



U.S. Department of Agriculture



Office of Inspector General  
Financial & IT Operations

# Audit Report

## Forest Service's Financial Statements for Fiscal Years 2007 and 2006

Report No. 08401-8-FM  
November 2007

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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



November 15, 2007

REPLY TO

ATTN OF: 08401-8-FM

TO: Abigail Kimbell  
Chief  
Forest Service

ATTN: Sandy Coleman  
Agency Liaison Officer  
Forest Service

FROM: Robert W. Young /s/  
Assistant Inspector General  
for Audit

SUBJECT: Forest Service's Financial Statements for Fiscal Years 2007 and 2006

This report presents the auditors' opinion on Forest Service's (FS) principal financial statements for the fiscal years ending September 30, 2007, and 2006. The report also includes an assessment of FS' internal control structure and compliance with laws and regulations.

KPMG LLP (KPMG) an independent certified public accounting firm, conducted the audits. In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards* (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, opinions on FS' financial statements or internal control or on whether FS' financial management systems substantially complied with the Federal Financial Management Improvement Act (FFMIA); or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report, dated November 12, 2007, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted *Government Auditing Standards*, and the Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

It is the opinion of KPMG, that the financial statements present fairly, in all material aspects, FS' financial position as of September 30, 2007, and 2006; and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG's report on FS' internal control structure over financial reporting identified one material internal control weakness. Specifically, KPMG identified a material weakness in FS' information technology general controls environment.

KPMG's report on FS' laws and regulations disclosed noncompliance with appropriation law and instances of noncompliance with the Federal Financial Management Improvement Act of 1996.

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

**United States Department of Agriculture  
Forest Service**

**For the Years Ended September 30, 2007 and 2006**

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## **Independent Auditors' Report**



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

Chief, U.S. Forest Service and  
Inspector General, United States Department of Agriculture:

We have audited the accompanying consolidated balance sheets of the United States (U.S.) Forest Service (an agency of the United States Department of Agriculture) as of September 30, 2007 and 2006 and the related consolidated statements of net cost, and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2007 audit, we also considered the U.S. Forest Service's internal controls over financial reporting and performance measures and tested the U.S. Forest Service's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

### SUMMARY

As stated in our opinion on the financial statements, we concluded that the U.S. Forest Service's financial statements as of and for the years ended September 30, 2007 and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in the year ended September 30, 2007, the U.S. Forest Service changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations and changed its parent/child financial reporting policies in accordance with the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*.

Our consideration of internal controls over financial reporting resulted in the following conditions being identified as significant deficiencies. The first one is considered a material weakness.

- The U.S. Forest Service Needs to Continue to Improve its General Controls Environment
- The U.S. Forest Service Needs to Continue to Improve its Financial Management and Reporting Process
- The U.S. Forest Service Needs to Refine and Monitor its Expense Accrual
- Accountability for Unliquidated Obligations (ULOs) Needs Continued Improvement
- Review of Credit Card Transactions and Controls Over the Programs Need Continued Improvement
- The U.S. Forest Service Needs to Improve Internal Controls over its Environmental and Disposal Liabilities (EDL) Process



- Controls Related to Physical Inventories of Pooled Real Property Need Continued Improvement
- The U.S. Forest Service Needs to Improve its Business Process for Revenue Transactions
- Process Improvements are Needed over Personal Property Transactions

Our tests of internal control over performance measures, as described in the Responsibilities section of this report, disclosed the following deficiency involving the design of the internal control over the existence and completeness assertions related to key performance measures.

- The Compilation of Performance Measures Needs Continued Improvement

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed the following instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

- The U.S. Forest Service Continues to Not Obligate all Transactions Required by Appropriations Law
- The U.S. Forest Service May Not Have Been in Compliance with 31 USC 1517 during Fiscal Year 2006

The results of our tests of FFMIA disclosed instances where the U.S. Forest Services financial management systems did not substantially comply with Federal Financial Management System Requirements and the U.S. Standard General Ledger.

The results of our tests of FFMIA disclosed no instances in which the U.S. Forest Service's financial management systems did not substantially comply with applicable Federal Accounting Standards.

The following sections discuss our opinion on the U.S. Forest Service's financial statements, our consideration of the U.S. Forest Service's internal controls over financial reporting and performance measures; our tests of the U.S. Forest Service's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, and management's and our responsibilities.

## OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Forest Service as of September 30, 2007 and 2006 and the related consolidated statements of net costs, and changes in net position, and the combined statements of budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Forest Service as of September 30, 2007 and 2006, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in the year ended September 30, 2007, the U.S. Forest Service changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of





operations and changed its parent/child financial reporting policies in accordance with the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*.

The information in the Management Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and accordingly, we express no opinion on it. As a result of such limited procedures, we believe that the Required Supplementary Information related to deferred maintenance, heritage assets, and stewardship land may not be consistently prepared across all U.S. Forest Service locations and controls have not been effectively designed to ensure the accuracy, completeness, and timeliness of the reported information.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the U.S. Forest Service's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the U.S. Forest Service's financial statements that is more than inconsequential will not be prevented or detected by the U.S. Forest Service's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the U.S. Forest Service's internal control.

In our fiscal year 2007 audit, we consider the deficiencies, described in Exhibits I and II, to be significant deficiencies in internal control over financial reporting. We believe that the significant deficiency in Exhibit I is a material weakness. Exhibit III presents the status of prior year significant deficiencies, including those open conditions on which we are making no further recommendations in this report.

We noted certain additional matters that we have reported to management of the U.S. Forest Service in a separate letter.

### **INTERNAL CONTROL OVER PERFORMANCE MEASURES**

Our tests of internal control over performance measures, as described in the Responsibilities section of this report, disclosed a deficiency, described in Exhibit II, involving the design of the internal control over the existence and completeness assertions related to key performance measures.

### **COMPLIANCE AND OTHER MATTERS**

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed noncompliance with appropriation law and 31 U.S.C. 1517 as described in Exhibit IV that is required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 07-04.



The majority of the deficiencies for noncompliance with appropriation law result from the U.S. Forest Service's travel system limitations. The U.S. Forest Service's current system does not allow it to obligate funds for temporary duty travel.

The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no other instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed instances, described in Exhibit IV, where the U.S. Forest Service's financial management systems did not substantially comply with Federal Financial Management System Requirements and the U.S. Standard General Ledger discussed in the Responsibilities section of this report. Exhibit V provides the status of prior year's non-compliance findings and other matters, including those open conditions on which we are making no further recommendations in this report.

The results of our tests of FFMIA disclosed no instances in which the U.S. Forest Service's financial management systems did not substantially comply with applicable Federal Accounting Standards.

We noted certain additional matters that we have reported to management of the U.S. Forest Service in a separate letter.

## RESPONSIBILITIES

**Management's Responsibilities.** The United States Code (USC) Title 31 Sections 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, the U.S. Forest Service prepares and submits financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining effective internal controls; and
- Complying with laws, regulations, contracts, and grant agreements applicable to the U.S. Forest Service, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2007 and 2006 financial statements of the U.S. Forest Service based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal controls over financial reporting as a basis





The U.S. Forest Service response to the findings identified in our audit is presented in Exhibit VI. We did not audit the U.S. Forest Service's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the U.S. Forest Service's management, the United States Department of Agriculture (USDA) Office of the Inspector General (OIG), OMB, the U.S. Government Accountability Office (GAO) and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2007

## INTRODUCTION TO EXHIBITS

In fiscal year (FY) 2004, the U.S. Forest Service began a major transformation of business operations throughout the agency, beginning with two business functions. The first involved its Information Resources Management (IRM) organization for which some segments were offered for competitive bid under OMB Circular No. A-76, *Performance of Commercial Activities*. Government employees in the U.S. Forest Service were the successful bidders which resulted in a realignment of both organization and operations. The second was the effort to consolidate its finance and accounting operations from 153 accounting centers to the Albuquerque Service Center (ASC) in New Mexico. Significant work was accomplished in FY 2004 and 2005 to design and staff the new organization, re-engineer finance and accounting business processes, and migrate work from field locations. In FY 2006 and 2007, new system design efforts were undertaken to accommodate for operational gaps identified in the new business structure.

In FY 2006, the U.S. Forest Service also began to consolidate its human capital management (HCM) operations from its field offices throughout the country to Albuquerque, New Mexico. During FY 2006, HCM underwent business processing re-engineering and new system design efforts, and implementation of the new system and re-engineering was phased in throughout FY 2007.

While the U.S. Forest Service has made progress in addressing our prior year recommendations, we continue to recognize that certain recommended information technology (IT) control enhancements pertaining to the U.S. Forest Service's operations cannot be implemented solely by the U.S. Forest Service, because the U.S. Forest Service's applications are in many cases hosted on USDA – managed systems. As a result, several IT control deficiencies identified in this report will require the combined effort of USDA and the U.S. Forest Service management.

Exhibits I and II present the material weakness and significant deficiencies, respectively, as of and for the year ended September 30, 2007. Exhibit III of this report summarizes the current year status of prior year recommendations. We believe that the U.S. Forest Service has taken corrective action to close or make progress to closing many of the prior year recommendations. Exhibit IV provides an update of those instances of noncompliance with laws and regulations and other matters and applicable new instances of noncompliance. Exhibit V summarizes the status of prior year recommendations for noncompliance with laws and regulations. The U.S. Forest Service management's response is presented in Exhibit VI.

**MATERIAL WEAKNESS**

**Number 1: The U.S. Forest Service Needs to Continue to Improve its General Controls Environment (Repeat Condition)**

During FY 2007, U.S. Forest Service took positive steps to implement management, operational, and technical controls to help establish sound information security practices and address prior year findings. The agency has developed corrective action plans, which outline a phased implementation approach for addressing known weaknesses. During FY 2007, U.S. Forest Service began with Phase 0, in which they formalized policies and implemented controls that directly relate to the Information Solution Organization (ISO) and IRM.

While the U.S. Forest Service has taken significant strides in its efforts to centralize and improve its IT infrastructure functions, more actions are necessary to fully address the deficiencies identified in prior years as well as to ensure an appropriate level of confidentiality, integrity, and availability of sensitive and crucial information systems and resources.

Furthermore, at the USDA level, the parent organization, the USDA OIG has identified a security weakness related to IT general controls. Actions to resolve the USDA issue are incumbent upon resolution of the U.S. Forest Service general control material weakness.

**Security Planning Controls Need Continued Improvement**

Risk assessments and security plans for several systems were in various stages of completeness during the FY. In addition, security test and evaluations (ST&E) have not been performed for several systems. The following table summarizes the status of the risk assessments, security plans, and ST&E for the identified systems.

| Information System                          | Status of Risk Assessment Document / Deficiency                                   | Status of Security Plan | ST&E Status   |
|---|---|-------------------------|---------------|
| Incident Business System (IBS)/I-Suite      | Draft   | Draft                   | Not Performed |
| Financial Transaction Request System (FTRS) | Draft   | Draft                   |               |
| Forest Service Computer Base (FSCB)         | Draft   | Draft                   | Performed     |
| Automated Timber Sale Accounting (ATSA)     | Completed – However, it did not classify risk levels for the AIX operating system | Complete                |               |

The U.S. Forest Service finalized the FSCB risk assessment during the second half of FY 2007. The FSCB risk assessment included risk levels for the AIX operating system, which in turn remedied the issue noted in the above table related to the ATSA risk assessment. In addition, the U.S. Forest Service finalized the FSCB security plan during the second half of FY 2007.

Finally, we noted that the IBS/I-Suite system is operating in production without an Authority to Operate (ATO) or an Interim Authority to Operate and the U.S. Forest Service issued an ATO for the I-Web system on September 28, 2007.

Forest Service Manual (FSM) 6600, Chapter 6680 – Security of Information, Information Systems, and Information Technology, section 6682.1, “Risk Management,” addresses risk assessments and indicates that “For all information systems operated on behalf of the Forest Service a risk assessment must be performed...in accordance with direction provided in USDA DM [Department Manual] 3540-001, Risk Assessment Methodology.”

FSM section 6682.5, “System Security Plan,” addresses system security plans and indicates that system security plans are to be developed for all general support systems or major applications. Additionally, the guidance indicates that the security plans are to be reviewed annually and updated as necessary in accordance with the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-18, “Guide for Developing Security Plans for Information Technology Systems.”

FSM section 6682.4, “Certification, Accreditation, and Security Assessments Policies and Procedures,” states that all U.S. Forest Service general support systems and major applications must be certified and accredited before the beginning of operation, before resuming operation after a major change and at least once every three years. Additionally, the policy states that certifications and accreditations (C&A) must be conducted in accordance with the current USDA C&A methodology and other current Federal, Departmental and U.S. Forest Service regulations.

The above policies relate to NIST SP 800-53, “Recommended Security Controls for Federal Information Systems” controls:

- CA-3, “Information Systems Connections”,
- PL-2, “System Security Plan”, and
- RA-1, “Risk Assessment”

Without complete, well documented risk assessments, the accuracy of risk classifications and the implementation of appropriate solutions for mitigating risks and managing critical systems will not be consistent. This places the integrity of the financial data and information systems at risk.

Without complete and documented system security plans, security controls may be inadequate, responsibilities unclear, and controls may be inconsistently applied. Such conditions lead to insufficient protection of sensitive or critical resources. Therefore, the integrity of the financial data and information systems may be at risk.

Without proper accreditations of major applications and general support systems, the system owners may not be aware of, or in acceptance of, the security risks posed by the use of the system and therefore, cannot actively support and monitor the effectiveness of the U.S. Forest Service security policies. This could further lead to unauthorized access, intentional or unintentional data destruction or misuse, and/or denial of service.

**Recommendation Number 1:**

We recommend that the U.S. Forest Service management:

- A. Document and finalize a risk assessment in accordance with the FSM 6682.1 and NIST SP 800-30 for IBS/I-Suite and FTRS.
- B. Finalize a system security plan in accordance with FSM 6682.5 and NIST SP 800-18 for IBS/I-Suite and FTRS.
- C. Perform and document a ST&E in accordance with FSM 6682.07b and NIST SP 800-37 for IBS/I-Suite.
- D. Ensure that a formalized ATO is in place for all major applications prior to implementation in accordance with FSM 6682.4.

**Adherence to the Change Control Process is Lacking**

The following change control deficiencies were identified during our audit:

- Documentation related to the change approval, testing of changes and distributing updates to IBS is not being maintained.
- Complete testing documentation is not being maintained for All Service Receipts (ASR) changes. We noted that only partial documentation was available for three of four changes selected.
- Complete testing documentation is not being maintained for FSCB-related system software changes. We noted that documentation was not available for two of ten FSCB changes selected.
- The ISO Release Process procedures, which provide guidance for deploying critical applications, are in draft.
- Patch deployment procedures for the desktop and windows server are in draft.
- Reviews of system software installation logs to determine if updates to desktop clients and servers have been deployed successfully are not conducted, as required by FSM 6682.63.

FSM 6600, Chapter 6680 – Security of Information, Information Systems, and Information Technology, section 6682.63, “Monitoring Configuration Changes,” requires the monitoring of implemented changes for unexpected security impacts and for opportunities to improve the effectiveness of security controls.

NIST SP 800-53, “Information System,” section SA-5 states “The organization ensures that adequate documentation for the information system and its constituent components is available, protected when required, and distributed to authorized personnel.” Additionally, NIST SP 800-53, section CM-4 states “The organization monitors changes to the information system and conducts security impact analyses to determine the effects of the changes.”

The change control process and procedures are not being effectively communicated and enforced at an agency-wide level. Developers and testers responsible system software changes were unaware of the requirements to document and maintain approvals and test results. U.S. Forest Service management also has not effectively communicated the importance of ensuring that deployed software and patches have been effectively installed. As previously noted, the U.S. Forest Service drafted procedures for distributing software. In addition, it is in process of finalizing the patch deployment procedures.

By not enforcing an agency-wide formalized change control process, the risk is present that undocumented or unauthorized changes could be made to applications. Without proper documentation and approvals, a defective change could be applied to an application that could cause the system to incur unintended risk. By not reviewing software installation logs to determine if software deployments were successful, the risk is present that not all U.S. Forest Service systems will meet baseline patch and software standards, which in turn presents a security risk.

**Recommendation Number 2:**

We recommend that U.S. Forest Service management:

- A. Communicate and enforce an agency-wide change control process for all change management personnel to follow.
- B. Create and maintain formal testing documentation and approvals for all major applications.



**Segregation of Duties Needs Improvement**

During FY 2007, the following segregation of duties conflicts were identified:

- We noted that segregation of duties controls are not in place to ensure that the HCM personnel with access to the Entry, Processing, Inquiry, and Correction (EPIC) system did not also have the Pay Administrator role within Paycheck 7. We found that some employees in field units have the Pay Administrator role as well as access to EPIC.
- In the Oracle Password Database, users with access to group 'KC', 'ABQ-DEV', 'Boulder', and 'FIA' have access to both root-level operating system passwords and database administrator (DBA) passwords. As a result, there are 27 individuals with administrative-level access to both the databases and operating systems. This database is a central repository that contains all of the administrative-level passwords for U.S. Forest Service managed servers and databases.
- In Paycheck 7, three employees have access to both the administrative application-level passwords and DBA passwords.

FSM 6600, Chapter 6680 – Security of Information, Information Systems, and Information Technology, section 6684.23, “Least Privilege,” states “Configure the information system to enforce the most restrictive set of rights/privileges or accesses needed by users (or processes acting on behalf of users) for the performance of specified tasks.” Additionally, section 6683.11, “Separation of Duties,” states “Different individuals should perform each of the following actions for critical operational control functions: authorization/approval; system management; and monitoring or auditing.”

NIST SP 800-53, “Recommended Security Controls for Federal Information Systems,” control SI-9, “Information Input Restrictions,” states “Restrictions on personnel authorized to input information to the information system may extend beyond the typical access controls employed by the system and include limitations based on specific operational/project responsibilities.”

When the applicable users’ roles and responsibilities were established, the U.S. Forest Service did not adhere to appropriate segregation of duties principles. Additionally, the U.S. Forest Service’s “Identifying and Establishing a Separation of Duties and Maintaining Least Privilege for Users” document is general and does not include specific segregation of duties guidelines for system administrators and DBAs.

Furthermore, U.S. Forest Service management indicated that HCM resources and personnel are limited at many U.S. Forest Service field units. Due to the lack of HCM resources and the size of U.S. Forest Service units, HCM personnel may be required to perform multiple duties.

Individuals with privileged access to both the operating system and database can make unauthorized changes to application data and tamper with any audit trail that would track such an incident.

Without proper segregation of duties controls, there is increased risk that fraudulent data could be entered into EPIC and Paycheck 7. Fraudulent personnel records and payroll payments could be processed by the National Finance Center (NFC).

**Recommendation Number 3:**

We recommend that the U.S. Forest Service management:

- A. Establish, communicate, and document the enforcement of policies and procedures which require quarterly management review of Paycheck 7 access listings and EPIC access listings to verify that access is appropriate and in compliance with policy.
- B. Ensure that proper segregation of duties principles are adhered to when assigning roles in EmpowHR (the new HCM personnel system), since this system will ultimately replace EPIC.
- C. Update the “Identifying and Establishing a Separation of Duties and Maintaining Least Privilege for Users” document to include specific segregation of duties guidelines for system administrators and DBAs.
- D. Update the level of user access for all personnel based on the appropriate segregation of duties principles. If this current level of access is warranted, then mitigating controls must be implemented to appropriately track user actions.

**U.S. Forest Service Systems are Vulnerable to Unauthorized Access**

During the vulnerability assessment phase of our audit, we noted the following high-level categories of findings:

*Patch Management:*

- 87 various buffer flow vulnerabilities related to outdated and/or unpatched versions of software were identified on a multitude of hosts.
- 37 various Denial of Service vulnerabilities related to outdated and/or unpatched versions of software were identified on a multitude of hosts.
- 116 Microsoft Security patches were missing on a multitude of hosts.

*Configuration Management:*

- On one host the Microsoft Structured Query Language Server Administrative password was “Blank”.
- Default Oracle database passwords were on multiple hosts.
- Default Simple Network Management Protocol community strings existed on multiple hosts.
- Blank administrative passwords were on multiple workstations.

Although the U.S. Forest Service is currently conducting quarterly scans to identify vulnerabilities, we noted that systems are not being patched for the identified vulnerabilities in a timely manner. We noted that five of the 377 hosts identified (1.3%) contained 792 of the 1,749 (45.3%) noted vulnerabilities. These five hosts were later decommissioned during audit fieldwork. Even though 45.3% of the vulnerabilities were localized to five hosts, we still noted 372 hosts (98.7%) were identified as having one or more vulnerabilities associated with them.

USDA DM 3535-00, “C2 Controlled Access Protection,” Part I, “USDA’s C2 Level of Trust,” section 3a, states “A USDA mandatory minimum password length of 6-8 alphanumeric characters will be established. To comply with USDA’s C2 Level of Trust, passwords for all general users of systems, applications or processes shall be changed every 60 days. Passwords issued to privileged users (system administrators, system managers, auditors and engineers) will be changed every 30 days. All passwords will be encrypted and dictionary words shall not be used for passwords.”

OMB Circular No. A-130, Appendix III, “Security of Federal Automated Information Resources,” states that the agencies should implement “Security commensurate with the risk and magnitude of the harm resulting from the loss, misuse, or unauthorized access to or modification of information. This includes assuring that

systems and applications used by the agency operate effectively and provide appropriate confidentiality, integrity, and availability, through the use of cost-effective management, personnel, operational, and technical controls.”

The patch management vulnerabilities noted above result from outdated and/or unpatched versions of software running on the servers. The configuration management issues are the result of inadequate passwords and password policy existing at the time of each system’s implementation.

The patch management vulnerabilities could potentially allow an attacker to execute arbitrary code on the vulnerable systems. In addition, an attacker could potentially utilize the privileges granted to the affected servers in an attempt to compromise other servers and/or network devices within the U.S. Forest Service network, including financial servers.

Without proper control of user accounts and their associated passwords, the potential exists for unauthorized users to access U.S. Forest Service systems. This risk is elevated when powerful accounts, such as system administration accounts, are assigned easily guessed, blank, or default passwords. These accounts could allow an unauthorized individual unlimited access to a system and cause a loss in availability or integrity of the system.

**Recommendation Number 4:**

We recommend that U.S. Forest Service management:

- A. Update its system configuration management baselines, as necessary, to reflect the most recent software versions and patch levels to ensure consistency within the environment, when implementing new systems.
- B. Improve system configuration management practices by raising system administrator awareness of the requirements for maintaining secure system configurations, including software versions, patches, and changing vendor default settings as necessary.

In addition we continue to recognize the need for the U.S. Forest Service to develop and implement a patch management policy and configuration management policy to strengthen change controls and system software controls as reported in prior year Recommendation 8 of Audit Report No. 08401-6-FM.

Finally, we continue to recognize the need for the U.S. Forest Service to develop access controls and to improve the management of network accounts as reported in prior year Recommendation 7 of Audit Report No. 08401-6-FM.

## SIGNIFICANT DEFICIENCIES

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### **Number 1: The U.S. Forest Service Needs to Continue to Improve its Financial Management and Reporting Process (*Repeat Condition*)**

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During FY 2007, the U.S. Forest Service continued to improve its financial reporting process. During the FY 2007 audit, it was noted that the U.S. Forest Service has cleaned up its residual journal vouchers (JV's) in the general ledger as well as institutionalized its monthly process of reviewing abnormal balances and account relationships. Although financial reporting continues to improve, deficiencies continue to exist in the U.S. Forest Service's ability to produce accurate financial information.

