organizational Structure**

The USDA Forest Service organizational structure consists of line and functional staff in four organizational levels. These include the Washington Office, regional offices and stations, one area, and National Forest System units and ranger districts. Delegations of authority and responsibility for work accomplishments are made to these organizational levels.

The Chief of the USDA Forest Service and the Associate Chief manage the agency from the Washington Office and provide national-level policy and direction to the field offices in response to Administration priorities, congressional direction, and other national issues. The regional offices link the Washington Office to individual units of the National Forest System. National forests and grasslands are subdivided into ranger districts and are managed by district rangers who report to the forest supervisor. As depicted in the organizational chart on the following page, six deputy chiefs, nine regional foresters, six station directors, one area director, and the directors of the Forest Products Laboratory and International Institute of Tropical Forestry report directly to the Chief.



Current Organizational Structure (as of May 2001)



Supersedes Chart Dated: June 16, 1997

Prepared by: Human Resources Management Staff, Washington Office

USDA FOREST SERVICE MISSION. As set forth in law, the mission is to achieve quality land management under the sustainable multiple-use concept to meet the diverse needs of people. The agency manages the 192 million acre National Forest System for many purposes and a comprehensive research program, provides for cooperative forestry assistance to States, communities, and private forest landowners and conducts international forestry activities in cooperation with other countries.

## **Forest Service Land Management**

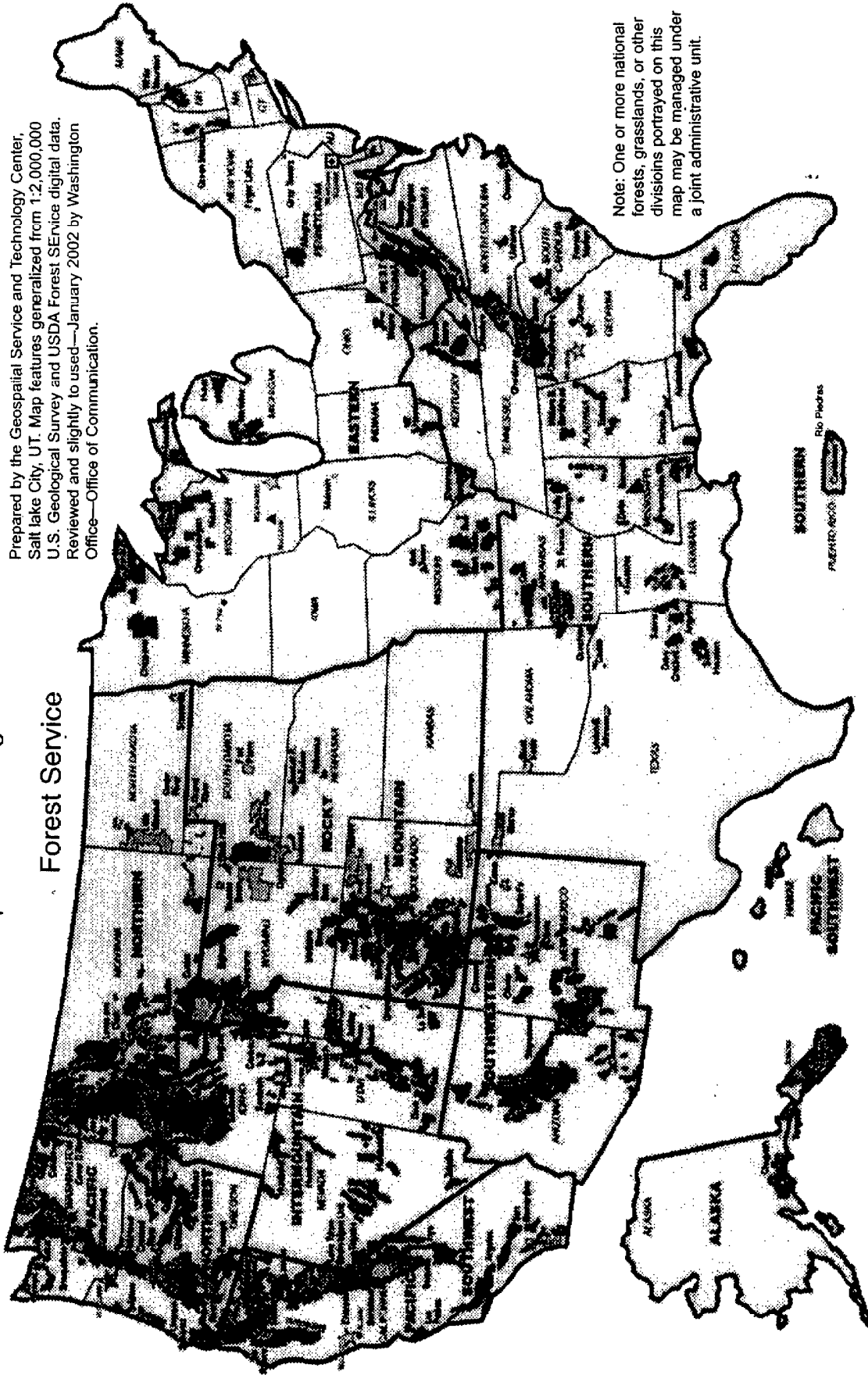
The Forest Service is a large, geographically dispersed organization with employees in every State. The National Forest System is comprised of 155 national forests, 20 national grasslands, five national monuments, the National Tallgrass Prairie, and six land utilization projects. These units are located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

# Map of the National Forest System

U.S. Department of Agriculture

Forest Service

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- ★ Regional Headquarters
- Forest and Range Station Headquarters
- ▲ Forest Products Laboratory
- ▲ International Institute of Tropical Forestry
- ◻ State and Private Forestry Area Headquarters  
(in other regions these activities are directed from regional headquarters)
- ▨ National Grasslands
- ▨ National Forests
- Regional Boundaries

# Overview of USDA Forest Service Programs

## Forest and Rangeland Research

The R&D division of the USDA Forest Service is one of the world's leading forestry research organizations, conducting and sponsoring basic and applied research and developing innovative and cost-effective techniques. This research is improving the knowledge base needed to enhance scientific understanding of ecosystems in support of sound decisionmaking and sustainable management of the Nation's forests and grasslands. Further, the R&D division is committed to providing knowledge and technology to private landowners, enabling them to better sustain the health, productivity, and diversity of their lands. The USDA Forest Service R&D program is focused on the following seven functional areas:

1. Maintaining and enhancing the production capacity of forests and rangelands;
2. Maintaining and enhancing forest and rangeland health;
3. Maintaining forest and rangeland contributions to carbon cycles;
4. Maintaining and conserving soil, water, and air resources;
5. Maintaining and enhancing long-term, multiple socioeconomic benefits to meet the needs of society;
6. Conserving biodiversity; and
7. Conducting forest inventory and health monitoring.

## 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, nonregulatory 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 NFS, R&D, 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; and
- Engaging in partnerships that improve management, protection, and use of forest-based goods and services with States and private landowners.

## **National Forest System**

The NFS, another division of the USDA Forest Service, is managed under the principles articulated in the National Environmental Policy Act and the National Forest Management Act. Administration of NFS lands uses an ecological and multiple-use land management approach that best meets commodity and resource needs without impairing the ecosystem or damaging the environment. The natural resources contained within the NFS are managed to best meet the needs of the Nation without impairing the productivity of the land or damaging the environment. The aquatic and terrestrial ecosystems comprising the NFS encompass tropical and boreal forests, grasslands, and 5.4 million acres of important wetlands. 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, and conserving fish and wildlife and their habitats;
- Restoring and enhancing vegetative resources and rangelands;
- Conducting resource inventories and assessments of NFS lands; and
- Providing a safe environment for the public and for USDA Forest Service employees.

## **Wildland Fire Management Program/The National Fire Plan**

The Wildland Fire 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. This program is guided, in part, by the fundamental principles articulated in the "National Fire Plan," as adopted by the Secretaries of Agriculture and the Interior in FY 2001. Among many programmatic functions, 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 that minimize the potential for large, destructive wildfires. This program also funds Burned Area Emergency Rehabilitation projects that restore hazardous environments after a fire is extinguished.

## **Capital Improvement and Maintenance**

Capital Improvement and Maintenance provides funding to improve, maintain, and operate the USDA Forest Service infrastructure. Funding is provided for NFS roads and trails, as well as for modifying existing facilities or constructing new ones. The emphasis of the program is on annual and deferred maintenance; when annual maintenance work is not completed during the fiscal year for which it is funded, it becomes deferred maintenance. The focus of the deferred maintenance program is the reduction of the maintenance backlog, with priority on critical health and safety issues.

### **Land Acquisition—Land and Water Conservation Fund**

Through the Land and Water Conservation Fund (LWCF), the USDA Forest Service works with partners to protect important lands, conserve open space, and preserve forested and coastal areas, primarily through land acquisition. Many of the acquired lands are located in congressionally designated areas, such as wilderness areas, national recreation areas, wild and scenic rivers, and national scenic trails.

## **Major Issues Facing the USDA Forest Service**

The USDA Forest Service plan for the future will focus on areas of work in which the agency, in cooperation with its partners, can make tangible contributions to sustainable resource management. In meeting the emphasis areas described below, the USDA Forest Service will better demonstrate the value of the work of the organization to its partners and to USDA the Nation as a whole. The USDA Forest Service plans to meet the following challenges:

- Implement the 10-Year Comprehensive Strategy to reduce wildland fire risks to communities and the environment;
- Ensure employee and public safety;
- Address the increasing threat of invasive species to the integrity and viability of forest and rangeland ecosystems;
- Meet the Nation's outdoor recreation needs while addressing increasing maintenance and facilities repair costs;
- Restore and manage watersheds; and
- Improve financial management systems and controls to attain better accountability and an unqualified clean audit opinion from the Inspector General.

### **Community and Land Protection**

Wildland fire can lead to devastating loss of life and property. If properly managed, however, it is also one of the best tools for sustaining healthy forests and grasslands. 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 built up to dangerously high fuel levels. The severe fire season of FY 2000 highlighted the need to find ways to protect life and property and minimize losses of natural resources. This led to the adoption of the National Fire Plan. The National Fire Plan includes implementing 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 (1) reduce the impacts of wildland fires on rural communities, (2) reduce the long-term threat from catastrophic fires, and (3) ensure sufficient firefighting readiness. 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 goals, the USDA Forest Service will 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.

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.

### **Public and Employee Safety**

The safety of the public and USDA Forest Service employees is foremost in everything the USDA Forest Service does. The USDA Forest Service is committed to ensuring that all changes in management, policy, training, and operations reflect the goal of improving safety. Consistent with that goal, the USDA Forest Service will work to reduce risks to life, property, and ecosystems from high-intensity wildland fires within and adjacent to communities. Furthermore, USDA Forest Service employees trained in responding to emergency incidents are likely to play an expanded role in ensuring homeland security and responding to national disasters and emergencies.

### **Invasive Species**

The USDA Forest Service is committed to diminishing the rate of infestation and introduction of invasive species on forests and grassland. 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, land values, farming, and others. For example, 56 million forested acres are at risk along the leading edge of a gypsy moth front. In Oregon and California, 27,864 acres of Port-Orford-cedar root disease have been identified on Federal lands. On the 192 million acres of NFS lands, 3.9 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 mission areas: 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 diseases threatening forest, rangeland, wildland, and urban ecosystems in the United States. In part, this goal is reached by emphasizing partnerships, operations, and research and development activities that prevent, monitor, and control invasive species, and that 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 longhorned beetle, Sudden Oak Death disease, purple loosestrife, citrus canker, nutria, 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 destroys habitat of green sea turtles, 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 back country.

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 a strong collaboration with our partners, appropriate resources, and a strong determination.

## **Recreation in Our National Forests**

The USDA Forest Service provides a vast array of recreation, heritage, and wilderness experience opportunities. The protection and restoration of natural areas, expansion of accessible recreation opportunities, management of off-highway vehicle use, facilities maintenance, and safety and security concerns all demand attention. The USDA Forest Service's challenge is to meet these demands through emphasis on the following five interrelated areas:

1. Provide recreation opportunities that do not compromise the health of the resources;
2. Improve visitor satisfaction with USDA Forest Service facilities and services;
3. Strengthen USDA Forest Service relationships with private entities and volunteer-based and nonprofit organizations;
4. Establish professional partnerships and intergovernmental cooperative efforts; and
5. Complete wild and scenic rivers management plans to ensure proper management direction for these special areas.

To address these challenges, the USDA Forest Service is taking a number of steps. For example, the agency estimates its backlog for maintenance and repair of existing facilities exceeds \$800 million. The USDA Forest Service is investing proceeds from the Recreation Fee Demonstration Program and other revenue-leveraging actions to reduce maintenance backlog, particularly in the most heavily used areas. In some cases, deteriorating facilities will be removed; in other cases, facilities will be repaired or restored.

Through the involvement of communities of interest in national forest plans and the forest planning process, the USDA Forest Service is managing off-highway vehicle (OHV) use to provide high-quality motorized opportunities in an ecologically and socially sustainable manner. Further, the USDA Forest Service is exploring opportunities for designating a system of roads, trails, and areas appropriate for OHV use.

Partnerships with State, local, and tribal governments; nongovernmental organizations; landowners; and others enable the USDA Forest Service to provide more services to a wider spectrum of recreational users. The USDA Forest Service is also exploring

opportunities for long-term private sector investments in existing and future recreation developments that are consistent with economic and social sustainability. To attain a better handle on USDA Forest Service impacts on local communities, the agency is committed to increasing the documentation of contributions to community economies, primarily through strategic business delivery partnerships.

Since 1996, the USDA Forest Service has experimented with numerous user recreation fee alternatives. The Recreation Fee Demonstration Program authority expires on September 30, 2004. The revenue generated through user fees exceeds \$30 million a year and provides critical resources for improving facilities and reducing maintenance backlog. As part of the legislative process, the USDA Forest Service is developing clearly stated, nationally consistent criteria for recreation user fees.

## **Watershed Restoration**

Vibrant, self-renewing forests and grasslands cannot exist without plentiful supplies of clean water. Forests and grasslands feed fresh water into hundreds of municipal watersheds nationwide—nearly 60 million people depend on these forests and grasslands for drinking water. Healthy watersheds are the key to sustaining a supply of clean water. Unfortunately, many watersheds are threatened by air pollution, erosion, and increased diversions of water from natural channels and aquifers. The USDA Forest Service strives to protect water quality and aquatic health through the reduction of polluted runoff, the improvement of natural resources stewardship, and an increase in public involvement in watershed management on Federal lands.

Large-scale watershed restoration projects demonstrate innovative ways and new approaches to improving watershed, forest, range, water, and habitat conditions at a landscape scale. A number of multiyear projects have been developed in partnership with Federal, State, local, and tribal governments; communities; and nongovernmental entities. Watershed planning includes assessing and monitoring all watershed conditions to prevent the degradation of high-quality waters and sensitive aquatic ecosystems. Streams and adjacent uplands are managed to ensure continued benefits to fish and wildlife, while providing a broad range of services, including recreation, forest products, and grazing.

In addition, the ability of the water supply system in the Western United States to meet the needs of a rapidly growing urban population is at risk. The supply is stressed to its limits and is dependent on increasingly complex legal arrangements, water pumping, storage, and transport engineering corrections. Failure of this complex water supply system will cause unprecedented economic and social consequences. More research will be conducted to develop tools and techniques for sustaining high-quality forested watersheds.

The USDA Forest Service will further increase efforts to cooperate with 11 States involved in water rights adjudications to develop alternative solutions to water quantity allocation problems. The agency will invest in water quality mitigation programs on NFS watersheds, including 15 large-scale watershed restoration projects and dozens of

watershed assessments, in collaboration with hundreds of interested groups. The USDA Forest Service restored 90,800 acres of lands burned in FY 2000, helping to prevent or reduce erosion that would impact water quality. The USDA Forest Service will continue to pursue effective watershed management efforts to improve and maintain water quality and quantity.

### **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. Resources must continue to focus on the steady improvement of financial and program accountability within the agency. Through relevant, reliable, and accurate information, including budget, accounting, and program data, Congress, USDA Forest Service managers, and other agency stakeholders can evaluate USDA Forest Service programs and the results of activities. The agency, through aggressive efforts, has moved forward on efforts to improve financial and program accountability. 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. The USDA Forest Service has implemented the Foundation Financial Information System (FFIS), a financial management system that is fully compliant with Federal financial requirements. A new field-based budget formulation and execution system (BFES) has also been implemented. Accounting policies have been updated and an agency-wide effort has been initiated to improve records for more than \$4 billion of real property managed by the USDA Forest Service. 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 while capitalizing on the strengths of the new systems. A sustained effort is needed to ensure that employees are fully trained in the use of FFIS; information about USDA Forest Service operations is readily available using a variety of reporting tools; and critical processes, policies, and procedures are in place and operating. We have now reached a point where system availability meets agency requirements. Legacy subsystems 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 will continue for several years and require a significant amount of agency resources to complete.

A focused effort in the past several years has greatly improved agency records supporting real property managed by the USDA Forest Service as it works toward firmly establishing its monetary value. In a partnership with the USDA Office of Inspector General and a private accounting firm, a testing methodology and actual appraisals were implemented in FY 2001. When completed, this project will establish an auditable

monetary value for real property assets, providing information absolutely necessary for the management of these assets.

Other initiatives under review and scheduled for implementation include the following:

- Implementing a National Fire Plan database to track, monitor, and account for National Fire Plan spending;
- Initiating commitment accounting;
- Implementing tools to generate financial and performance reports from Web-based accounting databases;
- Improving agency performance measurement;
- Continuing to refine and generate quarterly status of funds analyses that track USDA Forest Service spending; and
- Evaluating information requirements to reduce the volumes of data maintained in the USDA Forest Service general ledger system.

## **Analysis of Agency Performance**

The USDA Forest Service FY 2001 Revised Annual Performance Plan committed the agency to delivering a range of natural resource-based benefits for the American people in accordance with the 1997 Strategic Plan goals and objectives. The USDA Forest Service 1997 Strategic Goals are as follows:

*Goal 1 – Ensure Sustainable Ecosystems*

*Goal 2 – Provide Multiple Benefits for People within the Capabilities of Ecosystems*

*Goal 3 – Ensure Organizational Effectiveness*

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 selected performance goals and accomplishments of the USDA Forest Service during FY 2001. The performance data in this report are measured against the goals established in the Revised Performance Plan for FY 2001.

### **Highlights**

Although far from a complete list, several performance highlights are presented below to illustrate the progress the USDA Forest Service made during FY 2001 in "caring for the land and serving people."

### **National Fire Plan**

The first year of the National Fire Plan (NFP) program provided the USDA Forest Service with a solid platform for continued success in the coming years. The following paragraphs provide a brief summary of accomplishments.

The 10-Year Comprehensive Strategy was developed as an integrated framework for implementation of the NFP. In developing the strategy, the USDA Forest Service collaborated with a broad group representing the U.S. Department of the Interior, States, local governments, tribal interests, conservation and commodity groups, and community-based restoration groups. Oversight reviews made in FY 2001 provided accountability for the NFP and will be used to make course corrections for the future.

In FY 2001, the USDA Forest Service hired 3,311 new employees for fire suppression and related duties. This number is nearly a 30 percent increase more than the previous year and constitutes over 95 percent of the hiring goal needed to achieve the Most Efficient Level (MFL) of preparedness. Equipment, including engines, bulldozers, and other vehicles, was purchased to strengthen fire suppression capabilities. Many fire facilities were renovated and new facilities have been planned or built to support the large increase in personnel. Planning and design of three new air tanker bases was undertaken during the past year.

Research and development projects in FY 2001 supported hazardous fuels reduction at a cost of approximately \$10.2 million. 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 underway to identify improved wood product utilization processes for local entrepreneurs.

## **Watershed Management and Restoration**

The Departments of Agriculture, Commerce, Defense, Energy, and the Interior; the Environmental Protection Agency; the Tennessee Valley Authority; and the Army Corps of Engineers adopted the Unified Federal Policy for Watershed Management on Federal Lands in 2001. This policy provides a framework for a watershed approach to Federal land and resource management activities.

The USDA Forest Service accomplished 133 percent of its land treatment goals and 85 percent of the road decommissioning goal necessary for improving watershed conditions. In addition to the established performance goals above, NFP watershed restoration project plans were developed and will soon be released for public review. The Burned Area Emergency Rehabilitation program plays a major role in emergency watershed stabilization where wildfires destroy ground cover and reduce the ability of the soil to absorb moisture.

## **Invasive Species**

Forest and rangeland health is threatened by invasive species and noxious weeds. During FY 2001, 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 taken to control Port-Orford-cedar root disease and Sudden Oak Death disease in the West, as well as white pine blister and other pathogens throughout the country. Control activities have also been undertaken on aquatic invasive species, such as the tiger mussel. Emergency contingency funding of \$12.4 million was targeted for insect infestation control nationwide.

## **Recreation**

Recreation is a major use of national forests and grasslands. The USDA Forest Service hosted 209 million forest visits in FY 2001. Recreation visitors activities include hiking, camping, hunting, fishing, visiting cultural sites, and others. More than 26,000 recreation special use permits were administered in FY 2001.

During FY 2001, Recreation.gov, a one-stop Internet site for recreation information on all Federal lands, received an E-Gov 2001 "Trailblazer" award. The award recognizes "Outstanding electronic Government best practices applications that streamline operations and improve government service."

In FY 2001, the USDA Forest Service instituted the National Visitor Use Monitoring Project to provide statistically valid information on the type, quantity, and location of recreation use on national forests. Accurate recreation use information will enable the agency to focus resources to meet visitors demands and improve visitors satisfaction with their recreation experience. As the survey is expanded and improved, the accuracy and statistical validity will also improve.

## **Cooperative Forestry**

Cooperative landowner assistance efforts, such as the Forest Legacy Program (FLP) and the Forest Stewardship Program, have resulted in protection and wise management practices for nonindustrial private forest (NIPF) landowners and others outside the NFS lands. In FY 2001, the USDA Forest Service helped protect over 83,000 acres from development in 24 States. Participating States worked with landowners to initiate the process on an additional 720,000 acres. NIPF landowners were given financial and technical assistance in preparing more than 12,800 forest management plans and in treating more than 1.39 million acres.

More than 10,650 communities participated in urban environment projects through the Urban and Community Forestry Program. More than 4 million hours of volunteer assistance were generated for local projects such as the Revitalize Baltimore Project, The Chicago Wilderness Project, and many others in both large and small communities.

## **Performance Management in the Future**

In FY 2002, the USDA Forest Service will begin to move toward to a new, outcome-oriented budget and planning structure that shows linkages among resources, program activities, and results. This process will formally debut in the FY 2003 budget cycle. Future budgets will integrate data from the strategic goals and objectives and will demonstrate the impact of funding to actual on-the-ground work accomplished. A results-

oriented budget and planning structure will provide Congress 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 and collecting high-quality data to support these measures. In FY 2002, the USDA Forest Service will continue to refine accomplishment reporting requirements and its ties to both the Budget, Formulation and Execution System and the Foundation Financial Information System. The agent will focus on the relevancy, accuracy, and burden associated with data collection efforts and accounting codes used to charge costs of various activities.



## **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. Five principal statements are shown in Appendix A. They 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. Through analysis of the agency's FY 2001 financial statements, the following key points are highlighted.

### **Assets**

The USDA Forest Service reports \$8.4 billion in assets for FY 2001, 99 percent of which are classified in three major categories. First, 59 percent are General Property, Plant and Equipment (General PP&E)—primarily forest road surface improvements, culverts, bridges, campgrounds, administrative buildings, other structures, and equipment purchased for \$5,000 or more. Second, 35 percent are 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, 5 percent, or approximately \$400 million, are accounts receivable—primarily amounts due from other Federal entities or the public as a result of the delivery of goods, services, specific activities performed by the Forest Service.

The approximately \$5 billion for General PP&E include assets acquired by the USDA Forest Service to be used for conducting business-like activities, such as providing of 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 NFS 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 Annual 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, Appendix E.

Fund balances of approximately \$3 billion with the Department of the Treasury (congressional appropriations and trust funds) are available to the agency to pay authorized expenses and finance purchase commitments. In addition, cash assets for the USDA Forest Service at the end of FY 2001 decreased 98 percent from FY 2000, from \$61.4 million to \$1.2 million. This dramatic decrease was due mainly to aggressive work nationwide to resolve issues associated with unreconciled bank deposits. The prompt deposit of cash assets results in funds that are immediately available for other governmental purposes.