### **Residual Deposits in the Liability for Deposit Funds, Clearing Accounts, and Undeposited Collections Need to be Identified and Properly Posted**

During our FY 2007 audit we noted prior year deposit transactions that resided in general ledger (GL) account 2400, Liability for Deposit Funds, Clearing Accounts, and Undeposited Collections. These deposits reside in GL 2400 because the final destination of the transaction has not been determined.

As part of our audit work we selected 85 samples for testing. Of these 85 samples, six deposits had insufficient documentation provided to support the balance and one deposit had no documentation at all. In addition, we noted five deposits were incorrectly classified between Federal and Non-Federal in the U.S. Forest Service's GL.

The primary cause for the prior year deposits relates to the U.S. Forest Service's prior year issues with reconciling Fund Balance with Treasury.

### **Recommendation Number 5:**

We recommend that the U.S. Forest Service management devote the necessary resources to identify, research, and resolve prior year residual deposits in GL 2400.

### **Review and Approval of Non-Routine Transactions Needs Continued Improvement**

During our audit, we noted the following instances where the U.S. Forest Service did not properly review and research non-routine transactions.

During our testwork over non-routine transactions, we identified the following "national<sup>1</sup>" level adjustment deficiencies:

- One of two samples was not fully supported and contained items that were delivered and paid before October 1, 2007.
- Standard Vouchers (SV) entries were made for 20 national level undelivered orders when in fact the goods were delivered prior to October 1, 2007.

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<sup>1</sup> National adjustments are made at period-end after the closing of the general ledger to field personnel. The national adjustments are made to ensure completeness of expense accruals and undelivered orders at quarter end.

During our testwork over the Statement of Budgetary Resources, we noted that Treasury Appropriation Fund Symbol (TAFS) 127/81117 was apportioned on September 28, 2007 by OMB for FY 2008. This authority should have been posted to GL 4450 as of September 30, 2007 as the funding was not available for obligation or expenditure by the U.S. Forest Service until October 1, 2007. Additional adjustments were made incorrectly to correct the balance by debiting GL 4610, Allotments – Realized Resources, causing an abnormal balance at September 30, 2007 (and corrected during accounting period 14 closing).

Additionally in the second quarter of 2007, the accrual for Payments to States in GL 2992, Other Liabilities without Budgetary Resources, was erroneously reversed twice and corrected during accounting period 14.

The U.S. Forest Service is not performing an adequate review of non-routine transactions.

The U.S. Forest Service's Chief Financial Officer (CFO) Bulletin 2002-010 *SV Document Policy* states that "SV documents require approval by an approving official and will process similar to balance vouchers (BV's), internal vouchers (IV's), working capital fund vouchers (WV's), and journal vouchers (JV's) in that one individual will create the SV and another (approving official) will approve the document before it is accepted in the Foundation Financial Information System (FFIS). Approving the SV document means the approving official has reviewed the supporting documentation and agrees that the SV transaction is appropriate, adequately documented and should be made in the current accounting period."

OMB Circular No. A-123 states that "management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations."

The improper non-routine entries made by the U.S. Forest Service resulted in:

- National level accruals not being accrued properly causing abnormal balances and accruals that are not justified,
- Undelivered orders being overstated and delivered orders being understated because entries are not being classified and recorded properly to the general ledger,
- Unapportioned authority, GL 4450, was understated by \$314 million as of September 30, 2007, and
- The erroneous reversal of the 2<sup>nd</sup> quarter accrual caused unfunded liabilities (GL 2992) and future funded expenses (GL 6800) to be understated by \$35 million as of September 30, 2007.

**Recommendation Number 6:**

We recommend that U.S. Forest Service management ensure that existing review and approval procedures are adequate, communicate the policy to its management, and ensure its management is adequately trained on the policy as well as on other technical areas that they are responsible for at the ASC.

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**Number 2: The U.S. Forest Service Needs to Refine and Monitor its Expense Accrual**

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**Statistical Accrual Model Needs Refinement**

During FY 2006, the U.S. Forest Service developed a regression analysis model to determine a statistically derived amount for a component of its expense accrual. This model is used to determine an estimate of the amount to accrue on a macro level for many smaller dollar obligation transactions.

Regression analysis is a statistical tool that derives a mathematical relationship between two or more quantitative variable of interest (the dependent variable) that can be estimated by one or more of the others (independent variable(s)). Typically, for regression models to produce valid and reasonably precise estimates, the sample data must cover a wide range of values for the independent variable(s) and must also have enough observations (i.e., data points) to ensure both the geometric shape and precision of the resulting estimates with a high degree of statistical confidence. The number of sample observations required for such validity and precision is generally accepted to be in excess of 50 plus the number of coefficients being estimated by the model employed. In the case of a simple two-variable straight line model, a sample size of 52 or more would be desirable; while with a more complex curvilinear model using two or more variables, a larger sample size would be appropriate.

Currently the U.S. Forest Service is planning to use several different geometric models as derived from the currently available 45 data points. These different models incorporate both straight line and curvilinear mathematical functions with potentially different forms of the variables being employed as the format for the independent variable portion of the model. While it may be appropriate to have different geometric patterns for accrual estimating equations for the various broad ranges of obligations, it was noted that all of these models are producing wide ranges of variability around the estimating equations. The lack of precision (i.e., at the 95% confidence level) could be caused by either using the wrong geometric function or using the wrong form of the various variables being employed. However, with the current number of observations (i.e., data points), we are unable to determine the wide variation of estimates for month to month or whether there is some other root cause.

While these newly developed regression models appear to produce better results overall than past methods for the various accrual estimates, the following issues should be noted on a go-forward basis:

- *Lack of Sufficient Number of Data Points* – The U.S. Forest Service uses 45 data points for establishing the accrual model at the end of the third quarter. Ideally a minimum of 52 or more data points should be used; however because the model is based on a time series, that goal will not be able to be achieved for another 9 plus months.
- *Correlation of Unliquidated Obligations (ULO) Balances and Payments* – The statistical models developed by U.S. Forest Service use various geometric relationships between ULOs and payment; with payments being the dependent variable of interest in each of the models. In each case, a correlation is developed from the coefficient of determination (i.e., the ratio of the “explained variation” to the “total variation” of the payment data). Because the correlation coefficients are relatively high for all of the models constructed, the U.S. Forest Service management has assumed that the models will be useful and precise enough to provide tight estimates of the actual amounts earned by contractors and grantees, but not yet paid. Various expert texts have shown that the correlation coefficient, while helpful in initially determining the strength of the possible relationship of the variables in an estimation model, may not be the final indicator of how appropriate and definitive a regression model might be. The paucity of data points might lead to an incorrect conclusion for future estimation of future amounts to be accrued.
- *The Use of Three Different Model Forms* – The U.S. Forest Service analysis has produced three different geometric model forms; one for grant and agreements, one for construction contracts, and one for operations. While the use of different curve forms for regression estimates is to be expected because of the timing and billing differences implicit in the different types of obligations, it was noted that there appeared to be a lack of consistency of “goodness of fit” or precision of estimate even when comparing the models being used within a single type of obligation. Sometimes the curvilinear form is preferred; but in other time frames, the straight line format provides a more precise estimate. The U.S. Forest Service management should verify and validate the various models developed against data that are not part of that

which was used to develop the models. In addition, they should arrive at the geometric form that is appropriate and consistently applied for each one of the three types of obligations. It is also possible that the U.S. Forest Service will need to consider the use of a multiple regression model (i.e., one with two or more independent variables) with additional variables perhaps in order to more fully describe the amount that needs to be accrued for a given obligation type.

The U.S. Forest Service has very recently implemented the regression procedure to estimate amounts to accrue for the three types of obligations. Because of the poor quality in expenditure data prior to FY 2004, the U.S. Forest Service does not have a sufficient amount of historical data from which it can generate its regression analyses with adequate statistical confidence and precision.

The book entitled *Regression Diagnostic* written by M.S. Younger and published by John Wiley & Sons; New York, NY 1977 suggests that the model-building data sets for regression analysis should be sufficiently large so that a reliable model can be developed. This reference suggests that the model data set should contain at least 60 to 100 cases in order to identify a meaningful relationship between two variables. In addition, the author states that the coefficient of determination (R squared) is not an adequate indicator of the usefulness of the regression relation; therefore, a combination of other statistical parameters and diagnostics plots should be considered when evaluating a regression model. The reference describes, in detail, diagnostic techniques and model-building characteristics that should be taken into consideration when developing a regression model.

The variability in the various models developed and the inconsistency of results in comparison with actual data results in a certain amount of uncertainty as to the reliability of the accrual estimates being made. Such determinations can only be made as more data becomes available over time and the U.S. Forest Service management verifies and validates the set of models that are finally arrived at for use in the accrual process.

**Recommendation Number 7:**

We recommend that the U.S. Forest Service management:

- A. Expand the number of variables to form multiple regression models and/or the types of analysis to include the use of the obligation paid, duration, percentage of time remaining in the obligation and percentage of time passed indexes in order to account for the various changes in the payment patterns by fiscal quarter.
- B. Consider implementing more robust statistical software which will increase the accuracy of the U.S. Forest Service's statistical accrual.

We also continue to recognize the need for the U.S. Forest Service to expand the number of data points in the various regression models to at least 52 and test models with specific additional independent variables in some of the models which may substantiate and better expose the true nature of the relationship between ULOs and payments in the various types of obligations as reported in the prior year Recommendation 4 of Audit Report No. 08401-7-FM.

**Intra-governmental Accruals Process Needs Improvement**

Late in the FY 2007 audit, we became aware of the fact that the U.S. Forest Service developed a statistical regression accrual model for governmental payments. However, based on our review of the regression model, we noticed a lack of fit and lower coefficient indicators of poor predictability to estimate an accurate accrual amount for government expense related amounts.

In addition, we noted that the U.S. Forest Service did not reconcile/confirm and/or did not have adequate documentation supporting confirmation of intra-governmental balances between all trading partners as

directed by Treasury Financial Manual (TFM) Bulletin No. 2007-03. The U.S. Forest Service represented that they believed this requirement to be a “Department versus an Agency” requirement and therefore reconciled only material reconciling differences identified by the USDA. However, we believe that the U.S. Forest Service should determine what is material for their financial reporting requirements to ensure that adequate confirmations have been made.

TFM Bulletin No 2007-03 Volume 1 states, “The provisions of this bulletin apply to all intra-governmental business. Accordingly, these rules provide Federal entities with guidance for (1) recording and reconciling intra-governmental exchange transactions, (2) fiduciary transactions, and (3) transfers between Federal entities.” The bulletin became effective October 1, 2006.

**Recommendation Number 8:**

We recommend that the U.S. Forest Service management:

- A. Discontinue use of the statistical model to estimate U.S. Forest Service’s Federal Government liability.
- B. Materially comply with TFM Bulletin 2007-03 and maintain adequate supporting documentation of reconciliation and confirmation with each material Federal entity that conducts business with the U.S. Forest Service.

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**Number 3: Accountability for Unliquidated Obligations (ULO) Needs Continued Improvement**  
*(Repeat Condition)*

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During FY 2005 the U.S. Forest Service experienced a lack of compliance with its policies and procedures to review and certify the accuracy of ULOs. In response to the FY 2005 ULO material weakness, the U.S. Forest Service revised its policies and procedures regarding its certification of undelivered orders. Although there was improvement in this area in FY 2006, the significant deficiency still exists in FY 2007.

During our testwork over the design and implementation of internal controls over ULO certifications, we noted an internal control implementation failure. Specifically at the field site visited, 11 of 20 ULOs meeting the review and certification criteria as of February 28, 2007 were not properly reviewed. However, the field office budget officer certified the ULOs as valid. As a result of the internal control failure, the audit team assessed control risk as high and implemented a substantive approach.

The implementation failure specifically resulted from Part II of the ULO certification form. Part II of the form contains an option #4, which can be completed with any explanation by the preparer. At the field site we reviewed, option #4 was selected for the 11 ULOs and the narrative stated that the grants specialist did not respond to the request for certification. In addition, although option #4 was selected, field site management approved (i.e., certified) the ULOs contained in Part II of the certification that went un-reviewed.

U.S. Forest Service Directive 6500-218 states that for the months ending November 30, February 28, May 31 and August 31, all obligations that are:

- \$250,000 or greater regardless of age,
- \$100,000 to \$249,000 and 36 months or older, and
- Under \$100,000 and 60 months or older must be reviewed to determine that they are valid, accurate, and supported. Any ULOs found to be invalid or incorrectly stated must be reported to ASC Budget Execution to be de-obligated or adjusted no later than 15 days after the date of certification.



Because of weaknesses in the operating effectiveness of internal controls over ULOs, substantive testing was conducted on the September 30, 2007 balances. Out of 210 routine ULO transactions tested, 17 were considered exceptions.

During FY 2007, the U.S Forest Service changed its previous practice of accruing liabilities for "Green Book" obligations between Forest Service and the USDA. Previously, the U.S. Forest Service recognized these obligations as delivered on a pro-rata basis, ultimately resulting in no ULO balance at year-end. In FY 2007, the U.S. Forest Service began using the amount identified in the Intra-departmental Transaction Reconciliation System as a basis for recording the quarterly delivered amount. Due to this change, there were 26 obligations with ULO balances totaling \$8.5 Million at year-end. The U.S. Forest Service did not confirm with the USDA that the remaining ULO balances were still valid.

**Recommendation Number 9:**

We recommend that U.S. Forest Service management:

- A. Continue to train its personnel on performing and approving ULO certifications, and
- B. Consider removing option #4 from Part II of the ULO certification, or
- C. Follow up on any option #4 responses provided by the administrative units and regions.
- D. Work with the USDA to refine the Green Book process for USDA agreements to ensure that the ULO balances are valid and should remain obligated or be deobligated.

In addition, we continue to recognize the need for the U.S. Forest Service management to continue to monitor its ULO certifications and, if necessary, modify exiting policies and procedures as noted in prior year Recommendation 1 of Audit Report No. 08401-4-FM.

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**Number 4: Review of Credit Card Transactions and Controls Over the Programs Need Continued Improvement (Repeat Condition)**

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During the FY 2007 audit, we noted control deficiencies in the purchase and fleet card programs. The U.S. Forest Service uses the purchase card to reduce administrative costs and allow its employees to procure supplies and services faster than through traditional government procurement regulations. In addition, the U.S. Forest Service also uses fleet cards to purchase automotive related services without going through traditional government procurement regulations.

**Purchase Card (PCMS) Monitoring Continues to Need Improvement**

During our testwork over quarterly supervisory reviews of purchase card transactions, 25 out of 49 quarterly reviews were not performed or were not performed timely over 2<sup>nd</sup> quarter PCMS transactions. 22 cardholders either did not have quarterly reviews or there was no evidence a quarterly review was performed, while three reviews were not performed timely.

In addition, during testwork over the authorization for the use of purchase cards, the *Micro-Purchase & PCMS System Training Certification Request* forms were not provided for 17 out of 146 cardholder samples.

USDA Departmental Regulation 5013-6 requires that supervisors of purchase card holders monitor the purchasing activity of card holders in their units. Paragraph 18 of the Regulation states that all personnel must be trained to use PCMS before a card may be conferred, and individuals issued a card will certify that they have received the training, understand the regulations and procedures, and know the consequences of inappropriate actions. In addition, on June 30, 2003, the Washington Office (WO) sent a letter to U.S. Forest

Service units instructing them to have all U.S. Forest Service cardholders authorized in writing by December 31, 2003 [and on a go-forward basis].

On April 19, 2004, the U.S. Forest Service Director of Acquisition Management reminded the various U.S. Forest Service units of the emphasis placed on the supervisor's review of purchase card holders. A supervisory review checklist was provided to document the reviews starting with the second quarter review (January – March 2004). Documentation of these reviews should be maintained for three years.

Without effective quarterly supervisory reviews of PCMS transactions, the U.S. Forest Service increases its risks for inaccurate and inappropriate purchase card transactions. In addition, without complete and accurate cardholder information in PCMS and adequate authorization/training records for PCMS cardholders, U.S. Forest Service management can not effectively monitor purchase card holders and transactions incurred by its cardholders.

We continue to recognize the need for the U.S. Forest Service management to reinforce its policies in this area and incorporate procedures to test reviews of purchase card transactions in its Acquisition Management reviews as reported in prior year Recommendation 4 of Audit Report No. 08401-4-FM.

#### **Controls over Fleet Cards Need Improvement**

During a review of USDA OIG report entitled "Controls over Forest Service Vehicle Fuel and Maintenance Costs (086013-TE), it was noted that U.S. Forest Service lacks controls over fleet card transactions. USDA OIG identified the following deficiencies:

- U.S. Forest Service did not review fleet credit card operations;
- U.S. Forest Service's controls over fleet credit card transactions were found to be inadequate; and
- U.S. Forest Service needs to reconcile its active fleet credit cards to the vehicles it operates.

In addition, 11 transactions were selected during FY 2007 for which U.S. Forest Service was unable to provide supporting documentation outside of system screen prints.

The WO issued Directive 7130/1430 on June 1, 2007, which states, "U.S. Forest Service controls over fleet card transactions need strengthening, the review of fleet card operations is inadequate, and the U.S. Forest Service needs to reconcile active card inventories to vehicle inventories."

The March 2007 USDA OIG Report entitled *Controls Over Forest Service Vehicle Fuel and Maintenance Costs* states "The USDA OIG reviewed U.S. Forest Service's controls over fleet credit cards for fiscal years 2004 and 2005 to determine if controls were adequate and if charges were for allowable and appropriate expenses. The USDA OIG found that the U.S. Forest Service could not fully support over \$48 Million in transactions charged to its fleet credit cards. Of this \$48 Million, \$3.7 Million of those charges were determined to be fully unsupported. The U.S. Forest Service has approximately 24,000 vehicles, each of which has a fleet credit card assigned to it. According to the USDA OIG report dated March 30, 2007, users of fleet credit cards were able to charge \$3.7 Million in unsupported expenses during FY 2004 and FY 2005. Of the \$3.7 Million, \$200 thousand was for prohibited premium and mid-grade fuel purchases. U.S. Forest Service has no reasonable assurance that unsupported expenses are being used to accomplish the U.S. Forest Service's mission."

**Recommendation Number 10:**

We recommend that U.S. Forest Service management:

- A. Implement the WO Directive 7130/1430 by providing detailed policies and procedures, adequate training on those policies and procedures, and monitor compliance to ensure appropriate use of the U.S. Forest Service funds.
- B. Require receipts for all purchases, where feasible, and sure that they are maintained and reviewed by the Local Fleet Program Coordinator or Area Fleet Program Coordinator.

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**Number 5: The U.S. Forest Service Needs to Improve Internal Controls over its Environmental and Disposal Liabilities (EDL) Process**

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**Accountability of EDL Needs Improvement**

During our testwork over EDL, we identified the following control deficiencies in the U.S. Forest Service's EDL process:

- The Center for Environmental Excellence (CEE) database is currently being used to collect liability information for financial statement reporting. However, it does not allow engineers to recognize sites as government related or government acknowledged. The database must be exported and queried to obtain the necessary financial statement information.
- The U.S. Forest Service does not have adequate documentation requirements when supporting its EDL. As a result, we received substandard documentation for 15 of 20 samples.
- Engineers may not enter information into CEE if they do not believe they will receive funding for a project. Information for these projects is provided by the field at the request of the WO and is maintained separately in a spreadsheet.

The CEE database is a budgetary planning tool that does not provide detailed financial information about project estimations. In addition, engineers are not aware that documentation is required to support financial liabilities. Finally, testwork has disclosed that the U.S. Forest Service's CEE database and manual spreadsheets are not adequate information systems for tracking and reporting this formation for financial statement reporting purposes.

The Federal Accounting Standards Advisory Board, Technical Release No. 2 requires the following factors to be considered in the estimate:

1. Completion of a Remedial Investigation/Feasibility Study (RI/FS) or Other Study. The first test in determining whether costs are reasonably estimable is to ascertain whether there is a completed study upon which to base an estimate.
2. Experience with Similar Site and/or Conditions. If there is a similar site or condition with experience gained (through actual cleanup and/or a completed study to compare), the estimate for recognizing a liability for a site could be based on the similar experience or conditions. In addition, the estimated cost of a future study (if required) should be recognized. Future studies could result in improved estimates.
3. Availability of Remediation Technology. Assuming a study has been completed, or an agency or other entity has experience with a similar site and/or condition as noted above, the next test is whether there is technology available to remediate a site. If no remediation technology exists, then remediation costs would

not be reasonably estimable, but the agency would be required to recognize the costs to contain the contamination and any other relevant costs, such as costs of future studies.”

The completeness and accuracy of the environmental and disposal liability as of September 30, 2007 may be misstated and incomplete due to estimates that are unsupported or were erroneously left out of the CEE database query. In addition, the CEE database may not contain information for which the field believes it will not receive funding, causing the liability to be further understated in the financial statements. As an audit request, the U.S. Forest Service queried the database for September 30, 2007 financial statement information and inadvertently missed \$20 million relating to the Beal Mine site. The U.S. Forest Service corrected the error through a period 13 adjustment.

**Recommendation Number 11:**

We recommend that U.S. Forest Service management:

- A. Implement a system that requires engineers to designate sites as government related or government acknowledged and generates the necessary information for financial reporting purposes; and
- B. Implement controls to review EDL estimates to ensure that adequate supporting documentation exists to support the balances reported in the financial statements.

**Improvements are Needed in Financial Disclosure of EDLs**

The June 30, 2007 and September 30, 2007 U.S. Forest Service financial statements do not include all information required by OMB Circular No. A-136 *Financial Reporting Requirements - Revised (06/29/07)*, the GAO Checklist for Federal Reporting and Disclosures, and Statement of Federal Financial Accounting Standards (SFFAS) 6.

SFFAS 6 describes cleanup costs as “costs associated with hazardous waste removal, containment, or disposal. In some instances, the Federal Government incurs liabilities for cleaning up hazardous waste at sites or facilities it operates or has operated. Generally, cleanup cannot be, or is not, done until permanent or temporary closure or shutdown of sites or facilities. The Board has completed recommended accounting standards for liabilities which address liabilities for environmental cleanup resulting from an accident, natural disaster, or other one-time occurrence.”

In accordance with SFFAS 5 and 6, OMB Circular No. A-136, *Financial Reporting Requirements - Revised (06/29/07)*, and the GAO Checklist for Federal Reporting and Disclosures the following information is required to be disclosed in a footnote:

"Entity disclosure of clean-up costs should include:

- sources (i.e., applicable laws and regulations) of clean-up requirements,
- method for assigning estimated total clean-up costs to current operating periods (e.g., physical capacity versus passage of time),
- unrecognized portion of estimated total clean-up costs associated with property, plant and equipment,
- material changes in total estimated clean-up costs due to changes in laws, technology, or plans,
- portion of change in an estimate that relates to prior-period operations,
- the nature of estimates, and
- information regarding possible changes due to inflation, deflation, technology, or applicable laws and regulations”.

The EDL financial statement disclosure at June 30, 2007 and September 30, 2007 is not disclosed in accordance with OMB Circular No. A-136, *Financial Reporting Requirements - Revised (06/29/07)* and Disclosures and SFFAS 6.

**Recommendation Number 12:**

We recommend that U.S. Forest Service management:

- A. Comply with the disclosure requirements in the GAO disclosure checklist for interim and final financial statements, and
- B. Ensure that the financial statements are updated to include the required information for environmental and disposal liabilities.