## **Budgetary Resources**

The USDA Forest Service had budget authority of just over \$5.3 billion in Federal appropriations during FY 2001, a \$1.4 billion (35 percent) increase over FY 2000. These are general Government funds administered by the Department of the Treasury and appropriated for the agency's use by Congress. The majority of the increase was, by far, related to agency emergency wildland fire management activities. These activities include preparing for or managing wildland fires as well as related work, such as reducing hazardous fuels to lower the danger of wildfires in selected areas. A portion of this increase, \$276 million, was designated by Congress to repay agency funds "borrowed" from other accounts in prior fiscal years to conduct emergency wildland fire management activities. The agency routinely exercises its statutory authority to borrow from any other funds available to the agency on a short-term basis to fight wildland fires. When such borrowing takes place, the agency then requests additional appropriations from Congress to repay such amounts and thereby accomplish the purpose for which the funds were first provided.

## **Revenues**

The USDA Forest Service collected in excess of \$1.3 billion of earned revenue during FY 2001, compared to \$700 million during FY 2000, a 91 percent increase. This increase was derived primarily from activities associated with S&PF (\$316 million) and the NFS (\$176 million). The majority of earned revenues received by the USDA Forest Service 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. Of such revenues for FY 2001, \$359 million were distributed to 41 States in accordance with the Secure Rural Schools and Community Self-Determination Act of 2000. This funding will benefit public schools and roads in communities hosting national forests and pay for local forest stewardship projects.

## **Expenses**

The FY 2001 Net Cost of Operations for the USDA Forest Service indicates the impact of deducting earned revenues from program costs. While total gross program costs increased by 8 percent over FY 2000, the net operating costs decreased by approximately \$400 million, from \$4.2 billion to \$3.8 billion. An analysis of the \$5.1 billion of total gross program costs shows that approximately 57 percent (\$2.9 billion) were associated with the NFS. The S&PF program accounted for approximately 35 percent (\$1.8 billion),

and the balance was related to R&D (\$244 million) and Working Capital Fund (WCF) program costs (\$148 million).

## **Liabilities and Net Position**

The USDA Forest Service identified \$2.2 billion of liabilities at the end of FY 2001, 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 2001, however, is currently not funded by congressional appropriations. For example, 28 percent (\$606 million) consist 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. An additional 14 percent of reported liabilities (\$312 million) are custodial liability funds that belong to non-USDA Forest Service entities. These amounts are held by the agency in special receipt accounts pending transfer to an appropriate party.

In addition, liabilities disclosed on the agency's balance sheet do not include estimated costs to clean up hazardous materials arising from the activities of potentially responsible parties (PRPs). Such activities include abandoned mines, landfills, or other sites located on lands administered by the USDA Forest Service. A discussion of the current estimated cost of cleanups (\$2.5 billion) is included in Note 12 to the Principal Financial Statements in Appendix A of this report. The agency is still discovering sites with hazardous materials that will require cleanup. Therefore, the actual number of sites, as well as total cleanup costs, will likely change. In many cases, collection actions are initiated against PRPs to recoup site-specific cleanup costs as they are identified.

A net position of \$6.3 billion is reported for FY 2001, consisting of 45 percent (\$2.8 billion) for unexpended appropriations and 55 percent (\$3.5 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.

## Financial Management Controls

This section provides information on the USDA Forest Service's compliance with the following:

- Federal Managers' Financial Integrity Act (FMFIA);
- Inspector General Act Amendments (Audit Followup);
- Federal Financial Management Improvement Act (FFMIA); and
- Biennial review of users fees.

### 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 and demonstrates responsible stewardship over assets and resources entrusted to the agency's care.

The USDA Forest Service continues to make significant progress in correcting previously reported material weaknesses, system nonconformances, and timely implementation and closure of audit recommendations. For FY 2001, the USDA Forest Service reports the following:

- One new material weakness; i.e., Timber Sale Environment Analysis;
- The status of seven open material weaknesses under Section Two of the FMFIA; and
- One instance of system nonconformance under Section Four of FMFIA.

As shown in the following table, significant progress has been made to correct and close previously reported accounting system nonconformances. The USDA Forest Service, in partnership with the U.S. Department of Agriculture, continues to aggressively pursue initiatives to fully integrate the Foundation Financial Information System (FFIS).

The following table highlights reported material weaknesses and system nonconformance with general accounting standards.

#### Management Controls: Federal Managers' Financial Integrity Act

<b>Section Two Material Weaknesses</b>	<b>Status</b>	<b>Anticipated Correction</b>
Timber Sale Administration	Open	FY 2002
Financial System	Open	FY 2003
Special Use Permits	Open	FY 2002
Encroachments	Open	FY 2002
Personal Property	Open	FY 2002

Contracting	Open	FY 2002
Performance Reporting	Open	FY 2003
Timber Sale Environmental Analysis Requirements	Open	FY 2004
<b>Section Four System Nonconformances</b>	<b>Correction Date</b>	<b>Anticipated Correction</b>
Real Property Management Information System	Open	To Be Determined
Central Accounting Subsystem: Credit and Cash Management	Closed FY 2001	N/A
Unpaid Obligations Subsystem	Closed FY 2001	N/A

## Management Followup to OIG/GAO Recommendations

### Office of Inspector General (OIG) Audits Older than 1 Year

The USDA Forest Service continues to resolve open audit recommendations. As of September 30, 2001, the USDA Forest Service has 24 audits with 76 open recommendations that are 1 year and older. Of the open audit recommendations, 23 (30 percent) have been completed or will be submitted for closure by the next reporting period. One audit, Timber Sale Environmental Analysis Requirements, with 10 recommendations, has been completed and is in the process of being closed. Another audit, Federal Excess Personal Property, was approved for closure during the reporting period.

The following table displays open audits and an estimate of when the agency anticipates completed required work to close each open audit.

<b>Audit Number Date Issued Estimated Closure Date (ECD)</b>	<b>Audit Title</b>
08099-37-AT 08/24/92 09/30/02	FY 91 Financial Statements
08099-42-AT 08/3/93 09/30/02	FY 92 Financial Statements
08099-47-AT 12/15/93 10/30/01	FS Management Report
08099-49-AT 06/10/94 11/30/01	FY 93 Financial Statements
08401-1-AT 06/20/95 12/31/01	FY 94 Financial Statements

<b>Audit Number Date Issued Estimated (ECD) Closure Date</b>	<b>Audit Title</b>
08601-7-SF 05/23/95 12/31/01	Controls Over Research Services Provided to External and USDA Forest Service Clients
08801-4-HQ 08/19/98 01/31/02	Review of USDA Forest Service Retroactive Redistribution
08001-1-HQ 06/28/00 1/31/02	USDA Forest Service Implementation of the Government Performance Results Act
08099-146-SF 05/05/94 05/30/02	USDA Forest Service Timber Sale Cruising Controls
08801-10-AT 01/15/99 08/09/01	Influence of Interest Groups on Timber Sales Management
08601-1-AT 03/29/96 09/30/02	Timber Sale Environmental Analysis Requirements
08801-4-TE 02/15/98 10/31/02	Hazardous Waste at Active or Abandoned Mines
08601-4-AT 03/31/98 10/30/01	USDA Forest Service Collection of Royalties on Oil and Gas Production
08601-5-SF 09/30/93 09/30/03	Wildlife and Fisheries Habitat
08601-19-SF 09/29/97 09/30/01	Graduated Rate Fee System
08801-5-SF 04/30/99 10/31/02	Federal Excess Personal Property <b>Closed</b>
08003-2-SF 08/15/98 03/01/02	Thunderbird Lodge Land Exchange
08003-6-SF 07/14/00 03/01/02	Toiyabe/Humboldt National Forest Land Adjustment Program
08801-6-SF 01/19/00 03/01/02	Zephyr Cove Land Adjustment
08801-13-AT 03/31/00 10/01/02	USDA Forest Service Land Adjustment Program San Bernardino National

	Forest & South Zone
08801-13-AT 03/31/00 10/01/02	USDA Forest Service National Fire Cache System

## Financial Management

The USDA Forest Service has aggressively acted to correct the agency's financial systems, improving the quality of financial data. FY 2001 marks the second year of FFIS, which is fully compliant with Federal financial requirements and incorporates the U.S. Standard General Ledger.

## Federal Financial Management Improvement Act

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 the agency's financial management systems into substantial compliance.

## FY 2001 USDA Forest Service Remediation Plan

For FY 2000, the USDA-OIG reported that the agency's financial management systems did not comply with Federal requirements in several areas. The following table highlights areas of noncompliance and a closure date.

FFMIA Requirement	Area of Noncompliance	Target Completion Date
1. All feeder systems are integrated or electronically interfaced with the core financial system.	The INFRA Real Property subsystem is not interfaced with the FFIS.	Original Target of December 2001 revised to March 30, 2002
2. Internal controls over data entry, transaction processing, and reporting shall be applied consistently throughout the system to ensure the validity of information and the protection of Federal government resources.	2a. General ledger adjustments were made so that FFIS account balances would agree with Treasury records.	TARGET COMPLETED
	2b. 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.	April 30, 2002
	2c. Invalid obligations and payables were entered into FFIS.	TARGET COMPLETED
	2d. Audit trails and support for billings and receivables is 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.	TARGET COMPLETED

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 and A-34, and other OMB circulars and bulletins.	USDA Forest Service violated the Anti-Deficiency Act in FY 2000 by overobligating Wildland Fire Management Appropriations.	April 30, 2002
4. Adequate training and user support shall be provided to the users of financial management systems.	USDA Forest Service users lacked specific training on setting up agreements in the Project Cost Accounting System and processing billings and advance liquidation documents.	TARGET COMPLETED
5. Financial management systems shall provide financial reports in a timely and useful fashion.	USDA Forest Service should develop and use monthly reports that are more helpful to field units	March 31, 2002

### **FY 2002 Remediation Plan**

At this time, the FY 2001 auditor's opinion on the agency's annual financial statements has not been issued. Therefore, a remediation plan for FY 2002 is not available at this time.

### **Biennial Review of Users Fees**

The Chief Financial Officers (CFO) Act of 1990 requires biennial reviews by Federal agencies of fees, rents, and other charges imposed for goods or services provided to others. The objective of these reviews is to identify such activities and begin charging fees, if permitted by law, and to periodically adjust existing fees to reflect current costs or market value.

Approximately one-half of the agency's users fee inventory is reviewed in any given year. As part of the agency's FY 2001 Financial Analysis Program, a review of users fees was conducted, which indicated that the reviewed fees reflected current costs or market values, or were consistent with legislative mandates.

### **Limitations of Financial Statements**

Pursuant to the requirements of the CFO Act of 1990, as amended by GPRA, the USDA Forest Service prepared the financial statements that follow to report the financial position and results of USDA Forest Service operations. The FY 2001 financial statements consist of the Balance Sheet, Statement of Net Cost, Statement of Financing, Required Supplementary Stewardship Information, and Required Supplementary Information. The following limitations apply to the preparation of the FY 2001 financial statements:

- The USDA Forest Service prepared the financial statements to report the financial position and results of operations of the entity, 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.

- 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.

## **Appendix A – Principal Financial Statements and Notes**

**U.S. DEPARTMENT OF AGRICULTURE  
FOREST SERVICE  
CONSOLIDATED BALANCE SHEET  
As of September 30, 2001  
(Dollars In Thousands)**

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**ASSETS**

**Intragovernmental**

Fund Balance with Treasury (Note 2)	\$ 2,995,515
Accounts Receivable, Net (Note 5)	53,656
Other Assets (Note 6)	(2,893)
<b>Total Intragovernmental</b>	<b>3,046,278</b>

Accounts Receivable, Net (Note 5)	412,205
Cash and Other Monetary Assets (Note 3)	222
Inventory and Related Property, Net (Note 8)	40,236
General Property, Plant and Equipment, Net (Note 9)	4,955,181
Other Assets (Note 6)	19,004
Investments (Note 4)	2,795

**TOTAL ASSETS** **\$ 8,475,921**

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The accompanying notes are an integral part of these statements.

Audited.