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**Number 6: Controls Related to Physical Inventories of Pooled Real Property Need Continued Improvement (Repeat Condition)**

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During our FY 2007 audit, initial control tests of real property inventory controls failed. Therefore the statisticians expanded the size of the number of organizations from ten to 30 and we deployed to test the controls at the end of the FY. The controls for individual real property passed after the additional 20 units were tested. However, we noted the following deficiencies for pooled real property which were primarily caused by a lack of compliance by field units with the U.S. Forest Service's written inventory instructions.

- *Lack of Line Officer Certification*- The line officer certification that physical inventories were 100% complete was not correct/provided for three out of 22 samples. This deficiency existed at three out of 30 organizations visited.
- *Lack of Signatures and/or Annotations on Inventory Reports*- Inventory reports were either not signed or not annotated by the inventory takers for 37 of 49,721 assets reviewed. This deficiency existed at one of 30 organizations visited.
- *Lack of Evidence of Property Management Officer (PMO) Review*- The PMO sign off/review of the inventory reports was not evidenced on 716 out of 723 inventory sheets. This deficiency existed at 21 out of 30 organizations visited.
- *Lack of Evidence of Segregation of Duties*- In the absence of PMO review, we could not determine if there was segregation of duties for 105 of 114 inventory takers. This deficiency existed at 19 out of 30 organizations visited.
- *Lost or Found Items Discovered during Physical Inventories were not Properly Documented and/or Corrected in the Property Systems*- Non-reconciling items discovered during the physical inventories were not corrected in the property systems. This condition existed in five of seven lost or found items at one of the 30 units visited.

The FSM 6400 Chapter 6440 – Real Property Management, Section 6446.21 requires periodic inventories be taken for all buildings, structures, and other physical facilities. In addition, Section 6446.22 requires that reconciliation be done between property records and inventories as well as property records and general ledger.

*U.S. Forest Service FY 2007 Real Property Inventory* Instructions dated June 2007 state that in 2003, the U.S. Forest Service began a 5-year cycle for 100 percent inventory of all real property assets. This year marks the final year in the 5-year inventory cycle to meet the requirements for real property assets that have a value of \$25,000 or more. The real property inventory instructions is a 14-page document that requires among other things that to document physical verification of the asset the inventory taker must initial and date each line item on the inventory sheet maintaining segregation of duties. The PMO is required to review and sign each

page of the inventory sheets. The line officer must then sign a certification of completion of all the procedures in the instructions.

U.S. Forest Service Instructions 7700/6440/6500 dated April 13, 2006, Subject: Real Property Verification of Forest Service Roads specifically requires the completion of U.S. Forest Service road inventories and provided guidance on addition of roads to the U.S. Forest Service transportation system.

**Recommendation Number 13:**

We recommend that U.S. Forest Service management:

- A. Resolve the FY 2007 issues by December 31, 2007, by conducting a review of the pooled assets annotated in the FY 2003-2007 inventory cycle and providing evidence of line officer certification, satisfactory PMO review (signatures), segregation of duties, and recording and reconciliation of corrections in the sub-ledger and the general ledger.
- B. Ensure that the FY 2008-2012 inventories are conducted correctly, by assembling a multi-discipline team of all affected parties to design and put in operation a more effective and efficient process for the next 5-year physical inventory cycle, by not later than March 31, 2008 for fiscal year 2008 implementation.

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**Number 7: The U.S. Forest Service Needs to Improve Its Business Process for Revenue Transactions (Repeat Condition)**

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The U.S. Forest Service is not using proper posting models to record exchange revenue collected on behalf of local governments and the U.S. Department of the Treasury. In addition, U.S. Forest Service interpreted Public Law (P.L.) 106-393 improperly and as a result did not return unused funds to the U.S. Department of the Treasury at the end of each FY.

The Secure Rural Schools and Community Self Determination Act of 2000 (P.L. 106-393) states, "The payment to an eligible State...for a FY shall be derived from any revenues, fees, penalties, or miscellaneous receipts, exclusive of deposits to any relevant trust fund, or special accounts, received by the Federal Government from activities by the Forest Service on the Federal lands described in section 3(1)(A) and to the extent of any shortfall, out of any funds in the Treasury not otherwise appropriated. Federal Lands described in section 3(1) (A) are "lands within the National Forest System, as defined in section 11(a) of the Forest and Rangeland Renewable Resources Planning Act of 1974 (16 U.S.C. 1609(a)) exclusive of the National Grasslands and land utilization projects designated as National Grasslands administered pursuant to the Act of July 22, 1937 (7 U.S.C. 1010-1012)."

In addition SFFAS 7, states "These accounting standards recognize exchange revenue at the time that a Government entity provides goods or services to the public or to another Government entity.....Exchange revenue should be recognized in determining the net cost of operations of the reporting entity during the period. The exchange revenue should be recognized regardless of whether the entity retains the revenue for its own use or transfers it to other entities.....To the extent that a Government entity's exchange revenue that is included in calculating net cost of operations is required to be transferred to the Treasury or another Government entity, the amount should be recognized as a transfer-out in determining the net result of operations."

During FY 2007, the U.S. Forest Service posted a cumulative adjustment to its FY 2007 GL to return prior period funds to Treasury. As a result of this adjustment, current year revenue was understated by \$33 Million and budgetary resources were understated by \$113 Million.

**Recommendation Number 14:**

We recommend U.S. Forest Service management:

- A. Utilize posting logic which complies with Treasury guidance and SFFAS 7.
- B. Implement policies and procedures to ensure funds are timely returned to the Treasury in accordance with P.L. 106-393.

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**Number 8: Process Improvements are Needed over Personal Property Transactions (Repeat Condition)**

During FY 2007 the U.S. Forest Service has continued to improve its property internal controls, however further improvements are still warranted.

**U.S. Forest Service Needs to Develop a Process for Recording Internal Use Software**

During our FY 2007 audit, we found no current year activity for Internal Use Software Work in Process, GL 1832. Our review of GL 1832 identified prior year activity that continues to reside in the general ledger account that should have been removed prior to this FY. During further inquiry of U.S. Forest Service personnel, we noted that costs were not capitalized as internal use software for IBS and I-Web, which went into operation during FY 2007 and 2005, respectively. Based on the U.S. Forest Service's research of costs associated with IBS and I-Web, \$13.1 Million should have been recorded as a capital asset in GL 1830.

SFFAS 10, *Internal Use Software*, Paragraph 31, "Developmental Software" states "In instances where the managers of a federal entity conclude that it is no longer more likely than not that developmental software (or a module thereof) will be completed and placed in service, the related book value accumulated for the software (or the balance in a work in process account, if applicable) should be reduced to reflect the expected net realizable value, if any, and the loss recognized. The following are indications of this:

- Expenditures are neither budgeted nor incurred for the project.
- Programming difficulties cannot be resolved on a timely basis.
- Major cost overruns occur.
- Information has been obtained indicating that the cost of developing the software will significantly exceed the cost of COTS [commercial off the shelf] software available from third party vendors; hence, management intends to obtain the product from those vendors instead of completing the project.
- Technologies that supersede the developing software product are introduced.
- The responsibility unit for which the product was being created is being discontinued."

Without an adequate process in place to track and monitor software development costs, the U.S. Forest Service can not adequately track and record its internal use software.

**Recommendation Number 15:**

We recommend that U.S. Forest Service management establish policies and procedures for recording, monitoring and accounting for internal use software and internal use software work in processes; train personnel on such polices and procedures, and monitor compliance with the policies and procedures.

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**Number 9: The Compilation of Performance Measures Needs Continued Improvement (Repeat Condition)**

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During our control testwork over performance measures, we noted the U.S. Forest Service has not fully implemented corrective actions related to the USDA OIG report 08601-01-HY. In addition, as outlined in the FY 2006 (issued in FY 2007) WO Oversight Performance Review report, we noted that U.S. Forest Service personnel do not have a clear understanding of performance reporting policies and procedures which resulted in inaccurate and incomplete reporting of performance information.

According to the USDA OIG Audit Report No 08601-01-HY issued in March 2005, the U.S. Forest Service has not effectively implemented a comprehensive strategy for collecting and reporting performance data, as it agreed to do in response to a June 2000 OIG audit. The OIG audit found several examples of inconsistencies, errors and omissions in measuring performance. The standards used to define performance varied between regions and forests and even among the districts in a forest. Definitions of performance measures were often vague and open to varied interpretation.

In addition, a FY 2006 U.S. Forest Service WO Oversight Performance Review Report summarized the following key issues from the report:

- Program managers expressed concern about changes in definitions. One forest underreported an accomplishment because they inadvertently used an old definition of a measure.
- There was some confusion about the correct definitions of the categories of research publications which lead to inconsistent reporting.
- Staff requested that changes in the database of record be highlighted more effectively.
- A few staff “capped” reported accomplishments at the target level, rather than reporting actual accomplishments out of concern that future funding would be decreased or targets raised.
- There were several cases of unreported accomplishments. This was due to failure to enter the accomplishments in the database, entering the data in the incorrect database, or entering data in the wrong field in the database.
- There were instances where planned accomplishments were entered in “WorkPlan” at the target level regardless of the unit’s capacity to accomplish a higher level of activity.
- One research station, collaborating with a national forest, inadvertently reported accomplishments attributable to the forest.
- There was wide variation in the quality and consistency of documentation. In some cases the review team could not confirm that reported accomplishments were adequately supported by documentation.
- Some units had documents without signatures and dates of responsible officials, but personnel agreed having this validation would be a good business practice.
- Some line officers and program managers had reviewed projects but did not document the review.
- There was considerable discussion during the exit conferences around the need for and importance of training in performance management and its integration into resource management.

Without adequate policies and procedures in place to gather performance data, U.S. Forest Service is inaccurately reporting its performance measurement data. In addition, management doesn’t have adequate, accurate information to make key decisions related to program results and effectiveness.



**Recommendation Number 16:**

We recommend that U.S. Forest Service management:

- A. Continue to refine its policies and procedures for gathering, verifying and reporting performance measure data.
- B. Continue to refine its definitions of measures and accomplishments, and adequately communicate and train personnel to improve their understanding of performance reporting.
- C. Ensure that an interim and year-end reporting process is in place to completely and accurately report its performance measures.

**STATUS OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES**

As required by *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of the prior year's reportable conditions. The following table summarizes these issues and provides our assessment of the progress U.S. Forest Service made in correcting these reported conditions. We have also provided the OIG report where the issue is monitored for audit follow-up. These tables contain only those audit reports that are open. In addition, only those recommendations that remain open or were closed in the current year are noted in the tables.

| Open Conditions In this Table are Referenced In Exhibit II  |  |        |
|---|--|--------|
| USDA OIG Audit Report No. 08401-7-FM November 2006  |  |        |
| Material Weakness/<br>Significant Deficiency  | Recommendation   | Status |
| The U.S. Forest Service Needs to Continue to Improve its Financial Management and Reporting Process<br><i>(2007 Significant Deficiency, 2006 Material Weakness)</i> | 1. We recommend that the U.S. Forest Service management assign the Treasury Symbol analysis team the responsibility to research and analyze all of the general ledger accounts to identify and remove potentially erroneous entries from the general ledger.   | Closed |
|   | 2. We recommend that the U.S. Forest Service management develop a plan to improve the operating effectiveness of its review and approval of all period-end accrual adjustments.  | Open   |
|   | 3. We recommend that the U.S. Forest Service management develop a process for analyzing its budget clearing, suspense and deposit funds at the end of each accounting period.  | Closed |
| U.S. Forest Service Needs to Refine and Monitor Its Expense Accrual<br><i>(2007 Significant Deficiency, 2006 Significant Deficiency)</i>                            | 4. We recommend that U.S. Forest Service management:   | Open   |
|   | <ul style="list-style-type: none"> <li>• Expand the number of data points in the various regression models to at least 52;</li> <li>• Expand the number of variables to form multiple regression models and/or the types of analysis to include the use of seasonal indexes in order to account for the various changes in the payment patterns by fiscal quarter; and</li> <li>• Test models with specific additional independent variables in some of the models may help to substantiate and better expose the true nature of the relationships between ULOs and payments in the various types of obligations.</li> </ul> | Closed |
|   |  | Open   |
| The Compilation of Performance Measures Needs Improvement<br><i>(2007 Significant Deficiency, 2006 Significant Deficiency)</i>                                      | 5. We recommend that the U.S. Forest Service should:   | Open   |
|   | <ul style="list-style-type: none"> <li>• Refine its policies and procedures for gathering and verifying its performance measure data to ensure consistent reporting across all offices.</li> <li>• Implement PAS [Performance Accountability System] and adequately train personnel in the operation and use of the system.</li> </ul>   | Open   |

| Open Conditions In this Table are Referenced In Exhibit II |   |        |
|--|---|--------|
| USDA OIG Audit Report No. 08401-7-FM November 2006         |   |        |
| Material Weakness/<br>Significant Deficiency               | Recommendation  | Status |
|  | <ul style="list-style-type: none"> <li>Ensure that an adequate quarter (at least June 30 reporting) and year-end reporting process is in place to accurately and completely report its performance measures in the financial statements and Performance and Accountability Report.</li> </ul> | Open   |

| Open Conditions In this Table are Referenced In Exhibits I and II  |  |   |
|--|--|---|
| USDA OIG Audit Report No. 08401-6-FM December 2005   |  |   |
| <i>(Replaced prior Audit Report: USDA OIG Audit Report No. 08401-5-FM)</i>   |  |   |
| Material Weakness/<br>Significant Deficiency   | Recommendation   | Status  |
| Accountability for Unliquidated Orders (ULOs) is Lacking<br><i>(2007 Significant Deficiency; 2006 Reportable Condition; 2005 Material Weakness)</i>          | 2. In addition to the prior year recommendation 1 of Audit Report No. 08401-4-FM, we recommend that the U.S. Forest Service develop a plan to improve the operating effectiveness of its review and approval of all period-end accrual adjustments.  | Open  |
| The U.S. Forest Service Needs to Improve its General Controls Environment<br><i>(2007 Material Weakness; 2006 Material Weakness; 2005 Material Weakness)</i> | <p>5. We recommend that U.S. Forest Service:</p> <p>Complete, approve, communicate, and document the enforcement of policies and procedures addressing IT contingency and disaster planning and protection of sensitive information and classification. These policies and procedures should include the removal and return of storage media and physical and environmental security.</p> <p>Additionally, U.S. Forest Service should conduct a Business Impact Analysis at the WO, Fort Collins, CO – WO Detached, and Region 3 (supporting the ASC) data centers to assist in identifying the criticality and sensitivity of U.S. Forest Service information, systems, and facilities. The COOP [Continuity of Operations Plan] for the Regional headquarters, WO and Fort Collins – WO Detached need to be enhanced. Also, the contingency plan for ConnectHR/Paycheck7 needs to be enhanced. U.S. Forest Service should establish controls to certify all COOP and contingency plans are tested annually and updated based on test results. Regional service level agreements or contracts with all backup site facilities and</p> | <p>Closed;<br/>Downgraded to a Control Deficiency</p> <p>Closed;<br/>Downgraded to a Control Deficiency</p> |

| Open Conditions In this Table are Referenced In Exhibits I and II   |   |  |
|---|---|--|
| USDA OIG Audit Report No. 08401-6-FM December 2005                  |   |  |
| (Replaced prior Audit Report: USDA OIG Audit Report No. 08401-5-FM) |   |  |
| Material Weakness/<br>Significant Deficiency                        | Recommendation  | Status   |
|   | telecommunication services should be developed.   |  |
|   | Finally, we recommend that the U.S. Forest Service develop materials and provide employees identified as occupying emergency roles with disaster recovery and continuity of operations training.  | Closed   |
|   | 6. We recommend that U.S. Forest Service management develop, communicate, and establish controls to facilitate adherence to entity-wide policies and procedures on access controls to address access key controls, including:   |  |
|   | <ul style="list-style-type: none"> <li>• A standardized process for requesting access to the U.S. Forest Service network. Include procedures for changes to existing user accounts and requesting, granting, and removing temporary and emergency access;</li> </ul>  | Closed   |
|   | <ul style="list-style-type: none"> <li>• Periodic management review of network account access listings for appropriateness, identifying and disabling inactive user accounts, and removing network access for separated employees;</li> </ul>   | Closed;<br>Downgraded to a<br>Control Deficiency |
|   | <ul style="list-style-type: none"> <li>• Requesting, granting, and removing access to system software, sensitive utilities, and database management utilities;</li> </ul>   | Closed;<br>Downgraded to a<br>Control Deficiency |
|   | <ul style="list-style-type: none"> <li>• Periodic review of network, server operator, and remote access audit logs as required by U.S. Forest Service Interim Directive 6680-2005-3, "Technical Controls." Include procedures and requirements for investigating suspicious user activity and reporting security violations;</li> </ul> | Closed   |
|   | <ul style="list-style-type: none"> <li>• Management approval for archiving, deleting, and sharing ATSA data;</li> </ul>   | Closed   |
|   | <ul style="list-style-type: none"> <li>• Finalize the FSM 6683.2, "Physical and Environmental Security," and communicate requirements to U.S. Forest Service personnel. Establish controls to facilitate adherence to policy; and</li> </ul>  | Closed   |
|   | <ul style="list-style-type: none"> <li>• The U.S. Forest Service needs to modify server settings on all U.S. Forest Service servers to ensure that users cannot gain root server access anonymously.</li> </ul>   | Closed   |
|   |   | Open   |

| Open Conditions In this Table are Referenced In Exhibits I and II   |  |        |
|---|--|--------|
| USDA OIG Audit Report No. 08401-6-FM December 2005                  |  |        |
| (Replaced prior Audit Report: USDA OIG Audit Report No. 08401-5-FM) |  |        |
| Material Weakness/<br>Significant Deficiency                        | Recommendation   | Status |
|   | <p>U.S. Forest Service network audit functions must be configured to maintain a history of successful and unsuccessful login attempts and user activity for the U.S. Forest Service network as required by U.S. Forest Service Interim Directive 6680-2005-3, "Technical Controls."</p>  |        |
|   | <p>U.S. Forest Service management should identify and document all access paths for the U.S. Forest Service network and servers. Finally, U.S. Forest Service needs to develop and implement a user access review policy and procedure for the Department of Health and Human Service's Payment Management System application.</p>   | Closed |
|   | <p>7. We recommend that U.S. Forest Service management:</p> <ul style="list-style-type: none"> <li>• Update the U.S. Forest Service Interim Directive 6680-2005-3 to include the USDA requirement that users change their password every 60 days and 30 days for system administrators;</li> </ul>   | Closed |
|   | <ul style="list-style-type: none"> <li>• Establish controls to facilitate entity-wide adherence to the U.S. Forest Service Interim Directive 6680-2005-3; including the application of strong passwords to all user accounts identified as having a weak password during the vulnerability assessment, and the removal or disabling of all default, temporary, and guest user accounts; and</li> </ul>                                       | Open   |
|   | <ul style="list-style-type: none"> <li>• Continue with the U.S. Forest Service implementation of Microsoft Active Directory in order to enforce screen saver passwords, account lock-out after three invalid login attempts, and the minimum password requirements documented in the U.S. Forest Service Interim Directive 6680-2005-3 for all U.S. Forest Service network users.</li> </ul>   | Closed |
|   | <p>8. We recommend that U.S. Forest Service system owners, in cooperation with the USDA OCIO [Office of the Chief Information Officer] and in compliance with USDA and U.S. Forest Service information security requirements:</p> <ul style="list-style-type: none"> <li>• Complete, approve, communicate, and document the enforcement of policies and procedures, specifically addressing the conditions resulting from the new</li> </ul> | Closed |

| Open Conditions In this Table are Referenced In Exhibits I and II   |   |  |
|---|---|--|
| USDA OIG Audit Report No. 08401-6-FM December 2005  |   |  |
| (Replaced prior Audit Report: USDA OIG Audit Report No. 08401-5-FM)   |   |  |
| Material Weakness/<br>Significant Deficiency  | Recommendation  | Status   |
|   | business operations organization; <ul style="list-style-type: none"> <li>• Develop and implement a policy to include review of personnel with access to sensitive facilities, the appropriateness of FFIS and NFC access authorizations, and the network security status;</li> <li>• Install the latest software versions, service packs, and security patches (and remove out-dated versions);</li> <li>• Develop and implement software configuration standards for Windows, UNIX [operating system], and all other USDA Forest Service platforms with defined images that specify what software applications should be in use and on what kinds of machines these applications should be installed on; and</li> <li>• Use automated tools to detect and eliminate unused or unauthorized applications including the use of Internet Security Systems Internet Scanner in accordance with USDA Cyber Security Policy CS-007.</li> </ul> | Closed<br><br>Open<br><br>Closed<br><br>Closed |
| Controls Related to Physical Inventories of Capital Assets Need Improvement<br><i>(2006 Reportable Condition; 2005 Reportable Condition)</i>                          | 9. We recommend that the U.S. Forest Service increase their monitoring of reporting units for compliance with the U.S. Forest Service written physical inventory instructions and implement an appropriate inventory methodology for level 1 and 2 roads.   | Closed   |
| A Segregation of Duties Policy related to EDP [Electronic Data Processing] Must be Fully Implemented<br><i>(2006 Reportable Condition; 2005 Reportable Condition)</i> | 10. We recommend that U.S. Forest Service: <ul style="list-style-type: none"> <li>• Establish controls to facilitate adherence to the segregation of duties policy and supporting procedures as well as develop, implement and document training so that employees are aware of the policy and their responsibilities.</li> <li>• Modify, approve, and communicate a policy to address periodic management review of segregation of duties.</li> </ul>  | Closed   |

| Open Conditions In this Table are Referenced In Exhibits I and II  |   |   |
|--|---|---|
| USDA OIG Audit Report No. 08401-4-FM November 2004   |   |   |
| Material Weakness/<br>Significant Deficiency   | Recommendation  | Status  |
| Accountability for Undelivered Orders is Lacking<br>(2007 Significant Deficiency;<br>2006 Reportable Condition;<br>2005 Material Weakness;<br>2004 Material Weakness)  | 1. We recommend that U.S. Forest Service management: <ul style="list-style-type: none"> <li>• Require all locations to fully comply with review and certification requirements and follow up to resolve questionable items.</li> </ul>  | Open  |
| The Review of Purchase Card Transactions Needs Improvement<br>(2007 Significant Deficiency;<br>2006 Reportable Condition;<br>2005 Reportable Condition;<br>2004 Reportable Condition)                                      | 4. We recommend that U.S. Forest Service management reinforce its policies in this area and incorporate procedures to test the reviews of purchased transactions in its Acquisition Management reviews.   | Open  |
| The Design and/or Implementation of Controls Related to the Accurate Recording of Revenue Related Transactions Need Improvement<br>(2006 Reportable Condition;<br>2005 Reportable Condition;<br>2004 Reportable Condition) | 6. We recommend that U.S. Forest Service management review and update its policies and procedures for the accurate recording of revenue, appropriately train reporting unit personnel on such policies and procedures, and monitor reporting units for compliance with its policies and procedures. | Closed;<br>Downgraded to a Control Deficiency |

| Open Conditions In this Table are Referenced In Exhibits I and II   |   |        |
|---|---|--------|
| USDA OIG Audit Report No. 08401-3-FM January 2004   |   |        |
| Material Weakness/<br>Significant Deficiency  | Recommendation  | Status |
| The U.S. Forest Service Needs to Improve its Financial Management and Accountability<br>(2006 Material Weakness;<br>2005 Material Weakness,<br>2004 Material Weakness,<br>2003 Material Weakness) | 3. We recommend that the U.S. Forest Service identify those business processes that are causing irregularities in the general ledger and develop an expedited corrective action plan to resolve and correct any deficiencies identified.  | Closed |
|   | 8. We recommend that the U.S. Forest Service follow its procedures in order to perform monthly review, identification, research, and correction of all abnormal balances, and report the status of all abnormal balances of \$5 million or more to the USDA OCFO [Office of the Chief Financial Officer]. | Closed |