**U.S. DEPARTMENT OF AGRICULTURE  
FOREST SERVICE  
CONSOLIDATED BALANCE SHEET  
As of September 30, 2001**

**(Dollars In Thousands)**

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<b>LIABILITIES</b>	
<b>Intragovernmental</b>	
Accounts Payable	\$ 38,558
Federal Employees Compensation Act Bills (Note 11)	61,370
Other Liabilities (Note 11)	336,811
<b>Total Intragovernmental</b>	<b>436,739</b>
Federal Employees Compensation Act Liability (Note 11)	380,957
Accounts Payable	240,444
Annual Leave (Note 11)	163,343
Other Liabilities (Note 11)	954,191
<b>TOTAL LIABILITIES</b>	<b>2,175,674</b>
<b>NET POSITION</b>	
Unexpended Appropriations (Note 15)	2,847,662
Cumulative Results of Operations (Note 15)	3,452,585
<b>TOTAL NET POSITION</b>	<b>6,300,247</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 8,475,921</b>

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The accompanying notes are an integral part of these statements.

Audited.

**U.S. DEPARTMENT OF AGRICULTURE  
FOREST SERVICE  
STATEMENT OF NET COST**

**For the 12 Months Ended September 30, 2001**

	(Dollars in Thousands)				Total	Working Capital Fund	Total
	National Forests and Grasslands	State and Private Forestry	Forest Research				
Program Costs							
Intragovernmental Production	\$ 334,158	\$ 131,638	\$ 7,464	\$ 473,260	\$ 21,148	\$ 494,408	
With the Public							
Grants and Transfers Indemnities	3,210	4,163	62	7,435	11	7,446	
Grants and Transfers Grants and Payments	7,617	193,442	4,478	205,537	5	205,542	
Other Program Costs	2,530,486	1,449,172	232,369	4,212,027	126,566	4,338,593	
<b>Total Program Costs</b>	<b>2,875,471</b>	<b>1,778,415</b>	<b>244,373</b>	<b>4,898,259</b>	<b>147,730</b>	<b>5,045,989</b>	
Less: Earned Revenues	(947,457)	(238,367)	(43,617)	(1,229,441)	(147,730)	(1,377,171)	
<b>Excess Production Costs over Revenues</b>	<b>1,928,014</b>	<b>1,540,048</b>	<b>200,756</b>	<b>3,668,818</b>	<b>0</b>	<b>3,668,818</b>	
Non Production Costs							
Imputed Financing	27,310	0	0	27,310	0	27,310	
Acquisition Cost of Stewardship Land	87,066	0	0	87,066	0	87,066	
<b>Net Program Cost</b>	<b>2,042,390</b>	<b>1,540,048</b>	<b>200,756</b>	<b>3,783,194</b>	<b>0</b>	<b>3,783,194</b>	
Cost Not Assigned to Programs	0	0	0	0	0	0	
<b>NET COST OF OPERATIONS (Note 17)</b>	<b>\$ 2,042,390</b>	<b>\$ 1,540,048</b>	<b>\$ 200,756</b>	<b>\$ 3,783,194</b>	<b>0</b>	<b>\$ 3,783,194</b>	

The accompanying notes are an integral part of these statements.

Audited.

**U.S. DEPARTMENT OF AGRICULTURE**  
**FOREST SERVICE**  
**STATEMENT OF CHANGE IN NET POSITION**  
**For the 12 Months Ended September 30, 2001**  
(Dollars in Thousands)

	National Forests and Grasslands	State and Private Forestry	Forest Research	Working Capital Fund	Total
Net Cost of Operations	\$ (2,042,390)	\$ (1,540,048)	\$ (200,756)	\$ 0	\$ (3,783,194)
<b>FINANCING SOURCES</b>					
Appropriations Used	1,872,835	1,748,525	220,741	(277)	3,841,824
Taxes (and other non exchange revenue)	10	0	0		10
Donations (non exchange revenue)	5,587	(1,494)	86	271	4,450
Imputed Financing	96,310	0	0	0	96,310
Transfers In	33,015	64	85	22,107	55,271
Transfers Out	58,259	(42,900)	(1,345)	(228)	13,786
Other Financing Sources	236,968	(997,592)	14,966	2,689	(742,969)
<b>Net Results of Operations</b>	<b>\$2,302,984</b>	<b>\$706,603</b>	<b>\$234,533</b>	<b>\$24,562</b>	<b>\$3,268,682</b>
	<b>\$260,594</b>	<b>(\$833,445)</b>	<b>\$33,777</b>	<b>\$24,562</b>	<b>(\$514,512)</b>
Prior Period Adjustments (Note 18)	(339,085)	(102,291)	(16,652)	50,387	(407,641)
<b>Net Change in Cumulative Results of Operations</b>	<b>(\$78,491)</b>	<b>(\$935,736)</b>	<b>\$17,125</b>	<b>\$74,949</b>	<b>(\$922,153)</b>
Increase/(Decrease) in Unexpended Appropriations	365,009	895,047	14,333	(1,827)	1,272,562
<b>Change in Net Position</b>	<b>\$286,518</b>	<b>(\$40,689)</b>	<b>\$31,458</b>	<b>\$73,122</b>	<b>\$350,409</b>
Net Position Beginning of Period	4,833,861	470,753	100,496	544,728	5,949,838
<b>NET POSITION END OF PERIOD</b>	<b>\$5,120,379</b>	<b>\$430,064</b>	<b>\$131,954</b>	<b>\$617,850</b>	<b>\$6,300,247</b>

The accompanying notes are an integral part of these statements.

Audited.

**U.S. DEPARTMENT OF AGRICULTURE  
FOREST SERVICE  
STATEMENT OF BUDGETARY RESOURCES  
For the 12 Months Ended September 30, 2001  
(Dollars in Thousands)**

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<b>BUDGETARY RESOURCES</b>	
Budget Authority	\$ 5,309,184
Unobligated Balance Beginning of Period	535,497
Spending Authority from Offsetting Collections	470,484
Adjustments	225,513
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$ 6,540,678</b>
<b>STATUS OF BUDGETARY RESOURCES</b>	
Obligations Incurred	\$ 5,197,850
Unobligated Balance Available	850,764
Unobligated Balance Not Available	492,064
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$ 6,540,678</b>
<b>OUTLAYS</b>	
Obligations Incurred	\$ 5,197,850
Less: Spending Authority from Offsetting Collections and Adjustments	(698,218)
Obligated Balance, Net Beginning of Period	1,370,980
Less: Obligated Balance, Net End of Period	(1,540,125)
<b>TOTAL OUTLAYS</b>	<b>\$ 4,330,487</b>

The accompanying notes are an integral part of these statements.

Audited.

**U.S. DEPARTMENT OF AGRICULTURE  
FOREST SERVICE  
STATEMENT OF FINANCING  
For the 12 Months Ended September 30, 2001  
(Dollars In Thousands)**

<b>OBLIGATIONS AND NON BUDGETARY RESOURCES</b>	
Obligations Incurred	\$ 5,197,850
Less: Spending Authority from Offsetting Collections and Adjustments	(698,218)
Donations Not in the Entity's Budget	4,450
Financing Imputed for Cost Subsidies	96,310
Transfer in (out)	(69,057)
Exchange Revenue Not in the Entity's Budget	(726,574)
Nonexchange Revenue Not in the Entity's Budget	(10)
Less: Trust & Special Fund Receipts Related to Exchange Revenue in Entity's Budget	(579,642)
<b>Total Obligations as Adjusted and Non Budgetary Resources</b>	<b>3,225,109</b>
<b>RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS</b>	
Change in Amount of Goods/Services Ordered but Not Yet Provided (Net Increase)/Net Decrease	80,524
Change in Unfilled Customer Orders	129,657
Costs Capitalized on Balance Sheet (Increase)/Decrease	(278,092)
Other	173,797
<b>Total Resources that Do Not Fund Net Cost of Operations</b>	<b>105,886</b>
<b>COMPONENTS OF COSTS THAT DO NOT REQUIRE OR GENERATE RESOURCES</b>	
Depreciation and Amortization	377,612
Bad Debts Related to Uncollectible Non credit Reform Receivables	49,067
Loss on Disposition of Assets	1,097
Other	(2,887)
<b>Total Components of Costs that Do Not Require or Generate Resources</b>	<b>424,889</b>
<b>FINANCING SOURCES YET TO BE PROVIDED</b>	<b>27,310</b>
<b>NET COST OF OPERATIONS</b>	<b>\$ 3,783,194</b>

The accompanying notes are an integral part of these statements.

Audited.



**United States Department of Agriculture**

**FOREST SERVICE**

**NOTES TO THE PRINCIPAL FINANCIAL  
STATEMENTS**

**AUDITED**

**Fiscal Year 2001**

These accompanying notes are an integral part of the financial statements.

## **NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

### **A. REPORTING ENTITY**

The 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. USDA Forest Service policy is implemented through nine regional offices, six research offices, and one State and Private Forestry area office, with 868 administrative units functioning in 44 states, Puerto Rico, and the Virgin Islands.

The USDA Forest Service's mission includes the following activities:

- Protection and management of approximately 192 million acres of National Forest System land, which includes 34.8 million acres of designated wilderness areas;
- 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;
- Utilization of cooperative agreements with State and local governments, forest industries, and private landowners to help protect and manage non-Federal forests and associated rangeland and watershed areas;
- Partnering with other nations and organizations to foster global natural resource conservation and sustainable development of the world's forest resources; and
- Execution of human resource programs that employ, train, or educate the young, unemployed, underemployed, economically disadvantaged, disabled, and elderly.

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 ACCOUNTING**

These financial statements were prepared to report the financial position and results of operations 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). The USDA Forest Service follows the Federal GAAP hierarchy of accounting policies, which is presented below.

1. The Federal Accounting Standards Advisory Board (FASAB), Statements of Federal Financial Accounting Standards (SFFASs) and Interpretations plus American Institute of Certified Public

These accompanying notes are an integral part of the financial statements.

Accountants (AICPA), and Financial Accounting Standards Board (FASB) pronouncements specific to Federal entities;

2. FASAB Technical Bulletins, AICPA Industry Audit and Accounting Guides, and Statements of Position (SOP) specific to Federal entities;
3. AICPA Accounting Standards Executive Committee (ACSEC) Practice Bulletins when specifically made applicable to Federal governmental entities and cleared by the FASAB, Accounting and Auditing Policy Committee (AAPC) technical releases of the FASAB;
4. FASAB Implementation Guides, and widely recognized and prevalent practices in the Federal government; and
5. Other accounting literature (including FASAB Concept Statements).

### **Basis of Presentation**

The accounting structure of Federal government agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method, revenues are recognized when earned; and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases exists before the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls.

On the Statement of Net Cost and Balance Sheet, all significant intra-entity balances and transactions have been eliminated in consolidation. No such eliminations have been made on the Statement of Budgetary Resources.

The Statement of Financing contains eliminations of proprietary intra-entity amounts. Budgetary intra-entity amounts, however, have not been eliminated.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

### **Exchange and Nonexchange Revenue**

In accordance with Federal government accounting guidance, USDA Forest Service classifies revenue as either “exchange revenue” or “nonexchange revenue.” Exchange revenue arises from transactions that occur when each party to the transaction sacrifices value and receives value in return. In many 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 a portion

of its exchange revenues for specific purposes. Nonexchange revenue is revenue the Federal government is able to demand or receive because of its sovereign powers.

### **Full Cost**

In accordance with Federal government accounting guidance, USDA Forest Service measures and 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. For FY 2001, Treasury Judgment Fund costs not associated with a particular mission area (responsibility segment) are presented in an adjustment column on the Statement of Net Cost.

### **Imputed Pension and Other Retirement Benefits**

In accordance with Federal government accounting guidance, USDA Forest Service recognizes the liability and associated expense for 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.

### **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. 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. 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.

## **C. 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 both annual and multiyear 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 agencies, 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.

#### **D. FUND BALANCE WITH THE U.S. TREASURY AND CASH AND OTHER MONETARY ASSETS**

The U.S. Treasury processes cash receipts and disbursements. Funds with the U.S. Treasury are primarily trust and appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. Cash and Other Monetary Assets consist of undeposited collections, imprest funds, and unrequisioned authorized appropriations.

#### **E. GENERAL PROPERTY, PLANT AND EQUIPMENT**

General Property, Plant and Equipment (PP&E) purchases of \$5,000 or more and having a useful life of 2 or more years are capitalized. Major additions, replacements, alterations, and road prisms (roadbeds) costs are also capitalized. Normal repairs and maintenance costs are expensed as incurred. General property and equipment is depreciated over its net service life on a straight-line basis.

#### **F. ADVANCES AND PREPAYMENTS**

Payments in advance of the receipt of goods and services are recorded as advances and prepayments at the time of payment and recognized as expenditures/expenses when the related goods and services are received.

#### **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. Footnote 11 – Other Liabilities segregates other liabilities between those covered by budgetary resources versus not covered by budgetary resources.

#### **H. COMMITMENTS AND CONTINGENCIES**

Probable and estimable unsettled litigation and claims against the USDA Forest Service are recognized as a liability and expense for the full amount of the expected loss. Expected litigation and claim losses include settlements to be paid from the Treasury Judgment Fund on behalf of the USDA Forest Service and from other appropriations. The USDA Forest Service is a party in various administrative proceedings, legal actions, environmental suits, and claims brought by or against it. In the opinion of USDA Forest Service management and legal counsel, the ultimate resolution of these proceedings is currently indeterminable.

## **I. 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.

## **J. RETIREMENT PLANS**

Most of the USDA Forest Service employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). 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. FERS became effective January 1, 1987, pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically 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.

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 11 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 agency will match the contribution dollar for dollar. For the next 2 percent contributed, the Agency will match 50 cents per dollar contributed. CSRS employees may contribute up to 6 percent of their gross pay, but there is no matching contribution.

Ceilings for employee contributions to the TSP are established on a calendar year basis. The maximum amount that FERS employees can contribute to the TSP in calendar year 2001 is the lesser of \$10,500 or 11 percent of their gross pay. The maximum amount that CSRS employees can contribute to the plan in calendar year 2001 is the lesser of \$10,500 or 6 percent of their gross pay. The sum of employee and agency contributions is transferred to the TSP, which is administered by the Federal Retirement Thrift Investment Board.

**NOTE 2. FUND BALANCE WITH TREASURY**

The U.S. Treasury processes cash receipts and disbursements. Funds with the U.S. Treasury are primarily trust and appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. Fund balances with the U.S. Treasury include both entity and nonentity fund balances.

Fund balances as of September 30, 2001, consist of the following:

(In Thousands)			
Fund Type	Entity	Nonentity	Total
(1) Trust Funds	\$ 420,766	\$ -	\$ 420,766
(2) Revolving Funds	152,666	-	152,666
(3) Appropriated Funds	2,284,523	115,458	2,399,981
(4) Other Fund Types	22,102	-	22,102
<b>Total</b>	<b>\$ 2,880,057</b>	<b>\$ 115,458</b>	<b>\$ 2,995,515</b>

**NOTE 3. CASH AND OTHER MONETARY ASSETS**

Cash and Other Monetary Assets amounting to \$222,178 as of September 30, 2001, consist of undeposited collections, imprest funds, and unrequisioned authorized appropriations.

(In Thousands)			
	<u>Entity Assets</u>	<u>Nonentity Assets</u>	
A. Cash	\$ 222	\$ -	-
B. Foreign Currency	-	-	-
C. Other Monetary Assets	-	-	-
(1) Gold	-	-	-
(2) Special Drawing Rights	-	-	-
(3) U.S. Reserves in International Monetary Fund	-	-	-
(4) Other	-	-	-
(5) Total Other Monetary Assets	-	-	-
<b>D. Total Cash, Foreign Currency and Other Monetary Assets</b>	<b>\$ 222</b>	<b>\$ -</b>	<b>-</b>

In accordance with a consent decree and settlement agreement issued in FY 1998, Crown Butte Mines, Inc., paid \$22.5 million to the U.S. Government. The consent decree called for the amount to be held in an interest-bearing escrow account in a private, federally chartered, financial institution, to be used by the Secretary of Agriculture for environmental cleanup of the New World Mine in Park County, Montana. The Secretary of Agriculture delegated oversight authority for the restoration plan to the USDA Forest Service. Because this authority excludes authorization to expend monies from the account, however, the funds are not included in the financial statements of the USDA Forest Service.

These accompanying notes are an integral part of the financial statements.

## NOTE 4. INVESTMENTS

As of September 30, 2001, the USDA Forest Service retained \$2,795,000 in other investments that consist of securities deposited in the Federal Reserve System by timber purchasers on behalf of the USDA Forest Service in lieu of furnishing sureties on bid, performance, and payment bonds.

(In Thousands)						
	(1)	(2)	(3)	(4)	(5)	(6)
	Cost	Amortization Method	Unamortized (Premium)/ Discount	Market Value, Net	Investment, Net	Required Market Value Disclosure
<b>A. Intragovernmental Securities:</b>						
(1) Marketable	\$ -	N / A	\$ -	\$ -	\$ -	\$ -
(2) Nonmarketable: Par value						
(3) Nonmarketable: Market-based						
<b>Subtotal</b>	-		-	-	-	-
<b>B. Governmental Securities:</b>						
		N / A				
(1) Certificate of Deposit	2,795			2,795	2,795	
(2) Other						
(3)						
<b>Subtotal</b>	2,795			2,795	2,795	
<b>Total</b>	<b>\$ 2,795</b>		<b>\$ -</b>	<b>\$ 2,795</b>	<b>\$ 2,795</b>	<b>\$ -</b>
<b>C. Other Information:</b>						

These accompanying notes are an integral part of the financial statements.



**NOTE 5. ACCOUNTS RECEIVABLE, NET**

Federal receivables can rise from a variety of sources and purposes and must be recognized when the entity establishes a claim to cash or other assets (1) based on legal or contractual provisions; (2) as a result of tax, fee, or penalty assessment; or (3) as a result of delivery of goods, services, or performance that is binding on the Federal entity. Accounts receivables of Federal entities must be classified as either entity receivables (amounts claimed as due from other Federal entities or the public, which may be included in the entity's obligational authority) or nonentity receivables (amounts to be collected on behalf of the U.S. Government, but which the Federal entity is not authorized to spend). An allowance for estimated uncollectible receivables is recognized to reduce outstanding receivables to the net realizable value.

**Entity Accounts Receivable, Intragovernmental:** The Economy Act (31 U.S.C. §1535 - 1536), the Granger-Thye Act of 1950 (16 U.S.C. § 572), and other authorities authorize Federal agencies to enter into agreements with other Federal agencies to acquire needed expertise or to more efficiently achieve goals and objectives. The USDA Forest Service has provided services to other agencies and departments through programs such as the Forestry Incentives Program, the Agricultural Conservation Program, and the Senior Community Service Employment Program.

**Entity Accounts Receivable, Governmental:** Receivables in this line item are composed mainly of reimbursements and refunds of fire prevention and suppression funds. Under joint agreements with the States, the USDA Forest Service invoices for firefighting-related services it performs.

Governmental nontimber related receivables are reduced by an allowance for doubtful accounts of 20 percent or 80 percent according to the age. Governmental timber-related receivables (defaulted timber sales) are reduced by an allowance for doubtful accounts based on USDA Forest Service estimates. The estimates of doubtful accounts are based on management's analysis of the accounts and on current economic conditions. No allowance for doubtful accounts is computed for intragovernmental receivables.

**Nonentity Accounts Receivable:** The USDA Forest Service does not have Nonentity Accounts Receivables.

Accounts Receivable, Net as of September 30, 2001, consists of the following:

<u>ENTITY</u>	<b>(In Thousands)</b>		
	<b>Gross Accounts Receivable</b>	<b>Allowance</b>	<b>Net Accounts Receivable</b>
Intragovernmental	\$ 53,656	\$ -	\$ 53,656
Governmental	490,696	(78,491)	412,205
<b>Total Entity</b>	<b>544,352</b>	<b>(78,491)</b>	<b>465,861</b>
<b>TOTAL</b>	<b>\$ 544,352</b>	<b>\$ (78,491)</b>	<b>\$ 465,861</b>

These accompanying notes are an integral part of the financial statements.

## NOTE 6. OTHER ASSETS

Other assets as of September 30, 2001, consist of the following:

A. Other Entity Assets		(In Thousands)
1.	Intragovernmental	
	Advances and Prepayments	\$ 1,007
	Unrequisitioned Authorized Appropriations	(3,900)
	Total	<u>(2,893)</u>
2.	Governmental	
	Advances and Prepayments	19,210
	Total	<u>19,210</u>
B. Other Information:		
C. Other Non-Entity Assets		
1.	Intragovernmental	-
	Total	<u>-</u>
2.	Governmental	
	Advances and Prepayments	(206)
	Total	<u>\$ (206)</u>
D. Other Information:		

Other entity assets consist primarily of advances and prepayments for the receipt of goods and services before actual receipt, and also include \$3.9 million in appropriations available for USDA Forest Service requisition in the Federal Highway Fund.

Other non-entity assets consist entirely of advances and prepayments.

## NOTE 7. CREDIT PROGRAMS

The USDA Forest Service does not participate in guaranteed loan programs and has no Credit Reform Act activity; therefore, this note is not applicable to the agency.

**NOTE 8. INVENTORY AND RELATED PROPERTY, NET**

As of September 30, 2001, Inventory and Related Property, Net, consist of the following:

	(In Thousands)
Items held for use	\$ 40,236
Items held in reserve for future use	-
Excess, obsolete, and unserviceable items	-
<b>Total Operating Materials and Supplies</b>	<b>\$ 40,236</b>

Inventory and Related Property is composed of (1) Working Capital Fund (WCF) materials and supplies, and (2) materials and supplies for agency operations. WCF materials and supplies (for example, raw materials, stock, and tree seedlings) are maintained to facilitate distribution of certain stock items to users who are subsequently billed commensurate with items used. Thus, costs of providing these items are recovered.

Materials for Agency Use consists primarily of supplies for fleet equipment rental and are adjusted to reflect the results of periodic physical inventories. The USDA Forest Service does not hold inventory for current or future sale.

Beginning in FY 2001, the USDA Forest Service changed its accounting policy regarding Fire Cache inventory. This property had been capitalized in prior years, but is now expensed. The remaining capitalized Fire Cache inventory of approximately \$54.2 million was removed from the balance sheet.

Materials for Agency Use consist primarily of supplies for fleet equipment rental and are adjusted to reflect the results of periodic physical inventories.

**Valuation Methods:** Inventories in the WCF and Materials for Agency Use are valued based on the cost-basis method.

**Allowance:** Management has established no allowance against these balances because operating materials and supplies that are not usable because of spoilage, obsolescence, damage, etc., are considered immaterial.

## NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

General Property, Plant and Equipment (PP&E), Net, consists of the following at September 30, 2001 (in thousands):

(In Thousands)				
Classes	Useful Life (Years)	Cost	Accumulated Depreciation	Book Value
<b>Personal Property</b>				
ADP Hardware		\$ -	\$ -	\$ -
Equipment	5 - 15	936,526	459,216	477,310
Internal Use Software	3 - 10	97,994	21,957	76,037
Vehicles	4 - 20			
Other		10		10
<b>Real Property</b>				
Buildings	30	822,731	447,503	375,228
Dam Systems	50			
Developed sites	20			
Land	N/A	49,216		49,216
Roads and bridges	10 - 50	6,055,371	3,437,663	2,617,708
Other	15 - 30	3,174,592	1,814,920	1,359,672
<b>Total</b>		<b>\$11,136,440</b>	<b>\$ 6,181,259</b>	<b>\$ 4,955,181</b>

General PP&E consists of general purpose real property; road surface improvements to land; buildings; other structures and improvements, including culverts and bridges; and equipment at a threshold at or above \$5,000. General PP&E is recorded at acquisition cost and is reported net of accumulated depreciation.

To address previously reported documentation deficiencies, during FY 2000, the USDA Forest Service issued property inventory instructions that provided detailed direction for the physical verification of assets and the verification of accounting data to the supporting documentation. The USDA Forest Service also revalued its road prisms, which represent land that has been leveled or filled to fit the contour of the earth to prepare for construction of a road. This revaluation was performed in accordance with Federal Accounting Standards Advisory Board guidance.