| Open Conditions In this Table are Referenced In Exhibits I and II  |   |  |
|--|---|--|
| USDA OIG Audit Report No. 08401-3-FM January 2004  |   |  |
| Material Weakness/<br>Significant Deficiency   | Recommendation  | Status   |
| Implementation of the U.S. Forest Service Accrual Methodology Needs Strengthening<br><i>(2006 Reportable Condition; 2005 Material Weakness; 2004 Material Weakness; 2003 Material Weakness)</i>              | 15. We recommend that the U.S. Forest Service WO Office of Finance [ASC Quality Assurance Team] perform management oversight of the accrual methodology through analysis and follow up on large or unusual items, as well as the U.S. Forest Service units that do not report any data.   | Closed   |
| The U.S. Forest Service Needs to Improve Its General Controls Environment<br><i>(2007 Material Weakness; 2006 Material Weakness; 2005 Material Weakness; 2004 Material Weakness; 2003 Material Weakness)</i> | 19. We recommend that U.S. Forest Service develop and implement a C&A policy based on the NIST SP 800-37, "Guide for Certification and Accreditation of Federal Information Systems."<br><br>Once the policy has been developed, it is recommended that U.S. Forest Service management immediately reevaluate all major information system C&A packages to determine completeness based on the Forest Service policy.<br><br>Additionally, we recommend that U.S. Forest Service verify that each application's POA&M [Plan of Action and Milestone] report includes the accurate status of all findings. | Closed<br><br>Closed<br><br>Closed; Downgraded to a Control Deficiency |
|  | 20. We recommend that U.S. Forest Service management establish controls to facilitate adherence to the Forest Service Risk Assessment policies and procedures. All risk assessments should be developed in accordance with agency, USDA, and federal guidelines. Additionally, U.S. Forest Service should revise any existing risk assessments to align with the NIST SP 800-30.  | Closed   |
|  | 21. We recommend that U.S. Forest Service management establish controls to facilitate adherence to the U.S. Forest Service's [System Security Plan] SSP policies and procedures and document SSPs in accordance with agency, USDA, and federal guidelines. All SSPs should be revised to align with NIST SP 800-18.   | Closed   |
|  | Additionally, U.S. Forest Service should complete, approve, communicate, and establish controls to facilitate adherence to Forest Service Computer  | Closed   |



| Open Conditions In this Table are Referenced In Exhibits I and II |   |   |
|---|---|---|
| USDA OIG Audit Report No. 08401-3-FM January 2004                 |   |   |
| Material Weakness/<br>Significant Deficiency                      | Recommendation  | Status  |
|   | <p>Incident Response Team policies and procedures, and provide guidance so personnel are aware of the guidelines and their roles.</p> <p>22. U.S. Forest Service management should develop and implement enterprise-wide system architecture standards for Internet-facing services. These standards should ensure agency compliance with USDA regulations and should address firewall configuration, proper use of de-militarized zones, and limiting the use of unsecured services to ensure protection of internet-accessible data. USDA Forest Service management should also eliminate access to all unnecessary services from the Internet and implement strong authenticated access control to those services that are necessary.</p> <p>23. It is recommended that management develop and implement enterprise-wide policies and procedures regarding software management and change control. These policies and procedures should address:</p> <ul style="list-style-type: none"> <li>• Access restrictions over system software code and program libraries;</li> <li>• Emergency change procedures;</li> <li>• FSM 6600, subsection 6683.6, 'Hardware and Systems Software Maintenance';</li> <li>• [Configuration Management Board] CMB Charter;</li> <li>• Approval process for changes that fall below the CMB watermark;</li> <li>• Installation of the latest software versions, service packs, and security patches (and removal of outdated versions);</li> <li>• Software configuration standards (with defined images that specify what software applications should be in use and on what kinds of machines these applications should be installed on); and</li> <li>• Use of automated tools to detect and eliminate unused or unauthorized applications (including the use of ISS [Internet Security Scanner] Internet Scanner in accordance with USDA Cyber Security Policy CS-007).</li> </ul> <p>Additionally, U.S. Forest Service management should review all systems for the presence of outdated</p> | <p>Closed</p> <p>Closed; Downgraded to a Control Deficiency</p> <p>Closed</p> <p>Closed</p> <p>Closed</p> <p>Closed</p> <p>Closed</p> <p>Closed</p> <p>Closed</p> |

| Open Conditions In this Table are Referenced In Exhibits I and II   |   |  |
|---|---|--|
| USDA OIG Audit Report No. 08401-3-FM January 2004   |   |  |
| Material Weakness/<br>Significant Deficiency  | Recommendation  | Status                                     |
|   | software or services, missing critical patches and/or updates, and improperly configured servers or systems. Forest Service should then proceed to update or delete any identified outdated software, test and install applicable patches or updates, configure servers and systems in accordance with Forest Service technical bulletins and federal criteria, and remove any unneeded services. | Open                                       |
| The U.S. Forest Service Needs to Continue to Improve its Internal Controls over its Reconciliation and Management of Fund Balance with Treasury<br><i>(2006 Reportable Condition;<br/>2005 Reportable Condition;<br/>2004 Reportable Condition;<br/>2003 Reportable Condition)</i>                    | 27. We recommend that the U.S. Forest Service perform complete and timely resolution of reconciling items for all Fund Balance with Treasury accounts within 60 days of report [ <i>FMS 6652 and Government-wide Accounting System Reports</i> ] receipt.   | Closed; Downgraded to a Control Deficiency |
| The Design and/or Implementation of Controls Related to the Accurate Recording of Personal Property Transactions Need Improvement<br><i>(2007 Significant Deficiency;<br/>2006 Reportable Condition;<br/>2005 Reportable Condition;<br/>2004 Reportable Condition;<br/>2003 Reportable Condition)</i> | 30. We recommend that the U.S. Forest Service <b>WO</b> improve its monitoring of reporting units for compliance with the U.S. Forest Service property transaction recording policies.  | Open                                       |

| Open Conditions In this Table are Referenced In Exhibits I and II   |   |  |
|---|---|--|
| USDA OIG Audit Report No. 08401-3-FM January 2004   |   |  |
| Material Weakness/<br>Significant Deficiency  | Recommendation  | Status                                     |
| Postings of Certain Transactions Needs to Contain the Proper Reference Data to Link Related Transactions<br><i>(2006 Reportable Condition; 2005 Reportable Condition; 2004 Reportable Condition; 2003 Reportable Condition)</i> | 34. We recommend that the U.S. Forest Service develop a methodology to link transactions that are currently in the financial systems.   | Closed                                     |
|   | 35. We recommend that the U.S. Forest Service work with the USDA and FFIS contractor to incorporate edit checks that would disallow processing of transactions that do not provide the required data. | Closed                                     |
|   | 36. We recommend that the U.S. Forest Service establish direction and quality assurance protocols to ensure that appropriate data is entered in the system.   | Closed                                     |
| Compilation of the U.S. Forest Service's RSI [Required Supplementary Information] Needs Improvement<br><i>(2006 Reportable Condition; 2005 Reportable Condition; 2004 Reportable Condition; 2003 Reportable Condition)</i>      | 37. We recommend that the U.S. Forest Service revise its current control structure for data collection and reporting of RSI to ensure the timeliness and completeness of the reported information.    | Closed; Downgraded to a Control Deficiency |

**COMPLIANCE AND OTHER MATTERS**

**The U.S. Forest Service Continues to Not Obligate all Transactions Required by Appropriations Law (Repeat Condition)**

**Temporary Duty (TDY) and Utility Type Payments are not Obligated**

Obligation testwork performed on 148 transactions disclosed that 53 transactions were not obligated as required by appropriation law prior to payment. The transactions that were not obligated consisted of TDY and recurring utility type transactions.

Due to the U.S. Forest Service’s current system limitations, the U.S. Forest Service can not obligate TDY travel without a considerable effort that would exceed expected benefits. The U.S. Forest Service is in the process of migrating to a new travel system that will allow for the obligation of TDY travel transactions. For other transactions not obligated, several U.S. Forest Service offices did not obligate these transactions because of the variability in determining the estimated cost for these types of transactions.

The GAO, publication GAO/OGC-92-13, *Appropriations Law*, defines an obligation in very general terms as, “an action that creates a liability or definite commitment on the part of the government to make a disbursement at some later time. The obligation takes place when the definite commitment is made, even though the actual payment may not take place until the following fiscal year.” Furthermore, GAO’s *Appropriations Law* cites nine criteria for recording obligations. When one criterion is met, the agency not only may, but also must record that transaction as an obligation. Criterion seven addresses travel expenses. With regard to the timing, *Appropriation Law* states that, “the obligation is not incurred until the travel is actually performed or until the ticket is purchased.” While the precise amount of the liability should be recorded, the precise amount is not always known immediately. When this takes place, “the obligation should be recorded on the basis of the agency’s best estimate.”

Without obligating all required transactions, obligations are understated at any one point in time. Also, as existing obligations are used in determining accruals, these types of unobligated transactions are not considered in the accrual determination process.

We continue to recognize the need for the U.S. Forest Service to obligate all transactions as reported in prior year recommendation 8 of Audit Report No. 08401-4-FM.

**Not All Grant Transactions Were Obligated Timely**

During compliance test work for FY 2007, we noted that five out of 140 routine sample items reviewed were not obligated promptly as required by law.

The following table lists the transactions that were not obligated promptly.

| Sample Number                 | Unobligated amount | Document Date | FFIS obligation date | Number of days unobligated |
|-------------------------------|--------------------|---------------|----------------------|----------------------------|
| 1) GM_R_09_1502_014           | \$115,699          | 5/30/2006     | 6/22/2007            | 388                        |
| 2) GM_R_11_0521_001           | \$1,500,000        | 9/21/2006     | 9/20/2007            | 364                        |
| 3) GM_R_11_132468_002         | \$2,614,000        | 4/22/2005     | 7/29/2005            | 98                         |
| 4) GM_R_11_1326_015           | \$52,600           | 8/24/2006     | 12/11/2006           | 109                        |
| 5) GM_R_12_0933_001 Agreement | \$31,700           | 10/12/2006    | 2/9/2007             | 120                        |
| GM_R_12_0933_001 Amendment    | \$2,500            | 4/9/2007      | 6/5/2007             | 57                         |

The grant and agreement specialists do not have procedures or controls in place to ensure timely entry of obligations into the general ledger. Specifically, grants were “awarded” by issuing a letter to the recipient, the action creates an obligation, but the award was not timely processed into the general ledger.

The GAO, publication GAO/OGC-92-13, *Appropriations Law*, defines an obligation in very general terms as, “an action that creates a liability or definite commitment on the part of the government to make a disbursement at some later time. The obligation takes place when the definite commitment is made, even though the actual payment may not take place until the following FY.” Furthermore, GAO’s *Appropriations Law* cites nine criteria for recording obligations. When one criterion is met, the agency not only may, but also must record that transaction as an obligation.

Without promptly obligating transactions, obligations are understated at any one point in time. In addition, the untimely obligation results in non-compliance with appropriations law and could result in a violation of the Anti-Deficiency Act.

**Recommendation Number 17:**

We recommend that U.S. Forest Service management:

- A. Develop guidance and provide training to grant and agreement specialists informing them that obligations are timely recorded in FFIS.
- B. Develop and implement procedures to query the I-WEB system to determine the aging of grants which are in the award process, but have not yet been obligated (i.e., identify grants for which award letters have been issued, but not processed into FFIS).

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**The U.S. Forest Service May Not Have Been in Compliance with 31 USC 1517 during Fiscal Year 2006**

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During FY 2006, the U.S. Forest Service exceeded an OMB footnote limitation on the Schedule of Apportionment and Reapportionment (SF-132) for TAFS 12X1115. OMB limited aviation spending through a footnote, which the U.S. Forest Service exceeded by \$18 Million.

During May 2007, the USDA Office of General Counsel considered this spending to be a violation of the Anti-Deficiency Act. As a result, the U.S. Forest Service began the process of reporting the violation to OMB and the President and has requested a second opinion from the GAO to determine if spending in excess of a SF-132 footnote limitation constitutes a violation of the Anti-Deficiency Act. Although the U.S. Forest Service was aware of this footnote limitation and requested additional funding for aviation contracts, apportionments were not approved by OMB prior to the violation.

U.S. Forest Service management believed that it had emergency authority to exceed the limitation on this TAFS when protecting “life and land.” An opinion from GAO had not been received as of our audit report date.

Title 31 USC 1517 states that an officer or an employee of the United States Government may not make or authorize an expenditure or obligation exceeding an apportionment or an amount permitted by the applicable

administrative control regulations as specified by 31 USC 1514. Therefore, the U.S. Forest Service may not be in compliance with this statute.

**Recommendation Number 18:**

We recommend that U.S. Forest Service management:

- A. Refine its method to monitor and ensure compliance with SF-132 footnote limitations.
- B. Ensure reasonable timeframes for U.S. Forest Service Budget and Program Analysis Staff and USDA Office of Budget and Program Analysis are established to timely submit requests for apportionments.
- C. Continue to pursue GAO's opinion.

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**The U.S. Forest Service's Systems Do Not Comply with FFMIA of 1996**

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**Financial Management Systems**

As noted in our internal control material weakness on the general controls environment, the U.S. Forest Service has several systems that have not had a risk assessment, security plan or security testing and evaluation. In addition, numerous vulnerabilities existed with regards to weak access controls and system patches not being updated.

We continue to recognize the need for the U.S. Forest Service to address the material weakness recommendations noted in this report.

**Compliance with the US Standard General Ledger (SGL)**

During our FY 2007 audit, we noted the following deficiencies in the U.S. Forest Service's SGL ledger posting:

- Equipment Management Information System is used to manage working capital fund equipment which consists of aircraft and vehicles. The system does not record depreciation at the equipment transaction level using the SGL. It records depreciation by unit monthly at the summary level in the U.S. Forest Service general ledger.
- U.S. Forest Service capitalized lease and internal use software work in process transactions are not recorded in the general ledger at the transactional level. Instead, they are maintained in off-line spreadsheets and then recorded in the general ledger quarterly.
- The U.S. Forest Service does not use proper posting logic for the recording of its exchange revenue transactions. When the U.S. Forest Service moves revenue out of a receipt account and into an expenditure account, the U.S. Forest Service recognizes the earning of the revenue instead of treating the transaction like a transfer. This improper posting logic resulted in an understatement of revenue by approximately \$113 Million.
- During testwork over expenditures, it was noted that for stewardship land acquisitions, the U.S. Forest Service improperly debits GL 6100, *Operating Expenses/Program Expenses* instead of debiting GL 6908, *Stewardship Land Acquisition (Nonproduction Cost)*. At the end of the year U.S. Forest Service transfers the total stewardship land activity (for which title has transferred) from GL 6100 to GL 6908. This occurs because U.S. Forest Service currently does not have a posting model at the transactional level to accommodate this business process. Because this process requires manual involvement it increases the chances for human error. At FY 2007 year-end, the U.S. Forest Service transferred approximately \$5.6 Million to GL 6908 which represented expense activity incurred via GL 6100 in previous years.

**Recommendation Number 19:**

We recommend that the U.S. Forest Service develop SGL compliant posting models to appropriately record the recognition of exchange revenue once and then treat subsequent movements of the revenue as transfers of funds.

Also, we continue to recognize the need for the U.S. Forest Service to develop SGL compliant posting logic for stewardship land acquisitions as noted in recommendation 6 of Audit Report No. 08401-7-FM.

**STATUS OF PRIOR YEAR'S NONCOMPLIANCE FINDINGS AND OTHER MATTERS**

| <b>Open Conditions In this Table are Referenced In Exhibit IV</b>  |   |               |
|--|---|---------------|
| <i>USDA OIG Audit Report No. 08401-7-FM November 2006</i>  |   |               |
| <b>Reported Condition</b>  | <b>Recommendation</b>   | <b>Status</b> |
| The USDA Forest Service's Systems Do Not Comply with the Federal Financial Management Improvement Act (FFMIA) (2007 Non-compliance; 2006 Non-compliance) | 6. We recommend that the U.S. Forest Service develop posting models to appropriately record Non-expenditure financing sources-transfers-in and stewardship land acquisitions. | Open          |

| <b>Open Conditions In this Table are Referenced In Exhibit IV</b>  |   |               |
|--|---|---------------|
| <i>USDA OIG Audit Report No. 08401-6-FM December 2005</i><br><i>(Replaced prior Audit Report: USDA OIG Audit Report No. 08401-5-FM)</i>                  |   |               |
| <b>Reported Condition</b>  | <b>Recommendation</b>   | <b>Status</b> |
| The U.S. Forest Service's Systems Do Not Comply with the Federal Financial Management Improvement Act (FFMIA) (2007 Non-compliance; 2006 Non-compliance) | 12. We recommend that the U.S. Forest Service comply with recommendation 1 of this report as well as develop systems and methodologies that comply with the SGL at the transactional level. | Open          |



| Open Conditions In this Table are Referenced In Exhibit IV   |   |        |
|--|---|--------|
| USDA OIG Audit Report No. 08401-4-FM November 2004   |   |        |
| Reported Condition   | Recommendation  | Status |
| The U.S. Forest Service Does not Obligate All Transactions as Required by Appropriation Law (2007 non-compliance; 2006 non-compliance; 2005 non-compliance; 2004 non-compliance) | 8. We recommend that the U.S. Forest Service management develop policy and procedures to obligate funds for transactions as required by Appropriations Law.   | Open   |
| Instances of Non-Compliance with FFMIA were Identified Related to Federal Accounting Standards (2006 non-compliance; 2005 non-compliance; 2004 non-compliance)                   | 9. We recommend that the U.S. Forest Service management identify the business process causes for the noted instances of non-compliance, develop adequate policies and procedures, and if necessary, modify existing policies and procedures to ensure that transactions are processed and reported in accordance with Federal accounting standards. | Closed |
|  | 10. We recommend that the U.S. Forest Service management develop a remediation plan within the required time frames that includes extensive training of personnel specifically addressing the deficiencies noted above.   | Closed |

| Open Conditions In this Table are Referenced In Exhibit IV  |  |        |
|---|--|--------|
| USDA OIG Audit Report No. 08401-3-FM January 2004   |  |        |
| Reported Condition  | Recommendation   | Status |
| The U.S. Forest Service Systems are Not Compliant with Federal Financial Management System Requirements (2006 Non-compliance; 2005 non-compliance; 2003 non-compliance. | 1. We recommend that the U.S. Forest Service, working with the NFC, as necessary, take steps to certify and accredit the ATSA, and Paycheck 7 systems and their general support environment or replace these legacy systems. | Closed |

 United States  
Department of  
Agriculture

Forest  
Service

Washington  
Office

1400 Independence Avenue, SW  
Washington, DC 20250

File Code: 1430/6500

Date: NOV 12 2007

KPMG LLP  
Mr Patrick Boyce  
Senior Partner  
2001 M. Street, NW  
Suite 9134  
Washington, DC 20036

Dear Mr. Boyce:

We have reviewed KPMG's Independent Auditor's Report dated November 12, 2007, and generally agree with its contents. USDA Forest Service will develop an implementation plan to address the findings and recommendations identified during the audit. As we consider the required corrective actions, we will continue to work with KPMG and the Office of the Inspector General in identifying the specific actions that will assist us in successfully addressing the recommendations.

If you have any question or require additional information, please contact Jesse L. King at (505) 563-7101.

Sincerely,



JESSE L. KING  
Chief Financial Officer

cc: Wanda Philippi, Regional Inspector General, Office of the Inspector General



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**United States Department of Agriculture  
Forest Service's**

**Management Discussion and Analysis,  
Consolidated and Combined Financial Statements,  
Required Supplementary Information, and  
Required Supplementary Stewardship Information**

**Fiscal Years 2007 and 2006**

## MISSION AND ORGANIZATIONAL STRUCTURE

The Management's Discussion and Analysis (MD&A) serves as a high-level overview of the fiscal year (FY) 2007 performance for the Forest Service, an agency of the U.S. Department of Agriculture.

The MD&A also discusses the agency's compliance with legal and regulatory requirements, including the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), Inspector General Act, and other key legal and regulatory requirements. This MD&A presents financial and performance highlights and related information, as well as the agency's progress on the President's Management Agenda (PMA).

### **Mission Statement**

The Forest Service operates under the following mission:

*Sustain the health, diversity, and productivity of the Nation's forests and grasslands to meet the needs of present and future generations.*

The Forest Service's commitment to land stewardship and public service is the framework within which the national forests and grasslands are managed.

### **Organizational Structure**

The Forest Service operates under the guidance of the USDA Under Secretary for Natural Resources and Environment. Forest Service policy is implemented through nine National Forest System (NFS) regional offices, one State and Private Forestry (S&PF) area office, five research offices (R&D), the Forest Products Laboratory (FPL), and the International Institute of Tropical Forestry (IITF), functioning in nearly all States, Puerto Rico, and the Virgin Islands.

Reporting to the Chief are the deputy areas: Business Operations, Research and Development, NFS, S&PF, as well as the Chief Financial Officer (CFO). Please see the Forest Service's most recently approved organizational chart in Appendix A.

Throughout this year's Forest Service Performance and Accountability Report, there will be many references to a transformation of the Washington Office, regional offices, and S&PF's Northeastern Area (WO/RO/Area).

The purpose of the WO/RO/Area Transformation is to focus on designing fundamentally different ways of delivering integrated leadership, direction, and oversight at the top two levels of the Forest Service organization. Achieving this will help the agency:

- Invest a greater portion of resources toward mission delivery
- Have improved and more efficient processes that help us better serve our customers and partners
- Be well integrated in addressing the most important current and emerging issues facing the Forest Service today and in the future.

Included in the Transformation are all Staff areas at the WO/RO/Area, including detached units.

Not included in the Transformation are research stations, Human Capital Management (HCM) and Budget and Finance (B&F) at the Albuquerque Service Center (ASC), the Chief Information Office (CIO), the Enterprise Program, and Job Corps.

In the financial statements and notes section of this report the discussion revolves around "responsibility segments," rather than deputy areas. Deputy areas are administrative groupings while responsibility segments are constructs used to assess net costs.

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

**National Forests and Grasslands.** This responsibility segment includes protection and management of an estimated 193 million acres of NFS land, which includes 34.8 million acres of designated wilderness areas. In addition, the Forest Service partners with other nations and organizations to foster global natural resource conservation and sustainable development of the world's forest resources.

**Forest and Rangeland Research.** This responsibility segment is responsible for 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 estimated 1.6 billion acres of forests and associated rangelands in the United States.

**State and Private Forestry.** This responsibility segment uses cooperative agreements with State and local governments, tribal governments, forest industries and private landowners to help protect and manage non-Federal forests and associated rangeland and watershed areas.

**Wildland Fire Management.** This responsibility segment is responsible for protection of life, property, and natural resources on an estimated 193 million acres of NFS lands and the estimated 20 million acres of adjacent State and private lands.

Some of the responsibility segment names are the same as those used for deputy areas, but the terms are not synonymous.

#### MITIGATING FACTORS THAT COULD AFFECT PERFORMANCE

In its second century of service, the Forest Service is challenged with restoring fire-adapted forests to more resilient conditions, providing natural resource materials to the American public, sustaining recreational opportunities, combating the spread of invasive species, restoring watershed health, and mitigating the loss of open space.

Historically, wildland fire has been a natural component of ecosystem processes. Suppression efforts in recent decades allowed trees and underbrush to increase in density, creating hazardous conditions when combined with prolonged drought and lower than average precipitation. This combination of factors increased the risk of catastrophic wildland fire in the dense underbrush, threatening both communities and the environment. While wildland fire is a natural element of ecosystem processes, these catastrophic wildland fires are not.

Meanwhile, the annual increase in the number of private residences adjacent to national forest land in the wildland urban interface (WUI) has increased the agency's land and resource management, fire suppression, and law enforcement responsibilities.

The high priority on wildland fire suppression resulted in a dramatic impact on the budget in the last several years, affecting the Forest Service's program delivery. The Forest Service recognizes that it cannot maintain its current organization and infrastructure while at the same time providing programs and services that the public demands. Therefore, changes are taking place to create a flexible, more contemporary Forest Service, better positioned to adapt to future needs.

The agency is undertaking a number of major initiatives—all with the aim of intensively reviewing and, in some cases, making fundamental changes to the future organization and its culture. These efforts include:

- Transforming the structure and function of regional offices, the Northeastern Area, and the Washington Office to improve efficiency and effectiveness.
- Exploring the Forest Service's safety culture through an intense review of the agency's operations to address core safety issues that challenge our organization.
- Enhancing our commitment to achieving a more diverse workforce and serving a wider diversity of customers through a focus on mission effectiveness.

These initiatives are far-reaching and represent a dramatic change in the organization and its operations, creating a significant challenge for the Forest Service.

For example, the consolidation of the agency's information technology functions as the Chief Information Office (CIO) and B&F are complete, but aging infrastructure and hardware create increasing security risks and costs for maintenance. During the centralization of HCM the Forest Service was challenged with establishing a new centralized HCM delivery organization while implementing a new Human Resource Information System (HRIS).

The centralized business services challenge the morale of employees, as they must learn to work with the HCM, B&F, and CIO services in new ways. Leadership is spending time and resources in cultivating a change culture among employees to help the agency operate more efficiently and effectively in the face of ongoing change.

The transformation efforts require Forest Service leadership to improve communication and build understanding, acceptance, and support among our employees agency-wide. Our employees must be involved in the design and implementation of these organizational changes.

Forest Service leadership acknowledges the challenges and accepts the risks of investing in these initiatives. It is leadership's intent to transform the agency into a 21st century organization that focuses on the highest priorities, provides the safest environment in which to provide services, and maximizes efficiencies to accomplish the mission.

**PERFORMANCE HIGHLIGHTS FOR 2007**

The Government Performance and Results Act (GPRA) provides a strategic planning and reporting framework intended to improve Federal agencies' performance and hold them accountable for achieving results. Effective implementation of GPRA's results-oriented framework requires agencies to clearly establish performance goals for which they will be held accountable, measure progress towards those goals, determine strategies and resources to effectively accomplish the goals, use performance information to make the programmatic decisions necessary to improve performance, and formally communicate results in performance reports.

The Forest Service believes that the Program Assessment Rating Tool (PART) measures, developed in cooperation with USDA and OMB, best meet GPRA's requirements for alignment with strategic goals and objectives, trend data, targets based on funding, and assurances of the completeness and reliability of the agency's performance reporting.

Key measures developed through the PART process are long-term or annual expectations of outcomes, efficiencies, or outputs that meaningfully reflect the purposes of Forest Service programs. These measures indicate that the Forest Service is achieving its strategic outcomes—and ultimately the agency's mission—through quarterly monitoring of results and program improvement plans, ambitious targets for accomplishment, and corrective actions. These performance goals are accessible to the public in the agency's FY 2008 Budget Justification or at <http://www.ExpectMore.gov>.

By selecting the PART measures as key performance goals, agency leadership demonstrates its ongoing commitment to GPRA, especially during its transformation to a flexible, more contemporary Forest Service.

**FY 2007 Performance Results Scorecard**

The following criteria and parameters assess the Forest Service's FY 2007 estimated results toward achieving the agency's strategic outcomes.

**Exhibit 1. Criteria and Parameters used to Assess Performance Results**

| <b>PERFORMANCE RESULTS</b>     |  |   |   |  |   |
|--------------------------------|--|---|---|--|---|
| <b>CRITERIA</b>                | <i>Significantly Below</i>   | <i>5-10% Below</i>  | <i>On target +/- 5%</i>                           | <i>5-10% Above</i>   | <i>Significantly Above</i>  |
| <b>RESULTS AGAINST TARGETS</b> | Missed target by a significant margin                              | Missed target by a slight margin                              | MET   | Slightly exceeded  | Significantly exceeded target   |
| <b>IMPACT ON OUTCOMES</b>      | Results significantly compromise progress toward targeted outcomes | Results slightly compromise progress toward targeted outcomes | Results support progress toward targeted outcomes | Results slightly ahead of expected progress toward targeted outcomes | Results significantly ahead of expected progress toward targeted outcomes |

This performance scorecard provides an overview of the Forest Service's estimated results, with more detailed information in the following discussion.



| <b>FY 2007 KEY PERFORMANCE GOALS</b>  |  |                              |
|---|--|------------------------------|
| <b>STRATEGIC GOAL 1: REDUCE THE RISK FROM CATASTROPHIC WILDLAND FIRE</b>  |  |                              |
| <i>Reduce risk to communities and the environment from catastrophic wildland fire by improving the health of the Nation's forests and grasslands.</i>                         | Percentage of total NFS land base for which fire risk is reduced through movement to a better condition class  | Missed by slight margin      |
|   | Percent change from the 10-year average for (1) number of wildfires controlled during initial attack and (2) number of human caused wildfires  | MET                          |
|   | Percent of fires not contained in initial attack that exceed a Stratified Cost Index   | MET                          |
|   | Acres moved to a better condition class per million dollars gross investment   | Missed by significant margin |
|   | Number of acres restored and maintained per million dollars gross investment   | Baseline                     |
|   | Total acres treated in Wildland Urban Interface (WUI) and non-WUI and also acres treated for other vegetation management activities that achieved fire objectives as a secondary benefit | MET                          |
| <b>STRATEGIC GOAL 2: REDUCE THE IMPACTS FROM INVASIVE SPECIES</b>   |  |                              |
| <i>Improve the health of the Nation's forests and grasslands by reducing the impacts from invasive species.</i>   | Percent of acres at risk of mortality due to insect pests and diseases, or of infestation by invasive plants on which risk is reduced  | Significantly exceeded       |
|   | Number of priority acres successfully treated for invasive species annually.   | Significantly exceeded       |
|   | Cost per acre treated to reduce risk   | Slightly exceeded            |
|   | Number of treated acres monitored annually   | Significantly exceeded       |
|   | The 5-year running average of the number of R&D tools developed  | MET                          |
|   | Cost per R&D tool developed  | MET                          |
| <b>STRATEGIC GOAL 3: PROVIDE OUTDOOR RECREATIONAL OPPORTUNITIES</b>   |  |                              |
| <i>Provide high-quality outdoor recreational opportunities on forests and grasslands, while sustaining natural resources, to help meet the Nation's recreational demands.</i> | Percent of recreation customers satisfied with outdoor recreation services and facilities provided in a sustainably managed natural setting  | Slightly exceeded            |
|   | Percentage of NFS lands covered by travel management plans resulting in visitor safety, resource protection using best management practices and less visitor conflict with OHV usage     | Missed by significant margin |
|   | Percent of NFS visitors participating in outdoor based physical activities   | MET                          |
|   | Cost per visitor contact   | Missed by significant margin |
|   | Cost per visitor at developed and recreation fee sites   | Missed by significant margin |
|   | Number of wild and scenic rivers meeting statutory requirements  | MET                          |
|   | Number (and percentage) of outdoor recreation facilities maintained to standard  | Slightly exceeded            |
|   | Number of NFS travel management plans completed  | Missed by significant margin |
|   | Percent of road and trail rights-of-way (ROW) acquired that provide public access through easement acquisitions or land adjustments  | MET                          |

| FY 2007 KEY PERFORMANCE GOALS  |  |                              |
|--|--|------------------------------|
|  | Percent of recreation site capacity operated and maintained to standard                                      | MET                          |
|  | Number of wilderness areas managed to minimum stewardship level  | Missed by slight margin      |
|  | Number of ROW acquired to provide public access  | Missed by significant margin |
|  | Percent of National Forest route designations completed  | Missed by significant margin |
|  | Customer satisfaction with value for fee paid  | MET                          |
|  | Percentage of NFS road system open for highway legal vehicles that is in good or fair condition              | MET                          |
|  | Facilities Condition Index <sup>1</sup> (FCI)  | MET                          |
|  | Ratio of facilities deferred maintenance eliminated to annual funding for major facilities projects          | Missed by slight margin      |
|  | Cost of capital improvement and maintenance per mile of highway legal vehicle road in good or fair condition | MET                          |
|  | Cost per trail mile maintained and improved to standard.   | MET                          |
|  | Miles of highway legal vehicle road maintenance  | Slightly exceeded            |
|  | Percent of administrative facilities maintained to standard  | MET                          |
|  | Miles of trail maintained to standard  | MET                          |
| STRATEGIC GOAL 4: HELP MEET ENERGY RESOURCE NEEDS  |  |                              |
|  | Percentage of lease applications processed within prescribed timeframes                                      | Missed by significant margin |
| <i>Consider opportunities for energy development and the supporting infrastructure on forests and grasslands to help meet the Nation's energy needs.</i> | Number (and percentage) of operations administered to standard   | Significantly exceeded       |
|  | Percentage of applications for permit to drill (APDs) processed within prescribed timeframes                 | MET                          |
|  | Percentage of backlog <sup>2</sup> in APDs reduced   | MET                          |
|  | Percentage of backlog in lease applications reduced  | MET                          |
|  | Number of new APDs processed within prescribed timeframes  | Significantly exceeded       |
|  | Number of new lease applications processed within prescribed timeframes                                      | Missed by significant margin |

<sup>1</sup> FCI is the ratio of the cost of remedying maintenance deficiencies to the current replacement value, commonly used by private firms to monitor condition of facilities.

<sup>2</sup> Backlog is defined as the total existing at the end of FY 2003.

| <b>STRATEGIC GOAL 5: IMPROVE WATERSHED CONDITION</b>  |   |                              |
|---|---|------------------------------|
|   | Acres of watershed improvement  | MET                          |
| <i>Increase the area of forest and grassland watersheds in fully functional and productive condition.</i> | Acres or miles of aquatic habitat enhanced to achieve desired ecological conditions as described in land management plans (LMPs)  | MET                          |
|   | Acres of terrestrial habitat enhanced to achieve desired ecological conditions as described in LMPs   | Significantly exceeded       |
|   | Allotment acres and percent administered to 100 percent of forest plan standards  | MET                          |
|   | Establish forest vegetation in acres  | MET                          |
|   | Acres of non-industrial private forest (NIPF) land under approved stewardship management plans  | MET                          |
| <b>STRATEGIC GOAL 6: CONDUCT MISSION-RELATED WORK</b>   |   |                              |
|   | Percentage of priority acres acquired or donated that reduce the conversion...to incompatible uses in order to improve and maintain ecological conditions for federally listed and candidate species, species of concern, and species of interest | MET                          |
|   | Percentage of priority acres acquired or donated that provide for public access for high-quality outdoor recreational opportunities on NFS land   | MET                          |
|   | Average length of time between project proposal, funding and completion   | Missed by significant margin |
|   | Parcelization of forests avoided (parcels prevented)  | Significantly exceeded       |
|   | Total Forest Legacy Program (FLP) cost or expenditure per acre protected from conversion  | Missed by significant margin |
| <i>Improve the productivity and efficiency of other mission-related work and support programs.</i>        | Dollar cost or expenditure per acre purchased or donated  | MET                          |
|   | Percentage of acquisition cases completed within 18 months  | MET                          |
|   | Percentage of total acquisition cost per acre attributed to third party and private landowner participation   | MET                          |
|   | Number of perpetual conservation easements  | Missed by significant margin |
|   | Number of fee simple purchases (number of tracts purchased)   | Significantly exceeded       |
|   | Acres of land adjustments to conserve the integrity of undeveloped lands and habitat quality  | Significantly missed         |
|   | Priority acres acquired or donated that reduce the conversion to incompatible uses in order to improve and maintain ecological conditions for federally listed and candidate species, species of concern, and species of interest                 | MET                          |
|   | Priority acres acquired or donated that provide for public access for high quality outdoor recreational opportunities on NFS land   | MET                          |

**Strategies and Resources**

Consistent and reliable performance information is necessary for management decisions—needed to identify priorities, plan and budget, and make resource allocations that affect strategic outcomes. In the next few years of the WO/RO/Area Transformation, the Forest Service recognizes that it must maintain focus on performance accountability at the outset in order to accomplish its mission.

*Establishing Performance Accountability throughout the Forest Service*

The Forest Service adopted a new individual performance management system in April 2007 that requires alignment with the strategic goals and objectives for all employee performance plans.

The new system:

- Requires that employees ensure they provide adequate, reliable, verifiable, and useful information, as contained in specific standards under "Mission Results."
- Demonstrates support in accomplishing individual or team assignments based on every unit's assigned targets for performance measures and commitments, as coordinated between the supervisor and employee.

Additionally, senior executive service (SES) line officers have their units' annual strategic performance measure targets in their performance plan.

In FY 2007, oversight of performance accountability occurred at all levels of the organization:

- The Strategic Planning and Performance Accountability (SPPA) Staff conducted oversight performance reviews on four and five units in each of the past two years.
- RSAs conducted reviews on at least two units to verify the accuracy of performance data reported during the previous year.
- Line officers certified all estimated and actual accomplishment reporting.
- Units conducted standard management, program, or activity reviews at various times throughout the year, and in accordance with the policy on management controls.

Within GPRA's framework, the Forest Service tracks many types of performance measures for different internal reports. Over the last several years, the term "Executive Priority" referred to output measures aligned to the strategic goals, but not necessarily meeting the standards provided in OMB's Circular A-136 *Financial Reporting Requirements*.

In FY 2007, the Executive Priorities were redefined as measures that are selected annually by the Executive Leadership Team (ELT) and used to indicate performance for SES personnel. The ELT also approved Annual Strategic Measures as measures that show accomplishments in support of strategic plan goals, objectives, or outcomes and are measured and tracked consistently over time. As neither set of measures meets the Federal accounting standards<sup>3</sup>, the Annual Strategic Measures may be viewed in Appendix B.

***Completeness and Reliability of Key Performance Measures***

OMB Circular A-136 *Financial Reporting Requirements* requires the Chief of the U.S. Forest Service to assure financial and performance information reported in the Performance and Accountability Report are complete and reliable.

The Forest Service's performance reporting is complete, but estimated—a projection of an annual accomplishment based on a nine-month actual accomplishment. Actual accomplishments will be published in the FY 2009 Forest Service Budget Justification, and in next year's Performance and Accountability Report.

USDA's 2007 Performance Management Guidance states that, "data are acceptably reliable when there is neither refusal nor a marked reluctance by agency managers or government decision makers to use the data." Certification of the GPRA performance reporting by regional foresters or other line officers is supporting documentation for the Chief to assure that any potential material inadequacy is identified with corrective actions in place, as necessary.

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<sup>3</sup> Federal accounting standards are published by the Federal Accounting Standards Advisory Board (FASAB). See SFFAS 15 Management's Discussion and Analysis.

In FY 2007, new controls and procedures were implemented and existing procedures modified to improve the accuracy and reliability of performance and accomplishment data. Two new chapters in the Forest Service Manual (FSM) were issued June 8, 2007 as policy and guidance for performance accountability. These directives describe the roles and responsibilities of line officers and Forest Service staff positions, including program managers:

- FSM 1414 provides policies and guidance for management reviews of performance reporting and managerial accountability for the verification, validation, and documentation of performance data.
- FSM 1490 provides a means for line officers to hold subordinate organizations or individuals accountable and responsible for delivering mission-critical results.

*Improvements in Internal Control*

Internal control over all performance reporting has been improved in the Forest Service. The Metrics Management (MM) tool, a component of the Performance Accountability System, was implemented in FY 2007 to house and track all measures, providing controls for metrics associated with the measures (e.g. definitions, unit of measure, system of record, etc.), as well as target adjustments.

MM implements an agency-wide standardized change control process related to the establishment of performance measures, definitions, targets, and the communication of these to field units. The tool displays targets assigned to measures and tracks adjustments in the budget year. Performance measure codes and definitions are reviewed annually to determine if revisions and adjustments are needed.

***Achieving Key Performance Goals***

The following tables demonstrate the Forest Service's progress toward accomplishing the mission in FY 2007. The performance reported below is a projection, based on 9 months of actual performance and a 3-month estimate for the remainder of the fiscal year.

Please note that results for cost efficiency measures are not interpreted in the same way as results for output measures. Cost efficiency measures are successful when targets are met or minimized, whereas annual output measures are successful when targets are met or slightly exceeded.

Corrective actions taken in FY 2007 for unmet FY 2006 Executive Priorities are in Appendix C.

**Results toward Reducing Risk of Catastrophic Wildfire**

**Exhibit 2. FY 2007 Estimated (E) Performance toward Reducing Risk of Catastrophic Wildfire**

| KEY PERFORMANCE MEASURES   | Type of Measure           | 2007 Target       | 2007 (E)          | Result                |
|--|---------------------------|-------------------|-------------------|-----------------------|
| Percentage of total NFS land base for which fire risk is reduced through movement to a better condition class  | Long-term Outcome         | 2.0%              | 1.8%              | 90%                   |
| Percent change from the 10-year average for (1) number of wildfires controlled during initial attack and (2) number of human caused wildfires <sup>4</sup>                               | Long-term/ Annual Outcome | +/- 0.5%<br>-2.0% | +/- 0.5%<br>-2.0% | 100%                  |
| Percent of fires not contained in initial attack that exceed a Stratified Cost Index   | Annual Efficiency         | 21%               | 21%               | 100%                  |
| Acres moved to a better condition class per million dollars gross investment   | Annual Efficiency         | 2,553             | 1,755             | 69%                   |
| Number of acres restored and maintained per million dollars gross investment <sup>5</sup>  | Annual Efficiency         | 1%                | --                | Baseline <sup>6</sup> |
| Total acres treated in wildland urban interface (WUI) and non-WUI and also acres treated for other vegetation management activities that achieved fire objectives as a secondary benefit | Annual Output             | 2.9 million       | 2.9 million       | 100%                  |

**Exhibit 3. FY 2007 Estimated (E) Performance and Trend for Selected Measures**

| TREND  | 2003 | 2004        | 2005        | 2006        | 2007 (E)    |
|--|------|-------------|-------------|-------------|-------------|
| Percentage of total NFS land base for which fire risk is reduced though movement to a better condition class   | --   | --          | 0.49%       | 1.1%        | 1.8%        |
| Percent of fires not contained in initial attack that exceed a Stratified Cost Index   | --   | --          | 26%         | 26.5%       | 21%         |
| Acres moved to a better condition class per million dollars gross investment   | --   | 2,946       | 3,578       | 1,934       | 1,755       |
| Total acres treated in Wildland Urban Interface (WUI) and non-WUI and also acres treated for other vegetation management activities that achieved fire objectives as a secondary benefit | --   | 2.6 million | 2.7 million | 2.5 million | 2.9 million |

<sup>4</sup> The FY 2005 baseline is the 10-year average from 1996—2005. Baseline is 98.3%; and 3,765 fires.

<sup>5</sup> This measure enables the Forest Service to better monitor and track all hazardous fuels treatments in the context of the program's ultimate desired end result—change in condition class that result in reduced risk. Baseline for this new measure will be established for FY 2008 based on the results of the Hazardous Fuels Prioritization and Allocation System. The system will identify those Forest Service units that are high-priority for funding based on risk of catastrophic fire events (Hazard, Probability, Consequence), unit efficiency, and ecological considerations.

<sup>6</sup> A baseline is to be established when a performance measure is new, and then used as a target for performance reporting.

**Results toward Reducing Impacts from Invasive Species**

**Exhibit 4. FY 2007 Estimated (E) Performance toward Reducing Impact from Invasive Species**

| KEY PERFORMANCE MEASURES   | Type of Measure           | 2007 Target | 2007 (E)  | Result |
|--|---------------------------|-------------|-----------|--------|
| Percent of acres at risk of mortality due to insect pests and diseases, or of infestation by invasive plants on which risk is reduced                            | Long-term Outcome         | 8.7%        | 10.1%     | 116%   |
| Number of priority acres successfully treated for invasive species annually  | Annual Output             | 645,702     | 806,747   | 125%   |
| Cost per acre treated to reduce risk   | Annual Efficiency         | \$93.88     | \$86.37   | 92%    |
| Number of treated acres monitored annually   | Annual Output             | 129,140     | 723,914   | 560%   |
| Score <sup>7</sup> of R&D customers reporting satisfaction with accessibility, relevance, outcome and cost effectiveness of tools developed, delivered, and used | Long-term/ Annual Outcome | NA          | --        | NA     |
| The 5-year running average of the number of R&D tools developed  | Annual Output             | 142         | 142       | 100%   |
| Cost <sup>8</sup> per R&D tool developed   | Annual Efficiency         | \$426,000   | \$426,000 | 100%   |

**Exhibit 5. FY 2007 Estimated (E) Performance and Trend for Selected Measures**

| TREND   | 2003      | 2004      | 2005      | 2006      | 2007 (E)  |
|---|-----------|-----------|-----------|-----------|-----------|
| Percent of acres at risk of mortality due to insect pests and diseases, or of infestation by invasive plants on which risk is reduced | --        | --        | 3.7%      | 7.16%     | 10.1%     |
| Number of priority acres successfully treated for invasive species annually   | --        | --        | 948,932   | 981,242   | 806,747   |
| Cost per acre treated to reduce risk  | --        | --        | \$90.07   | \$86.12   | \$86.37   |
| Number of treated acres monitored annually  | --        | --        | 473,450   | 915,563   | 723,914   |
| The 5-year running average of the number of R&D tools developed   | 106       | 135       | 157       | 171       | 142       |
| Cost per R&D tool developed <sup>9</sup>  | \$426,000 | \$346,000 | \$273,000 | \$242,000 | \$426,000 |

<sup>7</sup> The score of R&D customers reporting satisfaction is surveyed every third year, with the next survey in 2009.

<sup>8</sup> "Cost" is a 5-year running average.

<sup>9</sup> For 2003—2006, the average cost was not based on 5 years, as it was in FY 2007.