Additionally, in FY 2001, the USDA Forest Service in partnership with the Office of Inspector General and KPMG, Inc., undertook an effort to properly value and record all of its real property assets. This effort involves a methodology that uses a combination of existence, valuation and completeness testing, and appraisals to estimate the total net book value for the USDA Forest Service real property assets. At the conclusion of this effort, the USDA Forest Service financial statement real property values for assets acquired before FY 2002 will be considered proper and final for audit

These accompanying notes are an integral part of the financial statements.

purposes.

**NOTE 10. DEBT**

As of September 30, 2001, the USDA Forest Service does not hold debt, current or long term.

**NOTE 11. OTHER LIABILITIES**

The components of Other Liabilities as of September 30, 2001, consist of the following:

(In Thousands)			
<b>Other Liabilities Covered By Budgetary Resources</b>			
	<b>Non-Current</b>	<b>Current</b>	<b>Total</b>
<b>Intragovernmental</b>			
Other Accrued Liabilities	\$ -	\$ 63,141	\$ 63,141
Advances From Others	-	23,467	23,467
Trust and Deposit Liabilities	-	(160,231)	(160,231)
Custodial Liability	-	267,502	267,502
Other Liabilities	-	(6,470)	(6,470)
<b>Total Intragovernmental</b>	<b>-</b>	<b>187,409</b>	<b>187,409</b>
<b>Governmental</b>			
Other Accrued Liabilities	-	228,791	228,791
Accrued Funded Payroll and Benefits	-	410,369	410,369
Employer Contribution and Payroll Tax	-	14,771	14,771
Advances From Others	-	78,857	78,857
Purchaser Road Credits	-	14,130	14,130
Trust and Deposit Liabilities	-	420,112	420,112
Custodial Liability	-	(255,294)	(255,294)
Other Liabilities	-	9,624	9,624
<b>Total Governmental</b>	<b>-</b>	<b>921,360</b>	<b>921,360</b>
<b>Other Liabilities Not Covered By Budgetary Resources</b>			
	<b>Non-Current</b>	<b>Current</b>	<b>Total</b>
<b>Intragovernmental</b>			
Contingent Liabilities	-	149,401	149,401
<b>Total Intragovernmental</b>	<b>-</b>	<b>149,401</b>	<b>149,401</b>
<b>Governmental</b>			
Other Actuarial Liabilities	-	4,431	4,431
Contingent Liabilities	-	28,400	28,400
<b>Total Governmental</b>	<b>\$ -</b>	<b>\$ 32,831</b>	<b>\$ 32,831</b>

These accompanying notes are an integral part of the financial statements.

**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 of 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, Governmental) 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.

With the prohibition of PRCs pursuant to 16 U.S.C. § 535a, the method of accounting for these costs changed from recording PRCs to recording specific road construction (SRC) as revenue.

**Advances From Others:** Advances from Others, consist of monies on deposit for Cooperative Work Project Agreements with the public.

**Trust and Deposit Liabilities:** The Trust and Deposit Liabilities, include liabilities that have been temporarily included in suspense accounts. Trust and Deposit Liabilities, Governmental, consists primarily of cash prepayments and deposits from timber purchasers before the actual harvest of timber. Advances remain a liability until the timber is cut.

**Custodial Liability:** Custodial Liability consists of amounts held in special receipt accounts that belong to non-USDA Forest Service entities. (See Note 21 for more on custodial liability)

**Firefighting Liability:** The USDA Forest Service is permitted by Federal law (16 U.S.C. § 535d) to advance money from any USDA Forest Service appropriation to the firefighting appropriation for the purpose of fighting fires. Upon requesting and receiving a supplemental appropriation for these expenses, the USDA Forest Service must repay the appropriation from which the funds were obtained.

During fiscal years 1988 through 1997, the USDA Forest Service incurred obligations to fight fires that had not been funded in advance by appropriations. The USDA Forest Service used unobligated balances in the Knutson-Vandenburg (K-V) Trust Fund to pay these expenses. The amount to be repaid to the K-V fund fluctuates depending on the severity of the fire season in a given fiscal year.

As a result of the record fire year in FY 2000, approximately \$200 million was transferred to the Wildland Fire Management fund from the K-V fund to pay for expenses incurred but not funded by appropriations. As of September 30, 2001, the trust fund had not been reimbursed \$628.5 million. This amount will not be recognized until such time as Congress authorizes supplemental funding to repay the trust fund loan. Additionally, during FY 2001 the USDA Forest Service transferred approximately \$161 million to the Wildland Fire Management fund from various funds to pay for expenses incurred but not funded by appropriations. The \$161 million will be repaid to the various funds during FY 2002 when Congress authorizes appropriations for this purpose.

**Annual Leave and 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 current and 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 Process. 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.

Public Law 104-180, dated August 6, 1996, authorized USDA to provide voluntary separation incentive payments (VSIPs) to any employee to the extent necessary to eliminate positions and functions identified in the agency's strategic plan. The authority was effective until September 30, 2000. The USDA Forest Service did not request buyout authority from the Department for FY 2001. Therefore, no liability is recognized in FY 2001 for future VSIPs.

The total annual leave and components of accrued FECA payable as of September 30, 2001, are as follows:

<u>(In Thousands)</u>	
<b>Not Covered By Budgetary Resources, Intragovernmental</b>	
Current Liability for FECA	\$ 61,370
<b>Not Covered By Budgetary Resources, Governmental</b>	
Expected Future Liability for FECA	380,957
Annual Leave	163,343
<b>Total</b>	<b>\$ 544,300</b>

**Liabilities for Environmental Cleanup Costs:** Under the provisions of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the Clean Water Act (CWA), and the Resource Conservation and Recovery Act (RCRA), the USDA Forest Service anticipates cleaning up hazardous materials on USDA Forest Service lands. The USDA Forest Service estimates that cleanup for sites on National Forest System lands to be \$2.5 billion. Of this amount, approximately \$1.8 billion relates to abandoned mine lands and \$200 million relates to landfills and

miscellaneous sites. The remaining \$500 million is attributed to costs relating to RCRA. These estimates are sensitive to changes in remedy standards and new technology. The site discovery and assessment process will continue for several more years. The actual number of sites discovered and cleanup costs will continually change as the process continues. This estimate also does not reflect anticipated cost recovery from or contribution to cleanup costs by responsible parties because the amounts are indeterminable. There is a reasonable possibility, however, that parties other than the USDA Forest Service will pay some of the cleanup costs.

***Contingent Liabilities:*** A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty should ultimately be resolved when one or more future events occur or fail to occur. The likelihood that the future event or events will confirm the loss or the incurrence of a liability can range from probable to remote.

***Treasury Judgment Fund:*** The USDA Forest Service pays small tort claims out of its own funds. Other legal actions exceeding \$2,500, 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 2001 amounted to \$3,443,278.

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, 2001, the Department of Treasury indicated that the USDA Forest Service is liable for \$178.6 million.

***Pending Litigation and Unasserted Claims:*** As of September 30, 2001, the USDA Forest Service has two legal actions pending, which management believes, based on information provided by legal counsel, may produce a probable adverse decision. The potential loss is estimated at \$38.4 million (\$28.4 million accrued in FY 2000). In light of the adverse decision, the USDA Forest Service will seek appellate action. This amount has been reported on the financial statements.

The USDA Forest Service has other pending legal actions for which the likelihood of adverse outcomes is reasonably possible. The potential loss is estimated at \$1.6 billion.



## NOTE 12. LEASE LIABILITIES

USDA Forest Service lease agreements as of September 30, 2001, are as follows:

### A. USDA Forest Service as Lessee:

*Capital Leases:* None exist.

*Operating Leases:* The USDA Forest Service leases buildings and office space as well as land. Facilities are leased for terms that range from 1 to 20 years. Land is leased for terms that extend from 1 to 99 years. Future payments due are as follows:

<b>Fiscal Year</b>	<b>(In Thousands)</b>
2002	77,275
2003	83,500
2004	84,300
2005	85,900
2006	88,400
2007 and Thereafter	1,975,000
<b>Total Future Lease Payments</b>	<b>\$ 2,394,375</b>

### B. USDA Forest Service as Lessor:

*Capital Leases:* None exist.

*Operating Leases:* None exist.

## NOTE 13. PENSIONS, OTHER RETIREMENT BENEFITS, AND OTHER POST-EMPLOYMENT BENEFITS

The USDA Forest Service is not responsible for administering pension, other retirement benefits, and other post-employment benefits. As such, this note is not applicable to the agency.

## NOTE 14. LIFE INSURANCE LIABILITIES

The USDA Forest Service does not provide whole life insurance. As such, this note is not applicable to the agency.

## NOTE 15. UNEXPENDED APPROPRIATIONS

The USDA Forest Service's Net Position consists of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations consist of appropriated spending authority that is

These accompanying notes are an integral part of the financial statements.

unobligated and has not been withdrawn by Treasury, as well as obligations that have not been paid. Cumulative Results of Operations are the excess of financing sources over expenses for a budget account since its inception.

**Unexpended Appropriations:** Unexpended appropriations represent the amount of spending authorized as of year-end that is unliquidated or unobligated and has not lapsed, been rescinded, or withdrawn. This amounted to approximately \$2.85 billion at the end of FY 2001.

<b>(In Thousands)</b>	
<b>Unobligated:</b>	
Available	\$ 850,764
Unavailable	492,064
Undelivered Orders	1,504,834
<b>Total</b>	<b>\$2,847,662</b>

**Cumulative Results of Operations:** Cumulative results of operations are the net results of operations since inception, plus the cumulative amount of prior period adjustments.

## **NOTE 16. COMMITMENTS AND CONTINGENCIES**

### **A. Commitments**

#### **Hazardous Waste Cleanup**

See Note 11 - Liabilities for Environmental Cleanup Costs

### **B. Contingencies**

Most legal actions that affect the USDA Forest Service and involve an amount in excess of \$2,500 fall under the Federal Tort Claims Act and are paid from the Claims and Judgments Fund maintained by the Department of the Treasury. The USDA Forest Service is not required to reimburse this Fund for payments made on its behalf. Pursuant to the guidance contained in SFFAS Number 5, the USDA Forest Service recognizes an expense and liability for all contingent liabilities determined to be probable. Those contingent liabilities that meet the requirements for disclosure, but not recognition, are disclosed below. Once the claim is settled or court judgment is assessed against the USDA Forest Service, and the Judgment Fund is determined to be the appropriate source for payment of claims, the USDA Forest Service records an imputed financing source. As of September 30, 2001, the USDA Forest Service has two legal actions pending, which management believes, based on information provided by legal counsel, may produce a probable adverse decision. The potential loss is estimated at \$38.4 million (\$28.4 million was accrued in FY 2000).

These accompanying notes are an integral part of the financial statements.

The USDA Forest Service has other pending legal actions for which the likelihood of adverse outcome is reasonably possible. The potential loss is estimated at \$1.6 billion.

#### **NOTE 17. DISCLOSURES RELATED TO THE STATEMENT OF NET COST**

The USDA Forest Service in the Natural Resources Environment mission area assesses fees for grazing, land uses, mineral leases, recreation use, recreation special uses, and sales of timber and timber byproducts. Most fees are based on full cost, except some land use fees that are established based on market value.

#### **SUPPORTING SCHEDULES FOR THE STATEMENT OF NET COST**

The USDA Forest Service reflects costs through three primary responsibility segments: National Forests and Grasslands, State and Private Forestry, and Forest Research. Each segment is further broken down into various programs. By portraying costs and revenues in this manner, the USDA Forest Service is better able to identify where costs are spent and revenues are earned. Revenues are then used to offset costs.

The supporting schedules are presented on the following pages.