**Results toward Providing Outdoor Recreational Opportunities****Exhibit 6. FY 2007 Estimated (E) Performance toward Outdoor Recreational Opportunities**

| KEY PERFORMANCE MEASURES   | Type of Measure   | 2007 Target | 2007 (E) | Result |
|--|-------------------|-------------|----------|--------|
| Percent of recreation customers satisfied with outdoor recreation services and facilities provided in a sustainably managed natural setting  | Long-term Outcome | 84%         | 90%      | 107%   |
| Percentage of NFS lands covered by travel management plans resulting in visitor safety, resource protection using best management practices and less visitor conflict with OHV usage | Long-term Outcome | 21%         | 13%      | 62%    |
| Percent of NFS visitors participating in outdoor based physical activities   | Long-term Outcome | 70%         | 70%      | 100%   |
| Cost per visitor contact   | Annual Efficiency | \$1.18      | \$1.36   | 115%   |
| Cost per visitor at developed and recreation fee sites   | Annual Efficiency | \$2.60      | \$3.17   | 122%   |
| Number of wild and scenic rivers meeting statutory requirements  | Annual Output     | 51          | 51       | 100%   |
| Number (and percentage) of outdoor recreation facilities maintained to standard  | Annual Output     | 9,460       | 10,231   | 108%   |
| Number of NFS travel management plans completed  | Annual Output     | 77          | 27       | 35%    |
| Percent of road and trail ROW acquired that provide public access through easement acquisitions or land adjustments  | Annual Output     | 90%         | 90%      | 100%   |
| Percent of recreation site capacity operated and maintained to standard  | Annual Output     | 65%         | 66%      | 101.5% |
| Number of wilderness areas managed to minimum stewardship level  | Annual Output     | 80          | 74       | 92.5%  |
| Number of ROW acquired to provide public access  | Annual Output     | 175         | 150      | 86%    |
| Percent of National Forest route designations completed  | Annual Output     | 21%         | 13%      | 62%    |
| Customer satisfaction with value for fee paid  | Annual Output     | 84%         | 83%      | 99%    |
| Percentage of NFS road system open for highway legal vehicles that is in good or fair condition  | Long-term Outcome | 30%         | 29%      | 97%    |
| FCI  | Long-term Outcome | 89%         | 89%      | 100%   |
| Ratio of facilities deferred maintenance eliminated to annual funding for major facilities projects  | Annual Efficiency | 40%         | 37%      | 92.5%  |
| Cost of capital improvement and maintenance per mile of highway legal vehicle road in good or fair condition   | Annual Efficiency | \$5,750     | \$6,000  | 104%   |
| Cost per trail mile maintained and improved to standard  | Annual Efficiency | \$3,108     | \$3,265  | 105%   |
| Miles of highway legal vehicle road maintenance  | Annual Output     | 44,280      | 46,851   | 106%   |



| KEY PERFORMANCE MEASURES                                    | Type of Measure | 2007 Target | 2007 (E) | Result |
|---|-----------------|-------------|----------|--------|
| Percent of administrative facilities maintained to standard | Annual Output   | 67%         | 66%      | 98.5%  |
| Miles of trail maintained to standard                       | Annual Output   | 22,470      | 22,470   | 100%   |

**Exhibit 7. FY 2007 Estimated (E) Performance and Trend for Selected Measures**

| TREND   | 2003   | 2004   | 2005   | 2006   | 2007 (E) |
|---|--------|--------|--------|--------|----------|
| Percent of recreation customers satisfied with outdoor recreation services and facilities provided in a sustainably managed natural setting   | --     | 80%    | 82%    | 85%    | 90%      |
| Percentage of NFS lands covered by travel management plans resulting in visitor safety, resource protection using best management practices and less visitor conflict with off-road vehicle usage | --     | --     | 0%     | 0.3%   | 13%      |
| Percent of NFS visitors participating in outdoor based physical activities  |        |        | 69%    | 71%    | 70%      |
| Cost per visitor contact  | \$1.19 | \$1.24 | \$1.35 | \$1.36 | \$1.36   |
| Cost per visitor at developed and recreation fee sites  | --     | --     | \$2.90 | \$3.17 | \$3.17   |
| Number of wild and scenic rivers meeting statutory requirements   | --     | --     | --     | 47     | 51       |
| Number (and percentage) of outdoor recreation facilities maintained to standard   | --     | --     | 10,271 | 9,424  | 10,231   |
| Number of NFS travel management plans completed   | --     | --     | 0      | 2      | 27       |
| Percent of road and trail ROW acquired that provide public access through easement acquisitions or land adjustments   | --     | 88%    | 92%    | 94%    | 90%      |
| Percent of recreation site capacity operated and maintained to standard   | --     | --     | 28%    | 62%    | 66%      |
| Number of wilderness areas managed to minimum stewardship level   | 75     | 65     | 48     | 61     | 74       |
| Number of ROW acquired to provide public access   | --     | 215    | 229    | 112    | 150      |
| Percent of National Forest route designations completed   | --     | --     | 0%     | 0.3%   | 13%      |
| Customer satisfaction with value for fee paid   | --     | --     | 82%    | 82%    | 83%      |
| Percentage of NFS road system open for highway legal vehicles that is in good or fair condition   | --     | --     | 28%    | 29%    | 29%      |
| FCI   | --     | .87    | .88    | 89%    | 89%      |

| TREND  | 2003   | 2004   | 2005    | 2006    | 2007 (E) |
|--|--------|--------|---------|---------|----------|
| Ratio of facilities deferred maintenance eliminated to annual funding for major facilities projects          | --     | --     | 33%     | 60%     | 37%      |
| Cost of capital improvement and maintenance per mile of highway legal vehicle road in good or fair condition | --     | --     | --      | \$6,000 | \$6,000  |
| Cost per trail mile maintained and improved to standard.   | --     | --     | \$3,166 | \$2,902 | \$3,265  |
| Miles of highway legal vehicle road maintenance  | --     | --     | 42,896  | 43,072  | 46,851   |
| Percent of administrative facilities maintained to standard  | --     | --     | --      | 64%     | 66%      |
| Miles of trail maintained to standard  | 30,608 | 23,160 | 25,208  | 24,860  | 22,470   |

**Results toward Helping Meet Energy Resource Needs**

**Exhibit 8. FY 2007 Estimated (E) Performance toward Helping Meet Energy Resource Needs**

| KEY PERFORMANCE MEASURES   | Type of Measure   | 2007 Target | 2007 (E) | Result |
|--|-------------------|-------------|----------|--------|
| Percentage of lease applications processed within prescribed timeframes                      | Long-term Output  | 50%         | 8%       | 16%    |
| Number (and percentage) of operations administered to standard                               | Long-term Output  | 1,000       | 1,214    | 121%   |
| Percentage of applications for permit to drill (APDs) processed within prescribed timeframes | Long-term Output  | 50%         | 48%      | 96%    |
| Percentage of backlog in APDs reduced  | Annual Efficiency | 100%        | 100%     | 100%   |
| Percentage of backlog in lease applications reduced  | Annual Efficiency | 18%         | 18%      | 100%   |
| Number of new APDs processed within prescribed timeframes                                    | Annual Output     | 325         | 380      | 117%   |
| Number of new lease applications processed within prescribed timeframes                      | Annual Output     | 1,400       | 357      | 25.5%  |

**Exhibit 9. FY 2007 Estimated (E) Performance and Trend for Selected Measures**

| TREND   | 2003 | 2004 | 2005 | 2006  | 2007 (E) |
|---|------|------|------|-------|----------|
| Percentage of lease applications processed within prescribed timeframes | 4%   | 24%  | 25%  | 8%    | 8%       |
| Number (and percentage) of operations administered to standard          | --   | --   | --   | 3,240 | 1,214    |
| Percentage of APDs processed within prescribed timeframes               | 1%   | 43%  | 59%  | 33%   | 48%      |
| Percentage of backlog in APDs reduced                                   | --   | 83%  | 84%  | 90%   | 100%     |
| Percentage of backlog in lease applications reduced                     | --   | 12%  | 18%  | 19%   | 18%      |
| Number of new APDs processed within prescribed timeframes               | --   | 264  | 29   | 115   | 380      |
| Number of new lease applications processed within prescribed timeframes | --   | 724  | 263  | 585   | 357      |

**Results toward Improving Watershed Condition**

**Exhibit 10. FY 2007 Estimated (E) Performance toward Improving Watershed Condition**

| KEY PERFORMANCE MEASURES   | Type of Measure | 2007 Target          | 2007 (E)              | Result |
|--|-----------------|----------------------|-----------------------|--------|
| Acres of watershed improvement   | Annual Output   | 12,200               | 12,200                | 100%   |
| Acres or miles of aquatic habitat enhanced to achieve desired ecological conditions as described in LMPs | Annual Output   | 8,600 ac<br>1,300 mi | 8,600 ac;<br>1,300 mi | 100%   |
| Acres of terrestrial habitat enhanced to achieve desired ecological conditions as described in LMPs      | Annual Output   | 146,000              | 247,490               | 170%   |
| Allotment acres (and percent) administered to 100 percent of forest plan standards                       | Annual Output   | 21,517,618           | 21,517,618            | 100%   |
| Establish forest vegetation in acres   | Annual Output   | 77,368               | 77,368                | 100%   |
| Acres of NIPF land under approved stewardship management plans   | Annual Output   | 1,575,000            | 1,575,000             | 100%   |

**Exhibit 11. FY 2007 Estimated (E) Performance and Trend for Selected Measures**

| TREND  | 2003                   | 2004                   | 2005                   | 2006                   | 2007 (E)              |
|--|------------------------|------------------------|------------------------|------------------------|-----------------------|
| Acres of watershed improvement   | 23,540                 | 15,294                 | 13,510                 | 16,934                 | 12,200                |
| Acres or miles of aquatic habitat enhanced to achieve desired ecological conditions as described in LMPs | 16,429 ac;<br>1,375 mi | 12,451 ac;<br>1,788 mi | 19,250 ac;<br>1,623 mi | 17,116 ac;<br>1,799 mi | 8,600 ac;<br>1,300 mi |
| Acres of terrestrial habitat enhanced to achieve desired ecological conditions as described in LMPs      | 230,528                | 218,727                | 230,867                | 247,217                | 247,490               |
| Allotment acres and percent administered to 100 percent of forest plan standards                         | 37,970,243;<br>42%     | 33,900,000;<br>37%     | 36,503,278;<br>40%     | 47,419,303;<br>52%     | 21,517,618;<br>23%    |
| Establish forest vegetation in acres   | 62,236                 | 54,836                 | 35,749                 | 75,098                 | 77,368                |
| Acres of NIPF land under approved stewardship management plans   | --                     | 1,490,000              | 1,590,000              | 1,417,000              | 1,575,000             |

**Results toward Conducting Mission-related Work**

**Exhibit 12. FY 2007 Estimated (E) Performance toward Conducting Mission-related Work**

| KEY PERFORMANCE MEASURES  | Type of Measure      | 2007 Target | 2007 (E)  | Result |
|---|----------------------|-------------|-----------|--------|
| Percentage of priority acres acquired or donated that reduce the conversion to incompatible uses in order to improve and maintain ecological conditions for federally listed and candidate species, species of concern, and species of interest | Long-term Outcome    | 65%         | 65%       | 100%   |
| Percentage of priority acres acquired or donated that provide for public access for high-quality outdoor recreational opportunities on NFS land   | Long-term Outcome    | 90%         | 90%       | 100%   |
| Average length of time between project proposal, funding and completion   | Long-term Efficiency | 24 months   | 29 months | 121%   |
| Parcelization of forests avoided (parcels prevented)  | Long-term Output     | 1,000       | 2,100     | 210%   |
| Total FLP cost or expenditure per acre protected from conversion  | Annual Efficiency    | \$475       | \$601     | 126.5% |
| Percentage of acquisition cases completed within 18 months  | Annual Efficiency    | 75%         | 75%       | 100%   |
| Percentage of total acquisition cost per acre attributed to third party and private landowner participation   | Annual Efficiency    | 12%         | 12%       | 100%   |
| Dollar cost or expenditure per acre purchased or donated  | Annual Efficiency    | \$1,380     | \$1,380   | 100%   |
| Number of perpetual conservation easements  | Annual Output        | 40          | 18        | 45%    |
| Number of fee simple purchases (number of tracts purchased)   | Annual Output        | 13          | 18        | 138%   |
| Acres of land adjustments to conserve the integrity of undeveloped lands and habitat quality  | Annual Output        | 125,000     | 61,261    | 49%    |
| Priority acres acquired or donated that reduce the conversion to incompatible uses in order to improve and maintain ecological conditions for federally listed and candidate species, species of concern, and species of interest               | Annual Output        | 28,000      | 28,000    | 100%   |
| Priority acres acquired or donated that provide for public access for high quality outdoor recreational opportunities on NFS land   | Annual Output        | 36,000      | 36,000    | 100%   |

**Exhibit 13. FY 2007 Estimated (E) Performance and Trend for Selected Measures**

| TREND   | 2003    | 2004      | 2005      | 2006      | 2007 (E)  |
|---|---------|-----------|-----------|-----------|-----------|
| Percentage of priority acres acquired or donated that reduce the conversion to incompatible uses in order to improve and maintain ecological conditions for federally listed and candidate species, species of concern, and species of interest | --      | 49%       | 66%       | 63%       | 65%       |
| Percentage of priority acres acquired or donated that provide for public access for high-quality outdoor recreational opportunities on NFS land   | --      | 77%       | 76%       | 98%       | 90%       |
| Average length of time between project proposal, funding and completion   |         | 26 months | 26 months | 31 months | 29 months |
| Parcelization of forests avoided (parcels prevented)  | --      | --        | --        | 19,342    | 2,100     |
| Total FLP cost or expenditure per acre protected from conversion  |         | \$132     | \$1031    | \$303     | \$601     |
| Percentage of acquisition cases completed within 18 months  | --      | --        | 20%       | 89%       | 75%       |
| Number of perpetual conservation easements  | --      | 33        | 40        | 40        | 18        |
| Dollar cost or expenditure per acre purchased or donated  | \$2,704 | \$2,520   | \$1,492   | \$1,420   | \$1,380   |
| Number of fee simple purchases (number of tracts purchased)   | --      | 14        | 12        | 22        | 18        |
| Acres of land adjustments to conserve the integrity of undeveloped lands and habitat quality  | 129,219 | 563,183   | 46,136    | 361,467   | 61,261    |
| Priority acres acquired or donated that reduce the conversion to incompatible uses in order to improve and maintain ecological conditions for federally listed and candidate species, species of concern, and species of interest               | --      | 22,483    | 29,553    | 31,460    | 28,000    |
| Priority acres acquired or donated that provide for public access for high quality outdoor recreational opportunities on NFS land   | --      | 35,330    | 34,326    | 49,044    | 36,000    |

*Conclusion of Performance Highlights*

This Performance Highlights section of Management's Discussion and Analysis (MD&A) summarizes a select few key performance accomplishments for FY 2007. Through the coordination and interactions inherent in the PART assessments of Forest Service programs, the agency made significant changes in its policies, procedures, and performance management to improve its accountability for all performance reporting.

While this section summarized performance accomplishments, more detailed reporting is in the Annual Performance Report section of this Performance and Accountability Report.

## ANALYSIS OF FINANCIAL STATEMENTS

The Forest Service produces a series of financial statements on a quarterly basis to summarize the activity and associated financial position of the agency. The four principal statements are as follows:

- Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position
- Statement of Budgetary Resources

While previously reported as one of the agency's principal statements, OMB Circular A-136 reclassified the Statement of Financing as a note to the financial statements.

In producing these statements, the agency seeks to provide relevant, reliable, and accurate financial information related to Forest Service activities. Analysis of the agency's September 30, 2007, financial statements provides the following highlights. The exhibits below reflect the comparative amounts for FY 2007 and FY 2006.

### Assets

The Forest Service reports \$7.3 billion in assets at the end of September 30, 2007, representing a decrease of 5 percent from FY 2006 amounts.

The agency attributes this primarily to a decrease in Fund Balance with Treasury (FBWT), resulting from the FY 2007 liquidation of FY 2006 hurricane and fire season accruals. Additionally, OMB Circular A-136 required a change in parent/child reporting resulting in a significant reduction to FBWT due to removal of parent agency treasury symbols from the financial statements.

The three major asset categories are shown in Exhibit 14.

**Exhibit 14. Assets (in millions)**

| ASSET   | FY<br>2007     | FY<br>2006     | Difference     |             |
|---|----------------|----------------|----------------|-------------|
|   |                |                | Dollars        | Percentages |
| Fund Balance with Treasury  | \$3,641        | \$3,877        | \$(236)        | (6%)        |
| Accounts Receivable, Intragovernmental, and Non-Intragovernmental | 220            | 254            | (34)           | (13%)       |
| General Property, Plant, and Equipment                            | \$3,458        | \$3,585        | (\$127)        | (4%)        |
| <b>Total of Major Categories</b>                                  | <b>\$7,319</b> | <b>\$7,716</b> | <b>(\$397)</b> | <b>(5%)</b> |
| Other Asset Categories  | 20             | 25             | (5)            | (20%)       |
| <b>Grand Total Assets</b>   | <b>\$7,339</b> | <b>\$7,741</b> | <b>(\$402)</b> | <b>(5%)</b> |

General PP&E consists primarily of forest road surface improvements, culverts, bridges, campgrounds, administrative buildings, other structures, and equipment.

General PP&E also includes assets acquired by the Forest Service to be used for conducting business activities, such as providing goods or services. General PP&E does not include the value of heritage assets<sup>10</sup> or stewardship assets<sup>11</sup>.

<sup>10</sup> Heritage assets are assets that are historical or significant for their natural, cultural, aesthetic, or other important attributes that are expected to be preserved indefinitely.

<sup>11</sup> Stewardship assets are primarily land held by the agency as part of the NFS and not acquired for, or in connection with, other General PP&E.

Heritage and stewardship assets do not have a readily identifiable financial value and are not recorded within the financial statements of the Forest Service. A more in-depth discussion of heritage and stewardship assets is presented in the Financial Statement Note 5 Heritage Assets and Stewardship Land, and in the Required Supplementary Information (RSI).

FBWT is an asset account that reflects the available budget spending authority of Federal agencies.

### **Liabilities and Net Position**

#### Liabilities

The Forest Service reported \$2.1 billion in liabilities as of September 30, 2007, representing probable future expenditures arising from past events. This amount represents a decrease of 11 percent from September 30, 2006, primarily due to the same reasons as stated under the Assets section above.

The major liability amounts for accounts payable, unfunded leave, Federal Employees' Compensation Act (FECA) benefits, Payments to States and other liabilities appear in Exhibit 15.

**Exhibit 15. Liabilities (in millions)**

| LIABILITIES   | FY<br>2007 | FY<br>2006 | Difference |             |
|---|------------|------------|------------|-------------|
|   |            |            | Dollars    | Percentages |
| Accounts Payable, Intragovernmental and Non-Intragovernmental | \$ 64      | \$ 55      | \$ 9       | 16%         |
| Unfunded Leave and FECA Benefits                              | 576        | 592        | (16)       | (3%)        |
| Payments to States  | 394        | 398        | (4)        | (1%)        |
| Other Liability Categories                                    | 1,027      | 1,282      | (255)      | (20%)       |
| Grand Total Liabilities                                       | \$2,061    | \$2,327    | (\$266)    | (11%)       |

By law, Federal agencies cannot make any payments unless Congress has appropriated funds for such payments and OMB has apportioned the funds. A portion of liabilities reported is currently not funded by congressional appropriations. For example, the unfunded amounts include employees' annual leave (earned, but not yet taken) and FECA benefits that are accrued to cover liabilities associated with employees' death, disability, medical, and other approved costs that have not yet been appropriated.

A major program generating unfunded liabilities is Payments to States, which authorizes annual revenue-sharing payments to States for public schools and public roads in the county or counties in which the national forests are located. A portion of the Payments to States program is funded with agency receipts. The balance is recorded as an unfunded liability for which the Department of Treasury's (Treasury) general receipts are apportioned when the payments are made in the following year.

The agency receipts are funds held by the Forest Service in special receipt accounts, pending transfer to Treasury for subsequent apportionment. A portion of the Payments to States to be paid in the next fiscal year is based on receipts collected during the current fiscal year, while the remaining liability is funded by Treasury general receipts.

#### Net Position

The Forest Service reported a net position of \$5.3 billion for FY 2007, representing a decrease of 3 percent from FY 2006 amounts. The decrease is primarily attributed to a change in parent/child treasury symbol reporting as required in OMB Circular A-136. The Forest Service as a child agency receives five allocation transfers from other parent agencies, but no longer includes these allocations in the financial statements.



Net position represents unexpended appropriations consisting of undelivered orders, as well as unobligated funds and the cumulative results of operations. In accordance with SFFAS 27 *Identifying and Reporting Earmarked Funds*, earmarked funds for which the Forest Service is responsible for program management are presented separately on the Statement of Changes in Net Position, and both earmarked and other fund totals are included in Exhibit 16.

Unexpended appropriations reflect the spending authority made available by congressional appropriation, but has not been used. Cumulative results of operations reflect the cumulative effect of financing in excess of expenditures.

**Exhibit 16. Net Position (in millions)**

| NET POSITION                           | FY<br>2007 | FY<br>2006 | Difference |             |
|--|------------|------------|------------|-------------|
|  |            |            | Dollars    | Percentages |
| Unexpended Appropriations, as Adjusted | \$1,307    | \$1,054    | \$ 253     | 24%         |
| Cumulative Results of Operations       | 3,971      | 4,360      | (389)      | (9%)        |
| Total Net Position                     | \$5,278    | \$5,414    | (\$136)    | (3%)        |

**Net Cost of Operations**

The Forest Service's net cost of operations was \$5.7 billion for the year ended September 30, 2007, representing a decrease of 3 percent from FY 2006 amounts.

Earned revenue from the public includes 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. The Forest Service also performs reimbursable activities, such as work completed mainly for other Federal agencies, in accordance with the Economy Act and other authorities.

The Forest Service distributes a portion of its earned revenues to eligible States in accordance with Public Law (PL) 106-393, Secure Rural Schools and Community Self-Determination Act of 2000, as amended by PL 110-28, Section 5401.

**Expenses**

Forest Service program costs are \$6.3 billion for the year ended September 30, 2007, representing a 9 percent decrease from FY 2006. The agency spent \$260 million in FY 2006 for ongoing cleanup work related to the FY 2005 hurricane season. Expenditures in FY 2007, decreased significantly in comparison. In addition, implementation of parent/child reporting requirements resulted in the exclusion of \$176 million of program costs.

Exhibit 17 illustrates program costs by responsibility segment for the years ended September 30, 2007, and September 30, 2006.

**Exhibit 17. Gross Expenses (in millions)**

| GROSS EXPENSES                  | FY<br>2007     | FY<br>2006     | Difference     |             |
|---------------------------------|----------------|----------------|----------------|-------------|
|                                 |                |                | Dollars        | Percentage  |
| <b>Program Costs</b>            |                |                |                |             |
| National Forests and Grasslands | \$3,277        | \$3,521        | (\$244)        | (7%)        |
| Forest and Rangeland Research   | 302            | 357            | (55)           | (15%)       |
| State and Private Forestry      | 378            | 416            | (38)           | (9%)        |
| Wildland Fire Management        | 2,358          | 2,643          | (285)          | (11%)       |
| <b>Total Program Costs</b>      | <b>\$6,315</b> | <b>\$6,937</b> | <b>(\$622)</b> | <b>(9%)</b> |

**Budgetary Resources**

The Forest Service's total budgetary resources were \$8.0 billion in FY 2007 and \$8.7 billion in FY 2006, representing a decrease of 8 percent from FY 2006. The unobligated balance brought forward in FY 2007 was significantly reduced as a result of increased obligations in FY 2006 for fire and hurricane activity.

**ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE**

**FY 2007 Financial Statement Audit Report Results**

The FY 2007 Financial Statement Audit report identified one material weakness under the heading "General Controls Environment". In addition, the report identified nine significant deficiencies.

The FY 2008 FMFIA and FFMIA corrective action plans (CAPs) are being developed to address these and other deficiencies as included in the report.

**Federal Managers' Financial Integrity Act (FMFIA)**

The FMFIA<sup>12</sup> requires Federal agencies to conduct ongoing evaluations of the adequacy of the systems of internal accounting and administrative control and to report all material weaknesses found through these evaluations. Federal agencies are required to provide reasonable assurance that the following objectives are being met:

- Programs operate efficiently and effectively;
- Obligations and costs comply with applicable laws and regulations;
- Funds, property, and other assets are safeguarded against waste, loss, or mismanagement; and
- Revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports and to maintain accountability over assets.

During FY 2007, the Forest Service took the steps necessary to ensure that evaluations of the system of internal controls for the agency were conducted in accordance with OMB guidelines and complied with the standards prescribed by the Comptroller General.