**U.S. DEPARTMENT OF AGRICULTURE  
FOREST SERVICE  
SUPPORTING SCHEDULE BY PROGRAM  
NATIONAL FOREST AND GRASSLANDS RESPONSIBILITY SEGMENT  
For the 12 Months Ended September 30, 2001**

(Dollars in Thousands)

	Recreation	Wildlife and Fish	Range	Forest Management	Soil, Water, and Air	Mineral	Land Ownership and Protection	Total
<b>Program Costs</b>								
Intragovernmental Production	\$ 40,059	\$ 12,195	\$ 4,079	\$ 251,187	\$ 13,886	\$ 7,429	\$ 5,323	\$ 334,158
<b>With the Public</b>								
Grants and Transfers Indemnities	305	26	26	1,907	113	101	732	3,210
Grants and Transfers Grants and Payments	643	366	39	4,533	275	41	1,720	7,617
<b>Other Program Costs</b>	293,755	106,548	38,151	970,601	147,141	41,160	933,130	2,530,486
<b>Total Program Costs</b>	334,762	119,135	42,295	1,228,228	161,415	48,731	940,905	2,875,471
<b>Less: Earned Revenues</b>	(41,201)	11	(5,749)	(891,829)	(938)	0	(7,751)	(947,457)
<b>Excess Production Costs over Revenues</b>	293,561	119,146	36,546	336,399	160,477	48,731	933,154	1,928,014
<b>Non Production Costs</b>								
Imputed Financing	0	0	0	27,310	0	0	0	27,310
Acquisition Cost of Sewardship Land	0	0	0	504	1,012	0	85,550	87,066
<b>Net Program Cost</b>	293,561	119,146	36,546	364,213	161,489	48,731	1,018,704	2,042,390
<b>NET COST OF OPERATIONS</b>	\$ 293,561	\$ 119,146	\$ 36,546	\$ 364,213	\$ 161,489	\$ 48,731	\$ 1,018,704	\$ 2,042,390

The accompanying notes are an integral part of these statements.

Audited.

**U.S. DEPARTMENT OF AGRICULTURE  
FOREST SERVICE  
SUPPORTING SCHEDULE BY PROGRAM  
STATE AND PRIVATE FORESTRY RESPONSIBILITY SEGMENT  
For the 12 Months Ended September 30, 2001**

	(Dollars In Thousands)			
	Forest Health Protection	Fire and Aviation Management	Cooperation Forestry Management	Total
<b>Program Costs</b>				
Intragovernmental Production	\$ 11,423	\$ 122,476	\$ (2,261)	\$ 131,638
<b>With the Public</b>				
Grants and Transfers Indemnities	74	464		3,6254,163
Grants and Transfers Grants and Payments	45,786	8,327	139,329	193,442
<b>Other Program Costs</b>	52,336	1,354,810	42,026	1,449,172
<b>Total Program Costs</b>	109,619	1,486,077	182,719	1,778,415
<b>Less: Earned Revenues</b>	(6,034)	(232,267)	(66)	(238,367)
<b>Excess Production Costs Over Revenues</b>	103,585	1,253,810	182,653	1,540,048
<b>Non Production Costs</b>				
Imputed Financing	0	0	0	0
Acquisition Cost of Stewardship Land	0	0	0	0
<b>Net Program Cost</b>	103,585	1,253,809	182,653	1,540,048
<b>NET COST OF OPERATIONS</b>	\$ 103,585	\$ 1,253,809	\$ 182,653	\$ 1,540,048

The accompanying notes are an integral part of these statements.

Audited

**U.S. DEPARTMENT OF AGRICULTURE**  
**FOREST SERVICE**  
**SUPPORTING SCHEDULE BY PROGRAM**  
**FOREST RESEARCH RESPONSIBILITY SEGMENT**  
**For the 12 Months Ended September 30, 2001**  
**(Dollars In Thousands)**

	<b>Forest Research</b>	
Program Costs		
Intragovernmental		
Production	\$ 7,464	
With the Public		
Grants and Transfers Indemnities	62	
Grants and Transfers Grants and Payments	4,478	
Other Program Costs	232,369	
<b>Total Program Costs</b>	244,373	
Less: Earned Revenues	(43,617)	
<b>Excess Production Costs Over Revenues</b>	200,756	
Non Production Costs		
Imputed Financing	0	
Acquisition Cost of Stewardship Land	0	
Net Program Cost	200,756	
<b>NET COST OF OPERATIONS</b>	\$ 200,756	

The accompanying notes are an integral part of these statements.

Audited.

**U.S. DEPARTMENT OF AGRICULTURE  
FOREST SERVICE  
SUPPORTING SCHEDULE BY PROGRAM  
WORKING CAPITAL FUND RESPONSIBILITY SEGMENT  
For the 12 Months Ended September 30, 2001**

(Dollars in Thousands)

	Working Capital Fund
Program Costs	
Intragovernmental	
Production	\$ 21,148
With the Public	
Grants and Transfers Indemnities	11
Grants and Transfers Grants and Payments	5
Other Program Costs	126,566
<b>Total Program Costs</b>	<b>147,730</b>
Less: Earned Revenues	(147,730)
<b>Excess Production Costs Over Revenues</b>	<b>0</b>
Non Production Costs	
Imputed Financing	0
Acquisition Cost of Stewardship Land	0
<b>Net Program Cost</b>	<b>0</b>
<b>NET COST OF OPERATIONS</b>	<b>\$ 0</b>

The accompanying notes are an integral part of these statements.

Audited.

**NOTE 18. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION**

The USDA Forest Service has undertaken an aggressive agency-wide project to verify its property, plant, and equipment (PP&E), inventory balances, and asset valuation. As a result of this project, and so that the general ledger would be supported by subsidiary asset systems, adjustments were made to general PP&E and stewardship land.

Prior Period Adjustments for the fiscal year include the following:

<b>Prior Period Adjustments</b>	
	<b>(In Thousands)</b>
Property, Plant & Equipment Ledger Adjustment	\$ 407
Payroll Correction	630,641
FECA-related adjustments	25,460
Change in Fire Cache Capitalization Policy	(54,192)
Other	(194,675)
<b>Total Prior Period Adjustments</b>	<b>\$ 407,641</b>

**NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES**

	<b>(In Thousands)</b>
Budgetary Resources Obligated for Undelivered Orders, End of Period	\$1,504,834
Available Borrowing and Contract Authority, End of Period	\$3,635

**Description of Terms of Borrowing Authority Used:**

USDA Forest Service has the following major permanent indefinite appropriations: Recreation Fee Collection Costs, Timber Roads—Purchase Election Program, Roads and Trails for States, Timber Salvage Sales, Brush Disposal, Licensee Programs—Smokey Bear/Woodsy Owl, Restoration and Improvements of Forestlands, Operation and Maintenance of Quarters, Timber Sales Pipeline Restoration Fund, Recreation Fee Demonstration Program, Midewin National Tall Grass Prairie, Land Between the Lakes Management Fund, Payment to Minnesota, Payments to Counties—National Grasslands Fund, Payments to States—National Forest Fund, Payments to States—Northern Spotted Owl Guarantee, Knutson-Vandenburg, Cooperative Work, Land Between the Lakes, and Reforestation.

Monies received under the above appropriations are appropriated and made available until expended by the USDA Forest Service to fund the costs associated with their appropriate purpose. Federal law (16 U.S.C. Section 556d) provides that the USDA Forest Service may advance money from any USDA Forest Service appropriation to the fire fighting appropriation for the purpose of fighting fires.



**NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF FINANCING**

<b>A. Other Non-Budgetary Resources used to Finance</b>		<b>(In Thousands)</b>
<b>Operations</b>		
1. Obligations Incurred	\$	5,197,850
2. Spending Authority from Offsetting Collections		(698,218)
3. Donations not in the entity's budget		4,450
4. Others		(1,278,973)
		-
Total	\$	3,225,109
<b>B. Other Resources Used to Fund Items Not part of the</b>		
<b>Net Cost of Operations</b>		
1. Change in Amount of goods/services ordered	\$	80,524
2. Change in Unfilled Customers Orders		129,657
3. Costs Capitalized on BS		(278,092)
4. ( Description )		173,799
		-
Total	\$	105,888
<b>C. Other Net Cost Components Not Requiring or Generating</b>		
<b>Resources During the Reporting Period</b>		
1. Depreciation and Amortization	\$	377,612
2. Bad Debts Related to Uncollectible Credit Reform		49,067
3. Loss on Disposition of Assets		1,097
4. Other		(2,887)
		-
Total	\$	424,889

These accompanying notes are an integral part of the financial statements.

**NOTE 21. CUSTODIAL ACTIVITY**

The USDA Forest Service, as of September 30, 2001, collected the following funds, of which portions are due to the U.S. Department of the Treasury. These amounts are included in Other Liabilities as Custodial Liability:

A.	Sources of Collections	(In Thousands)
	1. National Forest Service Receipts	\$ 145,336
	2. National Grasslands Receipts	22,985
	3. General Fund Miscellaneous Receipts	4,899
	4. FNCS Accrual	
	5. Other	1,889
	Total Revenue Collected	175,109
B.	Disposition of Collections	
	1. Amount Transferred to Treasury	5,618
	2. Amounts Retained by Agencies	9,942
	3. Amounts Transferred for	
	Payments to States	159,549
	Total Disposition of Revenue	175,109
C.	Less: Amounts Retained by the Agency	
D.	Net Custodial Activity	\$ -

Special Fund Receipts: National Forest Fund Receipts represent revenue from the sale of timber and other forest products. Some states elected to receive the traditional twenty-five percent of the revenue, while others (75 percent) elected to receive a full payment under the new law, the Secure Rural Schools and Community Self-Determination Act of 2000. The USDA Forest Service plans to disburse to the states in December 2001. National Grassland Receipts represent revenue from the use of national grasslands. Twenty-five percent of these receipts are used to make payments to counties, on a calendar year basis, in accordance with 7 U.S.C. 1010-1012. After the payment is made, the remaining receipts are disbursed to the Department of the Treasury.

## Appendix B —

### Required Supplementary Stewardship Information

The Federal Accounting Standards Advisory Board (FASAB), Statement of Recommended Accounting Standards (SRAS) No. 8 defines assets as follows:

- Property owned by the Federal Government.
  - Stewardship Land
  - Heritage Assets
- Expenses and investments incurred for education and training of the public that are intended to increase national economic productive capacity (investment in human capital), and research and development intended to produce future benefits.
- Information on the financial impact of continuing to provide current programs and services.

#### Stewardship Land

The USDA Forest Service serves as steward for more than 192 million acres of America's public land and the natural and cultural resources associated with those lands. These stewardship assets are valued for the following:

- 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.

Description	FY 2000 Ending Balance	FY 2001 Net Change (2)	FY 2001 Ending Balance	Condi- tion (1)
National Forests	187,827,050	-297	187,826,753	Varies
National forest purposes	144,524,161	-675,364	143,848,797	Varies
National forest wilderness areas	34,751,359	61,298	34,812,657	Varies
National forest primitive areas	173,762	0	173,762	Varies
National wild and scenic river areas	944,909	246	945,155	Varies
National recreation areas	2,636,394	273,970	2,910,364	Varies
National scenic areas	129,178	0	129,178	Varies
National scenic -research areas	6,637	0	6,637	Varies
National game refuges and wildlife Preserve areas	1,218,990	-52,616	1,166,374	Varies
National monument areas	3,267,693	392,169	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	3,838,124	561	3,838,685	Varies
Purchase units	357,527	-2,291	355,236	Varies
Land utilization projects	1,876	0	1,876	Varies
Research and experiment areas	64,871	860	65,731	Varies
Other areas	125,490	170,324	295,814	Varies
<b>Total NFS Acreage</b>	<b>192,214,938</b>	<b>169,157</b>	<b>192,384,095</b>	
Road Miles (3)	380,851	148	380,999	
Trail Miles (4)	133,087	0	133,087	

(1) **Condition of NFS Land:** The USDA Forest Service has completed many efforts leading to a comprehensive analysis of the condition of National Forest Service (NFS) lands. Fire risk analysis indicates that 73 million acres of the NFS is at moderate to high fire risk in areas of frequent fire regime. Analysis of risk of mortality due to insects and diseases indicates that 70 million acres are at risk of 25 percent or more tree mortality that is expected over the next 15 years. The National Aerial Survey completed in FY 2000 indicates 2.3 million acres of tree mortality and 7.9 million acres of defoliated forest lands due to insects and diseases. NFS lands are important areas for producing valuable benefits, including clean air, clean water, habitat for wildlife, and products for human use. In FY 2001, Congress appropriated 1.1 billion to the USDA Forest Service to manage the impacts of wildfires on communities and the environment. The USDA Forest Service, with partners, developed a "10-Year Comprehensive Strategy" signed by Department of the Interior and Department of Agriculture secretaries. The goal of the plan is to implement many treatments that would reduce the threat of catastrophic wildfire, while simultaneously contributing to ecosystem health and sustainability. The USDA Forest Service has also developed a cohesive plan to prioritize and implement these treatments on 1.8 million acres annually in the future, starting in FY 2002. Concerns also exist about invasive species of insects, diseases, and plants that impact our native systems by causing mortality or displacing native vegetation. We have implemented an Early Detection and Delimitation System for non-native invasive forest insects and pathogens in cooperation with (APHIS), R&D, and State agencies. This system is designed to prevent new pest introductions to the Nation's forests. A national strategy is based on regional approaches for suppression and prevention of insects and diseases and for restoration of degraded ecosystems due to these pests. In FY 2001, prevention and suppression projects were implemented on approximately 2 million acres of forest land.

(2) **Net Change:** At the time of submission of this information, the net change values include the net effects of USDA Forest Service land transactions, with the exception of Region 1's FY 2001 transactions. This information will be updated to include Region 1's information as soon as it becomes available. Land that is needed to protect critical wildlife habitat, cultural and historic values, congressionally designated areas, and areas for recreation and conservation purposes is acquired through purchase or exchange.

(3) **Road Miles:** Net change to the total road miles occurs through new construction and correction of errors in the system's inventory, including unclassified roads that previously had 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 been updated since. Reconstruction of existing trails has been the predominant activity during the previous 5 years.

#### Definitions

Land utilization projects. A unit reserved and dedicated by the U.S. Secretary of Agriculture for forest and range research and experimentation.

National forest. A unit formally 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:

- 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.
- Primitive areas. Areas designated by the Chief of the USDA 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.
- 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 of certain ocean headlands and to ensure protection and encourage the study of the areas for research and scientific purposes.
- Wild and scenic river areas. Areas designated by Congress as part of the National Wild and Scenic River System.
- Wilderness areas. Areas designated by Congress as part of the National Wilderness Preservation System.

National grasslands. A unit designated by the U.S. Secretary of Agriculture and permanently held by the USDA under Title III of the Bankhead-Jones Tenent Farm Act. Other areas. Areas administered by the USDA Forest Service that are not included in one of the above groups.

Purchase units. A unit of land designated by the U.S. Secretary of Agriculture or previously approved by the National Forest Reservation Commission for purposes of Weeks Law acquisition.

Research and experimental area. A unit reserved and dedicated by the U.S. Secretary of Agriculture for forest and range research experimentation.

## Heritage Assets

The USDA Forest Service manages 155 national forests and 20 grasslands on more than 192 million acres of public land, which encompasses a number of cultural and heritage assets. Some of these assets are listed on the Nation's Register of Historic Places and some have been designated as National Historic Landmarks. The USDA Forest Service cultural resource specialists and the 155 national forests maintain separate lists of heritage assets. Before FY 1999, no requirement existed for consolidating them either at the regional or national level. The USDA Forest Service estimates that about 277,000 heritage assets are on land that it manages. Most of these assets have no annual maintenance performed on them. A long-term methodology to better assess the extent and condition of these assets is being formulated. The figures in the table below are estimated values that have been reported since 1999. A module in the infrastructure database is being developed for heritage assets. The module will be available for initial population in FY 2002 and the results of future inventories will provide a more current assessment of heritage resources.

<b>Category</b>	<b>1999 Estimated (Sites)</b>	<b>Condition</b>
Total Heritage Assets	277,000	Poor-Fair
Eligible for the National Register of Historic Places	109,000	Poor-Fair
Listed on the National Register of Historic Places	887	Fair
Sites listed with structures listed on the National Register of Historic Places	335	Poor-Fair
National Historic Landmarks	7	Fair
National Historic Areas	1	Fair
World Heritage Sites	0	N/A

### 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 U.S. 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.

**World Heritage Site.** An asset that meets specific criteria that constitutes outstanding global value. The preservation of a common world heritage is the object of the International Convention Concerning the Protection of the World's Cultural and National Heritage.

Land purchases and exchanges may result in acquisition and withdrawal of heritage assets. The primary methods of additions to heritage resources are the result of survey, evaluation, and protection of heritage resources in coordination with other resource activities that could affect heritage resources.

## **Human Capital—Job Corps Civilian Conservation Centers—FY 2001**

### **Net Cost of Operations, \$ 101.0 million**

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 to 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, 2000, and ending on June 30, 2001. During FY 2001, there were 9,528 participants with 4,423 placements.

Established in 1964, Job Corps has trained and educated about 210,000 young people. The program is administered in a structured, co-educational, residential environment that provides education, vocation and life skills training, counseling, medical care, work experience, placement assistance, recreational opportunities, and biweekly monetary stipends. Job Corps students can choose from a wide variety of careers such as urban forestry, heavy equipment operation and maintenance, business clerical, carpentry, culinary arts, painting, cement and brick masonry, welding, auto mechanics, health services, building and apartment maintenance, warehousing, and plastering. All 18 centers have women students training in nontraditional vocations; e.g., approximately 659 women were involved in forest fire suppression this year in 16 States.

## **Research and Development—Forest and Rangeland Research—FY 2001 Net Cost of Operations, \$ 299.6 million**

USDA Forest Service Research and Development provides reliable science-based information that is incorporated into natural resource decision making. This information sharing process is done by developing new technology, and then adapting and transferring the technology to USDA Forest Service entities and others for more effective resource management. The major research areas include the following:

- Vegetation management and protection;
- Wildlife, fish, watershed, and air;
- Resource valuation and use research; and
- Forest resources inventory and monitoring.



The USDA Forest Service Research and Development staff is involved broadly in supporting USDA Forest Service goals by providing more efficient and effective methods of accomplishing natural resource objectives, where applicable. A representative summary of FY 2001 accomplishments include the following:

- 259 new interagency agreements and contracts;
- 127 ongoing interagency agreements and contracts;
- 1,205 articles published in journals;
- 1,454 articles published in all other publications or outlets;
- 6 patents granted; and
- 1 right to inventories established.

## Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been, or was scheduled to be performed, but then delayed until a later 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 PP&E, stewardship assets, and heritage assets. It is also reported separately for critical and noncritical amounts of maintenance needed to return each class of asset to its acceptable operating condition.

### **FY 2001 Deferred Maintenance Totals by Asset Class (\$ in thousands)**

<b>Asset Class</b>	<b>Overall Condition (1)</b>	<b>Cost to Return to Acceptable Condition</b>	<b>Critical Maintenance (2)</b>	<b>Noncritical Maintenance (3)</b>
Buildings and admin. facilities	Varies	510,589	203,611	306,978
Dams	Varies	27,220	13,457	13,763
Heritage	Varies	37,718	11,208	26,509
Range improvements	Varies	547,695	523,357	24,338
Recreation facilities	Varies	298,292	105,737	192,555
Roads and bridges	Varies	5,314,372	1,574,732	3,739,640
Trails	Varies	117,870	42,327	75,542
Wildlife, fish, TES	Varies	5,038	3,277	1,762
<b>Subtotal</b>		<b>6,858,794</b>	<b>2,477,707</b>	<b>4,381,087</b>
Add 19% overhead *		1,303,171	470,764	832,406
<b>Total</b>		<b>8,161,964</b>	<b>2,948,471</b>	<b>5,213,493</b>

\* Agency average as supplied by the CFO Budget Staff.

- (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 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) Noncritical Maintenance: A requirement that addresses potential risk to the public or employee safety or health (e.g., compliance with codes, standard, 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 on equipment because the USDA Forest Service has its fleet vehicles and computers in a working capital fund. It maintains each fleet vehicle according to schedule and treats the remaining equipment as expensed. Therefore, there is no deferred maintenance on general equipment.

#### **Condition of Administrative Facilities**

- 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.
- 27 percent of buildings are in good condition, needing 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 NFS Lands**

The standards for acceptable operating condition for different classes of general PP&E are as follows:

- Buildings. Comply with the National Life Safety Code, the USDA Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys,
- Roads and bridges. Conditions of the National Forest Development Road system are measured by various standards that include applicable regulations for the Highway Safety Act developed by the National Highway Transportation Safety Administration, best management practices for road construction and maintenance developed by the Environmental Protection Agency to implement the Clean Water Act, and USDA Forest Service manuals and handbooks.
- Developed recreation sites. This wide category 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) 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 the facility.
- Range structures. The condition assessment was based on (1) a determination by knowledgeable range specialists or other district personnel whether or not the improvement would perform the originally intended function, and (2) a determination through the use of a protocol system to assess conditions based on age. The USDA Forest Service uses a long-range methodology to gather this data.
- Watershed structures. Field hydrologists and USDA Forest Service personnel 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 would likely occur if maintenance was deferred much longer.
- Dams. Managed according to USDA Forest Service Manual 7500, Water Storage and Transmission, and USDA Forest Service Handbook 7509.11, Dams Management, as determined by condition surveys.
- 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.
- Trails. Trails are managed according to Federal law and regulations (CFR 36). More specific direction is contained in the USDA Forest Service Manual (FSM 2350) and the USDA Forest Service Trails Management Handbook (FSH 2309.18).
- 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, might not fall under the management responsibility of the heritage program.

## Appendix C

### Glossary of Acronyms

Acronym	Full Name of Term
AAPC	Accounting and Auditing Policy Committee
AICPA	American Institute of Certified Public Accountants
AML	Abandoned Mine Lands
APG	Annual Performance Goal
AUM	Animal Unit Month
BAER	Burned Area Emergency Rehabilitation
BFES	Budget Formulation and Execution System
CCF	Hundred Cubic Feet
CDRA	Contract Disputes Resolution Act
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CFO	Chief Financial Officer (Forest Service deputy area)
CIM	Capital Improvement and Maintenance
CSRS	Civil Service Retirement System
CWA	Clean Water Act
DOI	United States Department of the Interior
DOL	Department of Labor
EAPs	Economic Action Programs
ESA	Endangered Species Act
FAM	Fire and Aviation Management
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting and Standards Board
FECA	Federal Employees Compensation Act
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System
FFIS	Foundation Financial Information System
FHM	Forest Health Monitoring
FHP	Forest Health Protection
FIA	Forest Inventory and Analysis
FLP	Forest Legacy Program
FS	Forest Service
FSH	Forest Service Handbook
FSM	Forest Service Manual
FS R&D	Forest Service Research and Development (Deputy Area)
FY	Fiscal Year
GAO	General Accounting Office
GPRA	Government Performance and Results Act
GS	General Schedule (pay plan)
INFRA	Infrastructure database
K-V	Knutson-Vandenburg (trust fund)

Acronym	Full Name of Term
LEI	Law Enforcement and Investigations (staff)
LRMP	Land and Resource Management Plan
LWCF	Land and Water Conservation Fund
MAR	Management Attainment Reporting (system)
MBF	Thousand Board Feet
MEL	Most Efficient Level (of firefighting capability)
MMBF	Million Board Feet
NEPA	National Environmental Policy Act
NF	National Forest
NFC	National Finance Center
NFMA	National Forest Management Act
NFP	National Fire Plan
NFS	National Forest System (Forest Service deputy area)
NIPF	Non-industrial Private Forest
NRIS	Natural Resource Information System database
OCFO	Department of Agriculture Office of the Chief Financial Officer
OHV	Off-Highway Vehicle
OIG	Department of Agriculture Office of Inspector General
OMB	Office of Management and Budget
P&L	Programs and Legislation (Forest Service deputy area)
PAOT	Persons At One Time
PIT	Passport In Time (program)
PMAS	Performance Measures Accountability System
PP&E	Property, Plant and Equipment
PRC	Purchaser Road Credit
QA/QC	Quality assurance and quality control
RBAIS	Research Budget Attainment Information System
RCRA	Resource Conservation and Recovery Act
S&PF	State and Private Forestry (Forest Service deputy area)
SBDC	Small Business Development Center
SFFAS	Statements of Federal Financial Accounting Standards
SIP	Stewardship Incentives Program
SOP	AICPA Statement of Position
SRC	Specified Road Construction
STARS	Sales Tracking and Reporting System
SUDS	Special Uses Data System
SYVP	Senior, Youth and Volunteer Program
TBD	To Be Determined
TES	Threatened and Endangered Species
TMDL	Total Maximum Daily Load
TSI	Timber Stand Improvement
TSP	Thrift Savings Plan
TRACS	Timber Activity Control System



Acronym	Full Name of Term
U&CF	Urban and Community Forestry (program)
U.S.C.	United States Code
USDA	United States Department of Agriculture
VSIP	Voluntary Separation Incentive Pay
WCF	Working Capital Fund