The Forest Service's annual evaluation included assessments regarding whether the financial management systems, and internal accounting and administrative controls were in compliance with the standards prescribed by the Comptroller General. The results of this assessment,

<sup>12</sup> This is also known as the Integrity Act.

conducted at all levels throughout the agency, indicated that the agency's controls, in general, are achieving their intended objectives and during FY 2007 provide reasonable assurance that the above-mentioned objectives have been met. The Forest Service identified no additional deficiencies during this annual internal process, except for the material weakness and significant deficiencies identified below.

In FY 2007, the Forest Service reported the following OIG audit-identified material weaknesses, significant deficiencies, and noncompliance issues as part of the FMFIA process.

Forest Service reports that the previously reported material weakness—Forest Service Needs to Continue to Improve its Financial Management and Reporting Process—has been downgraded to a significant deficiency.

Material Weakness

Number 1: The Forest Service Needs to Continue to Improve its General Controls Environment (Repeat Condition).

Significant Deficiencies

Number 1: The Forest Service Needs to Continue to Improve its Financial Management and Reporting Process (Repeat Condition).

Number 2: The Forest Service Needs to Refine and Monitor its Expense Accrual.

Number 3: Accountability for Unliquidated Obligations (ULOs) Needs Continued Improvement (Repeat Condition).

Number 4: Review of Credit Card Transactions and Controls Over the Programs Need Continued Improvement (Repeat Condition).

Number 5: The Forest Service Needs to Improve Internal Controls over its Environmental and Disposal Liabilities (EDL) Process.

Number 6: Controls Related to Physical Inventories of Pooled Real Property Need Continued Improvement (Repeat Condition).

Number 7: The Forest Service Needs to Improve Its Business Process for Revenue Transactions (Repeat Condition).

Number 8: Process Improvements are Needed over Personal Property Transactions (Repeat Condition).

Number 9: The Compilation of Performance Measures Needs Continued Improvement (Repeat Condition).

The planned corrective actions for the material weakness and the significant deficiencies are in Appendix D, Federal Managers' Financial Integrity Act Action Plans.

Two previous reportable conditions were closed in FY 2007:

- Proper Reference in Transactions
- Adequate Segregation of Duties

Noncompliance Issues

- The Forest Service Continues to Not Obligate all Transactions Required by Appropriations Law

### ***Federal Financial Management Improvement Act (FFMIA)***

The FFMIA<sup>13</sup> of 1996 requires Federal agencies to implement and maintain financial management systems that substantially comply with the following:

1. Federal financial management system requirements;
2. Applicable Federal Accounting Standards; and
3. The U.S. Standard General Ledger (SGL) at the transaction level.

### ***FY 2007 Results***

For FY 2007, the Forest Service was not in full compliance with the FFMIA in two out of the three areas. Specifically, the agency's financial management systems did not comply with Federal financial management system requirements and the SGL at the transaction level.

### ***Federal Financial Management System Requirements***

The Forest Service financial management systems operate on the agency's computer base. A material weakness was noted in the general computer control environment, causing the Forest Service financial management systems to not fully comply with the requirements of this section.

The Forest Service developed a remediation plan and project—the SecureCAP—to implement corrective actions to aggressively resolve all Improvement Act and FISMA noncompliance issues. The project has three phases, focusing on the most material information security issues first, and then moving to lower-level issues over a three-year period. SecureCAP has been in effect for a complete year.

As of September 30, 2007, the Forest Service implemented several new control systems designed to rectify information security weaknesses. These actions, once verified through A-123 "Management's Responsibility for Internal Controls", should show that corrective action is complete. The agency continues to make progress toward resolving multiple remaining issues within the general control environment. The development and implementation of agency-wide software and hardware management policies and procedures is ongoing and will be phased in over the next few years.

In addition, certifications and accreditations (C&A) of systems in full compliance with OMB Circular A-130 and National Institute of Standards and Technology's (NIST) Special Publication 800-37 "Guide for Security Certification and Accreditation of Federal Information Systems" is scheduled for completion by first quarter, FY 2008.

Planned remedial actions are in Appendix E, Federal Financial Management Improvement Act Remediation Plans.

### ***Federal Information Security Management Act (FISMA)***

The FISMA provides the framework for securing the Federal Government's information technology. Departments covered by the Paperwork Reduction Act must implement the requirements of FISMA, reporting annually to OMB and Congress on the effectiveness of the agency's security programs and independent OIG evaluations.

Security audit findings, security deficiencies identified in systems C&A process, and security deficiencies identified in self-assessments are listed and tracked in the FISMA Plan of Actions and Milestones, which is updated monthly and reported to USDA quarterly for inclusion in its FISMA Report to OMB.

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<sup>13</sup> This is known as the Improvement Act.

The Forest Service is aware of the vulnerability of its assets and financial data due to error or fraud and is correcting the information security controls material weakness. Plans are in place to address this material weakness, as well as any associated reportable conditions, as identified in the FY 2007 Annual FISMA Report.

#### FY 2007 Results

Although the Forest Service did not resolve all information security weaknesses as planned for FY 2007, the agency continues to make progress in implementing the necessary corrective actions to resolve remaining weaknesses.

Information security corrective actions (also FMFIA/FFMIA corrective actions) completed this fiscal year include:

- Revised Forest Service policy to comply with requirements of NIST Special Publication 800-53 for 71 controls.
- Conducted business impact analysis at various regional offices.
- Reviewed, revised, and implemented new procedures for media protection and physical access security controls.
- Revised and is implementing policies and procedures for controls related to contingency planning, configuration management, and disaster recovery.

The Forest Service will continue with plans to complete the correction of the information security controls material weakness in FY 2008.

#### ***Improper Payments Information Act (IPIA)***

The Improper Payments Information Act (IPIA) requires each Federal agency to assess all programs and identify which, if any, program(s) may be subject to high risk with respect to improper payments. Agencies are also required to implement any needed corrective measures. For FY 2006 disbursements, USDA determined four funds to audit, with one fund requiring a statistical sample. Forest Service identified the Wildland Fire Suppression (WFSU) program again as its single *high-risk* program area related to payments. The Forest Service selected a sample from the FY 2006 WFSU outlays for evaluation, using an estimated 0.5 percent error rate with a 90 percent confidence level, which resulted in 271 samples.

For the FY 2006 disbursements, the error rate, when extrapolated, resulted in the annual estimated improper payments amounts for the WFSU program of \$5.4 million. Our review of disbursements for the National Forest Systems, Capital Improvement and Maintenance, and Wildfire Management Funds indicated an error rate of 0 percent (0%).

#### ***Internal Controls over Financial Reporting (OMB Circular A-123, Appendix A)***

The Forest Service implemented the revised requirements of OMB's Circular A-123 "Management's Responsibility for Internal Controls," and Appendix A, "Internal Controls over Financial Reporting." USDA identified 8 cycles and 47 processes that were applicable for assessment under these requirements.

The eight cycles included Funds Control, Funds Management, Human Capital Management (HCM), Grant Management, Procurement, Revenue Management, Property Management, and Financial Reporting. In addition, IT (computer controls) was also considered a component of the Forest Service's self-assessment. Each process was mapped and evaluated for internal control design effectiveness.

For the 2007 Assurance Year (ending June 30 of the fiscal year), Forest Service tested all cycles or processes except for HCM and Procurement—Incident Finance (IF) due to these processes

being in remediation efforts. HCM was in remediation due to Migration, and Procurement–IF was in remediation due to major process reengineering.

The outcome of the A-123 testing identified no new material weaknesses and two significant deficiencies in Property and Financial Reporting Cycles. The Forest Service developed remediation plans for the identified deficiencies and implemented a monitoring process.

The deficiencies in Property are in the areas of acquisitions and inventory. Controls over acquiring and placing assets into service (primarily documentation controls) were not effective. Specifically, assets were not thoroughly documented and were not placed into service timely. Controls over inventory of real and personal property were also not designed to ensure all control objectives were met, specifically, objectives relating to completeness and validity were not adequately addressed.

The summary remediation efforts for Property have an estimated completion date (ECD) of August 31, 2008, and include:

- Work with WO/RO/Area Transformation Team to conduct a root cause analysis and develop new potential solutions. The team will then identify controls within the selected solution<sup>14</sup>.
- Implement a new process to include controls over the proper accounting, documentation, and classification of capitalized property.
- AQM will develop a monitoring tool to assess progress of implementation of the plan.
- Forest Service A-123 team will conduct validation testing using the USDA sampling requirements for remediated controls.

In the Financial Reporting Cycle, the controls over the Quarterly Certification of Unliquidated Obligations were ineffective.

The summary remediation efforts for Financial Reporting have an ECD of January 31, 2009, and include:

- Brief NLT on issue of ULO/IAS Receipt of Goods and Services certification problem.
- Identify national team to review and conduct root cause analysis regarding certification issues.
- Develop report and plan for responding to identified causes.
- Report should identify control revisions, implementation of new controls, or elimination of controls, as necessary.
- Implement new process to include newly designed controls.
- Monitor implementation at each regional office.
- Forest Service A-123 team conducts validation testing on third and fourth quarters of FY 2008, and first quarter of FY 2009 certification process.

### ***Anti-Deficiency Act***

The Forest Service provides aviation support for emergency fire suppression incidents. In FY 2006, a footnote on the apportionment for 12X1115, Wildland Fire Management, indicated that no more than \$100 million of fire suppression funds could be spent on aviation resources. The ceiling was exceeded by approximately \$17 million. An aviation increase was requested on August 3, 2006. USDA Office of Budget and Program Analysis (OBPA) advised the Forest Service of a potential Anti-Deficiency Act violation of the ceiling imposed by the apportionment

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<sup>14</sup> The WO/RO/Area Transformation Team is proposing several alternatives for restructuring the Acquisition Management (AQM) community in the field. Before a solution can be determined, Forest Service must decide on which option it will implement. This step is contingent on when the chosen option is implemented.

footnote, and requested the Forest Service seek a legal opinion from the USDA Office of General Counsel (OGC) regarding the aviation footnote.

In July 2007, OGC rendered their opinion indicating that exceeding the footnote ceiling for aviation was a violation of the Anti-Deficiency Act. Subsequently, the Forest Service requested an opinion from the Government Accountability Office (GAO).

GAO advised the Forest Service that they would review the decision and provide their opinion in late December 2007.

***Inspector General Act Amendments of 1988***

The Inspector General Act requires management to complete all final actions on audit recommendations within 1 year of the date of the Inspector General's final audit report.

As of September 30, 2007, the Forest Service officially closed five outstanding audits. An audit is "outstanding" if it remains open 1+ years of reaching management decision on all audit recommendations. The explanation for delays in implementing recommendations includes the development and implementation of new/revised directives and systems.

Per the Inspector General Act reporting requirements, agencies must report the dollar value of any disallowed costs (DC) and funds to be put to better use<sup>15</sup> (FTBU).

A DC is a questioned cost that management sustains or agrees is not chargeable to the Government. FTBU are funds that OIG has recommended could be used more efficiently if management took actions to implement and complete the recommendation.

The following are results from the reporting period of October 1, 2006, to September 30, 2007.

*FY 2007 Results*

| <b>DC and FTBU (In thousands)</b> |                          |                 |                   |
|-----------------------------------|--------------------------|-----------------|-------------------|
|                                   | <b>Number of Reports</b> | <b>DC Value</b> | <b>FTBU Value</b> |
| <b>Balance 9/30/2006</b>          | 13                       | \$140.5         | \$11,503.2        |
|                                   |                          |                 |                   |
| New                               | 5                        | 0               | 0                 |
| Total                             | 18                       | 140.5           | 11,503.2          |
| Closed                            | 5                        | 102.6           | 1,173.9           |
| <b>Balance 9/30/2007</b>          | 13                       | \$37.9          | \$10,329.3        |

<sup>15</sup>OIG audit reports identify FTBU, which are subsequently transferred with the management decision to USDA's Chief Financial Officer (OCFO) to monitor and track.

## PRESIDENT'S MANAGEMENT AGENDA

The Deputy Chief for Business Operations provides oversight for the PMA implementation within the Forest Service. These PMA initiatives are integral to the strategy to improve the management and performance of the Federal Government in the following areas:

- Strategic Management of Human Capital
- Competitive Sourcing
- Improved Financial Performance
- Expanded Electronic Government
- Budget and Performance Integration
- Eliminating Improper Payments
- Federal Real Property Asset Management

The PMA includes three scores toward its standards for achievement: green, yellow, and red. The Forest Service is "Getting to Green" when it successfully demonstrates achievement for OMB's green standards for success. The following discussion demonstrates the agency's FY 2007 results.

### **Strategic Management of Human Capital**

| OMB'S GREEN STANDARD   | STATUS AND PROGRESS   |
|--|---|
| <p><i>Implemented a comprehensive Human Capital Plan, analyzed the results, and integrated them into decision making processes to drive continuous improvement.</i></p>  | <p>The Forest Service implemented a comprehensive Human Capital Plan and continues to integrate the results into all organizational decision-making processes.</p> <p>The agency has conducted a workforce planning process on an annual basis since 2001. Today, regional workforce planning is facilitated by an automated workforce planning database that provides national and field-level predictions for attrition and hiring. The workforce planning results are then integrated with the budget planning process and incorporated into the operational management of each NFS region. At the national level, a new Workforce Planning Branch was created within HCM to facilitate the Workforce Planning process.</p> <p>Another aspect of the agency's comprehensive Human Capital Plan addresses the potential competency gaps created by increased retirement rates of the workforce. The <i>Leadership Success Program</i>(LSP), initiated in 2005, is a 5-tiered approach to building leadership competencies at the executive, senior, mid-level, new, and aspiring leader levels.</p> <p>Lastly, the Forest Service adopted Human Capital Assessment and Accountability Framework measures and methods to close mission-critical occupation gaps.</p> |
| <p><i>Analyzed and optimized existing organizational structures from service and cost perspectives, using redeployment and delayering as necessary and integrating competitive sourcing and E-Gov solutions; and has process(es) in place to address future changes in business needs.</i></p> | <p>The Forest Service is committed to increasing efficiencies by reducing the operating costs of the Washington Office and regional offices. A benchmark for success is a 25-percent reduction in operating costs by 2010, from the 2006 funding level. To accomplish this, the agency has convened a realignment effort in the top tiers of the agency, primarily focusing on the WO/RO/Area. A Transformation Management Team, with executive oversight from a regional forester, is leading the effort.</p> <p>In the Forest Service's Human Capital Management BPR, significant progress was made in centralizing and automating HCM functions at ASC.</p> <p>The estimated annual cost savings of \$32 million per year will result mostly from agency wide FTE reductions that are achieved through automation, improved service to employees, and better management of human capital consistent with the PMA.</p> <p>The estimated cost for implementation (\$60.5 million) of the new HCM organization will be offset within 4.25 years.</p>  |



| OMB'S GREEN STANDARD  | STATUS AND PROGRESS   |
|---|---|
|   | <p><b>Stage I</b> (FY 2006) activities included:</p> <ul style="list-style-type: none"> <li>▪ Redesigned over 53 HR business processes in Staff/Class and Personnel Action Request Processing.</li> <li>▪ Developed business requirements for the PeopleSoft-based EmpowHR HRIS managed by NFC.</li> <li>▪ Completed construction of a state-of-the-art facility to house ASC-HCM.</li> <li>▪ Designed future HCM organization, including strategies for workforce transition and records migration.</li> <li>▪ Developed corporate training strategy that will eventually affect over 30,000 users.</li> </ul> <p>HCM processing, supported by a Contact Center, began providing services to customers in September 2006.</p> <p>For FY 2007, the agency completed design and deployment for <b>Stage 2</b>, including deployment of additional EmpowHR functionality in the areas of pay and leave, benefits, awards, performance management, HCM, employee relations, and labor-management relations.</p>  |
| <p><i>Succession strategies, including structured leadership development leadership; programs, result in a leadership talent pool and agency meets its targets for closing competency gaps.</i></p> | <p>The Forest Service's ongoing implementation of the Leadership Succession Strategy ensures continuity of leadership for the future. To achieve the goals for this strategy, the agency uses:</p> <ul style="list-style-type: none"> <li>▪ A succession framework that consists of five key leadership tracks with distinct competencies that characterize progressive leadership development.</li> <li>▪ The LSP to provide a learning environment for leaders and managers to gain the skills to effectively manage people, resources, and issues. In FY 2007, the LSP completed Class 4 with 40 students. The Program's success resulted in significant Forest Service participation in the USDA SES Candidate Development Program, the launch of a 12-month national Senior Leader Development Program, and a series of regional Leadership Development Sessions for mid-level managers.</li> <li>▪ USDA's Web-based learning management system, AgLearn, to assist employees with developing competency-based individual development plans, register for training, and help management track training completion and effectiveness, costs, certifications, and other training related issues.</li> <li>▪ A Training Center of Excellence to enable the leadership and staff to refocus the agency's investment in employee development toward a more strategic and coordinated approach.</li> </ul> |

| OMB'S GREEN STANDARD   | STATUS AND PROGRESS  |       |            |       |       |  |      |    |      |     |       |      |    |      |     |       |      |     |       |     |       |      |     |       |     |       |
|--|--|-------|------------|-------|-------|--|------|----|------|-----|-------|------|----|------|-----|-------|------|-----|-------|-----|-------|------|-----|-------|-----|-------|
| <p><i>Demonstrates that performance appraisal and awards systems for all SES and managers, and more than 60 percent of the workforce effectively:</i></p> <ul style="list-style-type: none"> <li>▪ <i>Link to agency mission, goals, and outcomes;</i></li> <li>▪ <i>Hold employees accountable for results appropriate for their level of responsibility;</i></li> <li>▪ <i>Differentiate between various levels of performance (i.e., multiple performance levels with at least one summary rating above Fully Successful); and</i></li> <li>▪ <i>Provide consequences based on performance.</i></li> </ul> <p><i>In addition, at a beta site, there is evidence that clear expectations are communicated to employees; rating and rewards data demonstrate that managers effectively planned, monitored, developed, and appraised employee performance; and the site is ready to link pay to the performance appraisal systems. The agency has significantly increased the size of the beta site and is working to include all agency employees under such systems.</i></p> | <p>The Forest Service issued direction that 100 percent of agency employees will have credible measures of performance, aligned with the mission and their units' performance goals and objectives.</p> <p>In order to differentiate between various levels of performance, the agency transitioned to a multilevel performance management system. A framework was established within the existing pass/fail performance evaluation that could be migrated to the multilevel plan. Although planned for FY 2006, this transition to a five-level system was delayed until first quarter of FY 2007.</p> <p>Expectations are set for employee performance and then monitored. Feedback is provided via the supervisory channel.</p> <p>Employees are held accountable with consequences based on positive performance that include performance bonus awards, quality step increases, nonmonetary, spot and time-off awards. Consequences based on negative performance include performance improvement plans and misconduct investigations.</p> <p>The new multilevel performance management system was beta tested with Forest Service Partnership Council. It is now in operation throughout the Forest Service. Pay is linked to performance through the appraisal system and through awards and within-grade increases (WGs).</p>   |       |            |       |       |  |      |    |      |     |       |      |    |      |     |       |      |     |       |     |       |      |     |       |     |       |
| <p><i>Reduced under representation, particularly in mission-critical occupations and leadership ranks; established processes to sustain diversity.</i></p>   | <p>The Forest Service's National Recruitment Council coordinates recruitment efforts, develops planning and recruitment tools, and provides direction for a system of National Recruitment Initiatives, based at 12 targeted universities.</p> <p>Since FY 2003, a system of monitoring and accountability has measured progress in addressing key workforce planning issues. Results indicate minority hiring in FY 2004 increased by over 50 percent over previous years and the use of the Student Career Experience Program (SCEP) hiring authority had more than doubled. Similar results have continued through the end of FY 2007, enabling the Forest Service to improve its diversity hiring.</p> <p>Since 1998, the Forest Service has been engaged in a systematic approach of recruiting a highly skilled and diverse workforce to carry out the agency's mission now and into the future. This system is currently based on a foundation of annual workforce planning both at the national and regional field levels. The agency employs many processes, including extensive outreach activities, to build and sustain diversity in the number of candidates for leadership and executive-level positions.</p> <p>The Forest Service reports a steady increase in women and minorities in leadership positions at GS-14 and above:</p> <table border="1" data-bbox="852 1543 1250 1701"> <thead> <tr> <th>Year</th> <th colspan="2">Minorities</th> <th colspan="2">Women</th> </tr> </thead> <tbody> <tr> <td>1992</td> <td>72</td> <td>6.7%</td> <td>118</td> <td>11.0%</td> </tr> <tr> <td>1996</td> <td>87</td> <td>9.0%</td> <td>160</td> <td>16.6%</td> </tr> <tr> <td>2001</td> <td>164</td> <td>14.0%</td> <td>301</td> <td>25.7%</td> </tr> <tr> <td>2006</td> <td>193</td> <td>16.1%</td> <td>387</td> <td>32.2%</td> </tr> </tbody> </table> | Year  | Minorities |       | Women |  | 1992 | 72 | 6.7% | 118 | 11.0% | 1996 | 87 | 9.0% | 160 | 16.6% | 2001 | 164 | 14.0% | 301 | 25.7% | 2006 | 193 | 16.1% | 387 | 32.2% |
| Year   | Minorities   |       | Women      |       |       |  |      |    |      |     |       |      |    |      |     |       |      |     |       |     |       |      |     |       |     |       |
| 1992   | 72   | 6.7%  | 118        | 11.0% |       |  |      |    |      |     |       |      |    |      |     |       |      |     |       |     |       |      |     |       |     |       |
| 1996   | 87   | 9.0%  | 160        | 16.6% |       |  |      |    |      |     |       |      |    |      |     |       |      |     |       |     |       |      |     |       |     |       |
| 2001   | 164  | 14.0% | 301        | 25.7% |       |  |      |    |      |     |       |      |    |      |     |       |      |     |       |     |       |      |     |       |     |       |
| 2006   | 193  | 16.1% | 387        | 32.2% |       |  |      |    |      |     |       |      |    |      |     |       |      |     |       |     |       |      |     |       |     |       |
| <p><i>Meets targets for closing competency gaps in mission critical occupations (i.e., agency specific, human resources management,</i></p>  | <p>In FY 2007, the Forest Service continued the ongoing implementation of its Leadership Succession Strategy. The agency developed a succession framework, aligned with the five OPM key leadership tracks and the unique</p>  |       |            |       |       |  |      |    |      |     |       |      |    |      |     |       |      |     |       |     |       |      |     |       |     |       |

| OMB'S GREEN STANDARD  | STATUS AND PROGRESS  |
|---|--|
| <p><i>information technology, and leadership) and integrates appropriate competitive sourcing and E-Gov solutions into gap closure strategy.</i></p>  | <p>competencies that characterize progressive leadership development.</p> <p>Since FY 2000, the agency increased its field organization presence so that currently 98 percent of its permanent workforce works in field locations. Forest Service also reduced managerial levels (GS-14 and above) in its permanent workforce to only 4 percent.</p>   |
| <p><i>Meets 45-day time to hire standard, 45-day standard to notify applicants of hiring decision for 50 percent of hires, and targets for hiring process improvements based on Chief Human Capital Officer Council criteria.</i></p>         | <p>The Forest Service continued to use an automated staffing system that significantly improved efficiency and provided a tool to closely monitor hiring cycle times.</p> <p>The agency deployed a new HRIS, based on NFC's EmpowHR system, to further enhance efficiencies and improve hiring timelines during the HCM Implementation. Forest Service reported 322 GS and non-SES hiring decisions in third quarter reporting; 111 hiring decisions were made using 6 hiring flexibilities.</p> <p>The average number per hiring decision was 22 days (meeting the 28-day time to hire standard) from a pool of 9,624 applicants.</p>   |
| <p><i>Sets and meets aggressive SES hiring timelines progressing toward a 30-day average; and</i></p>   | <p>Prior to FY 2007, Forest Service provided an analysis of SES actions to USDA, identifying issues and opportunities to streamline the process for filling SES positions.</p> <p>In FY 2007, the Forest Service worked with USDA to establish weekly meetings of standing Executive Resources Boards so that highly qualified SES applicants could be referred to selecting officials shortly after vacancy announcements close. This has eliminated the single greatest barrier to meeting the 30-workday selection requirement.</p> <p>Biweekly reports to executives highlight areas where executive action is needed to expedite selection or approvals.</p>  |
| <p><i>Periodically conducts accountability reviews with OPM participation, taking corrective and improvement action based on findings and results, and providing annual reports to agency leadership and OPM for review and approval.</i></p> | <p>The Forest Service was a key member of the team that successfully developed the USDA Human Capital Accountability System. The agency continues to monitor progress in achieving milestones set down in the plan in quarterly reports for 8 to 11 HCM program areas.</p> <p>OPM conducted a HCM and Human Resources Accountability Review at the Forest Service's national headquarters and three field offices in 2005. The review acknowledged positive accomplishments in the Talent Management, Performance Culture, Leadership/Knowledge Management and HR Accountability areas. Several action items resulting from the review were implemented in FY 2007 to strengthen the HCM Program.</p> <p>Additionally, the Forest Service created and staffed a new branch within HCM to compile and report performance metrics based on service level agreements (SLAs) to measure accountability among Human Resources staff, managers, and employees.</p> |

**Competitive Sourcing**

| OMB'S GREEN STANDARD  | STATUS AND PROGRESS   |
|---|---|
| <i>Has an OMB approved, "green" competition plan to compete commercial activities available for competition.</i>  | The Forest Service continues to follow its December 2005, OMB-approved "Green" competition plan, pending approval of the 2007 revision.   |
| <i>Publicly announces standard competitions in accordance with the schedule outlined in the agency "green" competition plan.</i>  | <p>The schedule in the Green Plan focuses primarily on feasibility studies that are the means to examine the practicality of conducting a public-private competition.</p> <p>Feasibility studies are conducted in accordance with the Green Plan schedule within the constraints of the competitive sourcing appropriations cap. Follow-on competitions are based on management decisions as a result of feasibility study findings and in consideration of appropriation limitations.</p> <p>The standard competition for Communication Activities was publicly announced on June 29, 2006, as an outcome of that feasibility study.</p>   |
| <i>Since January 2001, has completed at least 10 competitions (no minimum number of positions required per competition) or has completed a sufficient number of large competitions to demonstrate meaningful use of competitive sourcing.</i> | <p>The agency has completed at least 10 competitions since 2001.</p> <p>The Information Technology Infrastructure competition led to major improvements in how services are delivered within the agency. An estimated 541 FTEs from Information Solutions Organization will generate savings greater than \$100 million over 5 years.</p> <p>Two roads maintenance competitions phased in during FY 2004 are generating a combined savings of over \$1.5 million per year.</p> <p>Streamlined maintenance studies conducted in 2003 that resulted in the most efficient organization (MEO) being the lowest cost did not produce the savings and performance enhancements anticipated. As a result, these studies were not implemented.</p> <p>Lessons learned from this process helped the agency to better focus its competitive sourcing efforts towards more promising studies.</p> |
| <i>In the past four fiscal quarters, completed 90 percent of all standard competitions in a 12-month timeframe or timeframe otherwise approved in accordance with OMB Circular A-76.</i>  | The Communication Activities public-private competition is the only competition conducted in the last four fiscal quarters. This was publicly announced June 29, 2006 and as of September 30, 2007, has not been concluded.   |
| <i>In the past four fiscal quarters, completed 95 percent of all streamlined competitions in a 90-day timeframe or timeframe otherwise approved in accordance with OMB A-76.</i>  | No streamlined competitions were conducted in the last four fiscal quarters.  |
| <i>In the past year, canceled fewer than 10 percent of publicly announced standard and streamlined competitions.</i>  | In the past year, no publicly announced competitions have been cancelled.   |
| <i>Has OMB reviewed written justifications for all categories of commercial activities determined to be unsuitable for competition.</i>   | <p>The agency submitted, and OMB approved, written justifications for all categories of commercial activities determined to be unsuitable for competition with its 2007 FAIR Act inventory submission to USDA. These categories included "Commercial Reason Code A" and "Inherently Governmental."</p> <p>To date, the justifications have not been disapproved or approved.</p>  |

| OMB'S GREEN STANDARD   | STATUS AND PROGRESS  |
|--|--|
| <p><i>Structures competitions in a manner to encourage participation by both private and public sectors as typically demonstrated by receipt of multiple offers and/or by documented market research, as appropriate.</i></p>                                  | <p>Market research is conducted as a part of the feasibility study process and is a factor in determining whether a competition should be announced. Documented market research is a basis for competition structure.</p>  |
| <p><i>Regularly reviews work performed once competitive sourcing studies are implemented to determine if performance standards in contract or agreement with agency provider are met and takes corrective action when provided services are deficient.</i></p> | <p>Quality Assurance Surveillance Plans were implemented for all service providers, with performance monitored by contracting officers and overseen by the Management Analysis Staff in the Washington Office.</p> <p>The Staff also conducted periodic field reviews to assess service provider performance, implementing corrective actions as appropriate if services were deficit.</p>                     |
| <p><i>Submits quarterly reports to OMB's competitive sourcing tracking system regarding status of pending competitions and results achieved.</i></p>   | <p>Throughout the reporting period, all status of pending competitions and results achieved were current in the competitive sourcing tracking system.</p>  |
| <p><i>Has positive anticipated net savings and/or significant performance improvements from competitions completed either in last fiscal year for which data has been officially reported to Congress by OMB or in the past three quarters., and.</i></p>      | <p>Not applicable; no competitions were completed in last fiscal year or in the past three quarters.</p> <p>Performance improvements and positive actual achieved savings are realized from studies completed prior to FY 2005. In FY 2006, the agency reported \$19.55 million in savings as a result of competitions completed prior to FY 2005 for which data has been officially reported to Congress.</p> |
| <p><i>To maintain green status, agency:</i></p>  |  |
| <p><i>Has expressly coordinated "green" competition plan annual updates with agency's Chief Human Capital Officer.</i></p>   | <p>Yes. The approved "Green Plan" included the agency's Human Capital Plan among the data considered when assessing activities suitable for feasibility study. Each update of the Green Plan is fully vetted and coordinated with all staffs, including HCM, as part of the Chief's approval process.</p>  |
| <p><i>Through sampling, independently validates that savings to be achieved for the prior fiscal year were realized.</i></p>   | <p>Yes. The Management Analysis Staff calculated and independently validated achieved savings based on actual expenditures.</p> <p>Actual, not anticipated, savings are recognized and reported as realized savings.</p> <p>The agency reviewed its processes for monitoring, collecting, and reporting performance information, taking measures to strengthen the processes currently in place.</p>           |

**Improved Financial Performance**

| OMB'S GREEN STANDARD   | STATUS AND PROGRESS   |
|--|---|
| <i>Receives an unqualified audit opinion on its annual financial statements.</i>   | In FY 2007, the Forest Service demonstrated commitment to sustaining an unqualified audit opinion for the sixth consecutive year.   |
| <i>Meets financial statement reporting deadlines.</i>  | The Forest Service met the FY 2007 financial statement reporting deadlines on its annual financial statements.  |
| <i>Reports in its audited annual financial statements that its systems are in compliance with the Federal Financial Management Improvement Act.</i>  | The Forest Service is not in compliance with FFMA. The agency's financial systems do not have current C&A, system security plans, and risk assessments. While the majority of the agency's contingency and continuity of operations plans are current, most have not been tested.   |
| <i>Has no chronic or significant Anti-Deficiency Act Violations.</i>   | OGC notified the agency in July 2007 that the Forest Service was not in compliance with Title 31, United States Code 1517 and that the Anti-Deficiency Act was violated by obligating more than the amount OMB apportioned in FY 2006 for the acquisition of aviation resources. The agency disagrees with this opinion and has requested a review by the U.S. Government Accountability Office.  |
| <i>Has no material auditor-reported internal control weaknesses.</i>   | <p>Financial auditors in the past several years aggregated several IT security findings into an IT Material Weakness.</p> <p>The Forest Service collaborated with USDA's OCFO and OCIO to develop CAPs to resolve the weakness. Launched in a FY 2007 implementation, the CAPs address groups of internal controls, or control families, to satisfy:</p> <ul style="list-style-type: none"> <li>▪ OMB's Circular A-123 requirements, including FFMA and FMFIA.</li> <li>▪ FIPS 200/NIST Special Publication 800-53 requirements.</li> <li>▪ FISMA self-assessment.</li> </ul> <p>The Forest Service's CFO and Chief Information Officer (CIO) established a Project Management Office to execute the CAPs and monitor their progress. Biweekly status meetings with USDA officials were held through the end of FY 2007.</p>  |
| <i>Has no material noncompliance with laws or regulations.</i>   | The Forest Service is noncompliant with FFMA and Appropriations Law.  |
| <i>Has no material weaknesses or non-conformances reported under Section 2 and Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems.</i> | <p>Previous audit findings indicate the Forest Service must improve its financial management and reporting process. The ongoing A-123 work assisted in identifying and implementing improvements to downgrade one weakness. In FY 2007, the agency made these improvements:</p> <ul style="list-style-type: none"> <li>▪ The A-123 program successfully mapped 57 processes and identified over 150 key controls that affect the financial statements, which proved extremely valuable to the external auditors and the ASC process owners as it reduced the time spent to compile and prepare documentation for the financial statement audit.</li> <li>▪ Developed an action plan to clear the prior year's general ledger of nonroutine transactions.</li> <li>▪ The agency moved forward with an aggressive plan to review, clear, or liquidate all improper unliquidated obligations. The strategy tackled the oldest and largest obligations first, until certifications and samples demonstrate complete accuracy in obligated balances.</li> </ul> <p>Priority work continues to eliminate material weaknesses from financial processes, resulting in increased accountability.</p> |

| OMB'S GREEN STANDARD  | STATUS AND PROGRESS  |
|---|--|
| <i>Is implementing a plan to continuously expand the scope of its routine data use to inform management decisionmaking in additional areas of operations.</i>         | The Forest Service completed migration of all of its core finance and budget execution functions to a shared services center located in Albuquerque, NM, in January 2006. B&F transactional processing and all data entry into the agency's financial system are now done at the center allowing for improved data entry and enhanced internal controls. |
| <i>Currently produces accurate and timely financial information that is used by management to inform decisionmaking and drive results in key areas of operations.</i> | The ASC B&F has put in place SLAs to establish expectations and has developed performance metrics to indicate delivery of services. Statistics are provided on the ASC B&F Web site on a daily basis.<br><br>A customer service board made up of regional foresters and other parties provides oversight for ASC B&F service levels and budget.          |

**Expanded Electronic Government**

| OMB'S GREEN STANDARD   | STATUS AND PROGRESS   |
|--|---|
| <i>Has an Enterprise Architecture with a score of 4 in the "Completion" section and 3 in both the "Use" and "Results" section.</i>   | The Forest Service met the requirements for Enterprise Architecture, as demonstrated by a green score for this standard.  |
| <i>Has acceptable business cases for all major systems investments and no business cases on the "management watch list."</i>   | The Forest Service has acceptable business cases for all major systems investments but four, which did not receive a passing score: AgPRS; Computer Base; FS NFA; and VIPR.   |
| <i>Has demonstrated appropriate planning, execution, and management of major IT investments, using EVM or operational analysis and has portfolio performance within 10 percent of cost, schedule, and performance goals.</i> | Forest Service submitted to USDA's OCIO all information requested to validate the appropriate use of EVM for its major investments.<br><br>Only one investment – VIPR – needs to complete the EVM work and documentation to become EVM certified. Final score for FY 2007 was yellow.   |
| <i>Submits quarterly status reports in remediating IT security weaknesses.</i>   | Financial auditors in the past several years aggregated several IT security findings into an IT Material Weakness.<br><br>The Forest Service collaborated with USDA's OCFO and OCIO to develop CAPs to resolve the weakness. Launched in a FY 2007 implementation, the CAPs address groups of controls, or control families, to satisfy: <ul style="list-style-type: none"> <li>▪ OMB's Circular A-123 requirements, including FFMA and FMFIA.</li> <li>▪ FIPS 200/NIST Special Publication 800-53 requirements.</li> <li>▪ FISMA self-assessment.</li> </ul> The Forest Service's CFO and CIO established a Project Management Office to execute the CAPs and monitor their progress. Biweekly status meetings with USDA officials were held through the end of FY 2007. |
| <i>Inspector General or agency head verifies the effectiveness of the Department-wide IT security remediation process and rates the agency certification and accreditation process as "Satisfactory" or better.</i>          | The Forest Service implemented policies and procedures to remove the conditions that in the past have led the financial auditors to aggregate several findings regarding IT security into an IT Material Weakness.<br><br>Forest Service accomplished the work to put controls in place to clear the most critical audit findings during FY 2007. Additional phases of the plan that will complete the internal controls implementation will extend into FY 2008.   |

| OMB'S GREEN STANDARD   | STATUS AND PROGRESS  |
|--|--|
| <p><i>Has ALL IT systems certified and accredited.</i></p>   | <p>As of September 30, 2007, Forest Service submitted 10 C&amp;A packages for authorization to operate (ATO) concurrency review.</p> <p>Of the 10 packages, 9 received ATO concurrency and 1 received interim ATO (IATO) concurrency. Forest Service submitted 6 additional packages and received IATO concurrency.</p>  |
| <p><i>Has IT systems installed and maintained in accordance with security configurations.</i></p>  | <p>Forest Service completed 1 of 18 annual self-assessments in ASSERT.</p>   |
| <p><i>Has demonstrated for 90 percent of systems a Privacy Impact Assessment has been conducted and is publicly posted.</i></p>  | <p>Forest Service conducted Privacy Impact Assessments (PIAs) for all systems. The publication requirement is not included in USDA policy, and only recently communicated. All PIAs are being submitted to USDA for publication.</p>   |
| <p><i>Has demonstrated for 90 percent of systems with personally identifiable information a system of records has been developed and published.</i></p>  | <p>System of Records Notices have been developed and published for more than 90 percent of systems known to contain personally identifiable information (PII).</p>   |
| <p><i>Adheres to the agency-accepted and OMB-approved implementation plan for all of the appropriate E-Gov/Lines of Business/SmartBuy initiatives and has transitioned and/or shut down investments duplicating these initiatives in accordance with the OMB-approved implementation plan.</i></p> | <p>The Forest Service adheres to the agency-accepted and OMB-approved implementation plan for all of the appropriate E-Gov/Lines of Business/SmartBuy initiatives. Investments that may have duplicated these initiatives have been transitioned in accordance with the OMB-approved implementation plan.</p> <p>The agency received a green score from USDA for this standard in all four quarters of FY 2007 (USDA's Management Initiative Tracking System).</p> <p><b>FY 2007 Results for Lines of Business (LoB):</b></p> <p>In the <i>Government Paperwork Elimination Act (GPEA) LoB</i>, the Forest Service improved the needed processes to allow for Web-enabling of the most challenging 20 percent of its Paperwork Reduction Act (PRA) information collections. FY 2008 GPEA efforts will focus on fully achieving electronic signature, electronic filing, and financial transaction receipting for this most difficult class of information collections.</p> <p>For the <i>Recreation One-Stop LoB</i>, the agency deployed a standard interface for government personnel to enter recreation data into Recreational Information Data Base (RIDB). RIDB uses Web services technology to enable the agency to share recreation data with all interested private and public individuals and organizations.</p> <p>Toward the <i>National Environmental Policy Act (eMNEPA) LoB</i>, the agency continued with a number of initiatives that originated with the 2003 eMNEPA LoB study. After a pilot in FY 2005 across several national- and field-level communities, Document and Records Management (DRM) was expanded to include broader communities and subject areas. Evaluation of the Mailing List management pilot was also completed. In FY 2008, the DRM and Internal Communication Management LoBs, and Appeals and Litigation in the Planning, Appeals, and Litigation System, will be further integrated and migrated onto a common platform.</p> <p>In FY 2007, the agency implemented both the Intranet and Internet components of Enterprise Portal (E-Portal) version 1.0 for the <i>Web Information Delivery LoB</i>. E-Portal uses USDA's standards for application hosting services, Portal technology, Google search technology, and Web Content Management technology.</p> <p>In FY 2007, <i>e-Research</i> expanded the scope of information traceability and researched automated peer review processing. Coordinated with the Forest Service's Research Executive Team to evaluate the success of FY 2006 proofs-of-concept (POC) for research data storage and archiving, combined delivery</p> |



| OMB'S GREEN STANDARD | STATUS AND PROGRESS   |
|----------------------|---|
|                      | <p>channels, and technology transfer. Began the migration for all Research and Development Web sites to E-Portal.</p> <p>For the <i>Field Data Automation/Mobile Computing Devices LoB</i>, the agency completed technology evaluation studies on mobile computing devices and wireless communication capabilities, updating enterprise requirements. Deployed several POCs, of which the successful projects will involve scale-up, planning and implementation in FY 2008. Planned to initiate POC projects in FY 2008 for facilities radio frequency identification, mobile crime surveillance and natural resource information retrieval and analytics.</p> <p>As one of six specific permits found to be appropriate in FY 2004 for streamline permitting in the <i>ePermitting LoB</i>, the Special Forest Products (SFP) POC experienced setbacks until FY 2007. SFP includes items such as Christmas trees, fuel wood, and mushrooms. Pilot monitoring and development of a scale-up and rollout strategy will be addressed in FY 2008.</p> <p>In FY 2007, POCs for the 4 Rivers Lottery and National Symbols storefront were conducted. In FY 2008, the agency plans to scope, design, and implement these <i>e-Commerce LoB</i> components.</p> |

**Budget and Performance Integration**

| OMB'S GREEN STANDARD   | STATUS AND PROGRESS   |
|--|---|
| <p><i>Senior agency managers meet at least quarterly to examine reports that integrate financial and performance information that covers all major responsibilities of the Department. Agency demonstrates improvement in program performance and efficiency in achieving results.</i></p>             | <p>Forest Service National Leadership Team (NLT) meets quarterly to review financial and performance information. In FY 2007, senior agency managers continued to incorporate PART measures and program improvement plans into their quarterly reporting to USDA and OMB, reiterating PART's importance to the programs and staffs.</p> <p>As the agency continues to improve its program effectiveness and reduce operational costs, the focus moves from performance accountability weaknesses to achieving results for mission-critical natural resource priorities.</p>   |
| <p><i>Strategic plans contain a limited number of outcome-oriented goals and objectives.</i></p> <p><i>Annual budget and performance documents incorporate measures identified in the PART and focus on the information used in the senior management report described in the first criterion.</i></p> | <p>The current Forest Service Strategic Plan 2004-2008 contained few outcome-oriented goals and objectives.</p> <p>In FY 2006, the Forest Service adopted a comprehensive set of outcome-oriented performance measures for all of its major functions for use in FY 2007. These measures are being included in the agency's budget request, budget allocations, and the P&amp;AR.</p> <p>Forest Service demonstrated management's accountability to the PART measures by incorporating the longterm and annual outcome, efficiency, and output measures as the agency's key performance measures in MD&amp;A's Performance Highlights.</p> <p>The annual performance report section of the P&amp;AR—a GPRA requirement—describes PART milestones in the individual improvement plans and corrective actions, if needed.</p> |
| <p><i>Reports the full cost of achieving performance goals accurately in budget and performance documents and can accurately estimate the marginal cost (+/- 10%) of changing performance goals.</i></p>   | <p>The Forest Service is currently not able to report the full cost of achieving performance goals. The agency's budget is structured around programs, many of which support multiple objectives. The work planning system ties projects funded under various programs and their planned accomplishments to strategic plan goals and objectives. Data from the work planning system can be used to estimate the marginal cost of changing performance goals.</p>  |
| <p><i>Has at least one efficiency measure for all PARTed programs.</i></p>   | <p>Efficiency measures are reported in the Performance Highlights section of MD&amp;A for all PARTed programs except the Watershed Program.</p>   |

| OMB'S GREEN STANDARD   | STATUS AND PROGRESS   |
|--|---|
| <p><i>Uses PART evaluations to direct program improvements and hold managers accountable for those improvements, and PART findings and performance information are used consistently to justify funding requests, management actions, and legislative proposals.</i></p> | <p>In addition to the PART information reported in the Performance Highlights section of the MD&amp;A, the agency uses PART efficiency measures to demonstrate improved programmatic efficiencies (acres treated per \$1,000) or cost effectiveness (acres moved to a better condition per \$1 million investment).</p> <p>In the FY 2008 Budget Justification, the agency's performance budget, Forest Service reported the status of all PARTed programs in the Performance Management section for:</p> <ul style="list-style-type: none"> <li>▪ Status of FY 2006 accomplishments toward milestones</li> <li>▪ Progress in the program improvement plans</li> <li>▪ FYs 2007 and 2008 targets for outcome, efficiency, and output measures.</li> </ul> |
| <p><i>Less than 10 percent of agency programs receive a 'Results Not Demonstrated' rating for more than 2 years in a row.</i></p>  | <p>Currently, the Forest Service has two programs under a Results Not Demonstrated rating (RND), representing 25 percent of the 8 PART evaluations.</p> <p>Neither RND rating was for more than 2 years in a row.</p>   |
| <p><i>To maintain green status, agency:</i></p>  |   |
| <p><i>Improves program performance and efficiency each year.</i></p>   | <p>The Forest Service reports to USDA and OMB on a quarterly basis for all performance improvements and efficiencies for the eight PARTed programs.</p> <p>To see the performance improvement for these programs over the 5-year cycle, go to <a href="http://www.ExpectMore.gov">http://www.ExpectMore.gov</a> and use the keywords, "Forest Service." To see the Wildland Fire Management improvement plan, use the keywords, "USDA Wildland Fire."</p>   |
| <p><i>Uses marginal cost analysis to inform resource allocations, as appropriate.</i></p>  | <p>Currently, the Forest Service does not use marginal cost analysis to inform resource allocations.</p> <p>However, the agency is updating field allocation criteria for FY 2008, and marginal cost analysis will be one of the tools used in the process.</p>   |

**Eliminating Improper Payments**

| OMB'S GREEN STANDARD   | STATUS AND PROGRESS   |
|--|---|
| <p>Agency:</p> <ul style="list-style-type: none"> <li>• Has a risk assessment in place that identifies all programs that are at significant risk of improper payments;</li> <li>• Has an OMB-approved plan for measuring improper payments on an annual basis and meets milestones established in the plan that include the following for each risk susceptible program:                             <ul style="list-style-type: none"> <li>▪ yields a valid annual improper payment amount consistent with OMB guidance on error measurement either for (a) the program as a whole; or (b) one or more significant components of the program;</li> <li>▪ tracks sampled payments through each phase of the payment lifecycle (i.e., internal agency processing, payment to any intermediary, and payment to the ultimate recipient); and</li> <li>▪ identifies the causes of error so that CAPs can be tailored appropriately.</li> </ul> </li> <li>• Has an OMB-approved corrective action plan that includes aggressive, yet feasible, reduction targets; AND</li> <li>• Complies with improper payments reporting requirements.</li> </ul> | <p>USDA determined that four funds were to be audited, with one fund requiring a statistical sample for fiscal year 2007 disbursements. The Forest Service identified the Wildland Fire Suppression Program (WFSU) as its single payments-related <i>high risk</i> program area. The remaining three funds included the NFS, Capital Improvement and Maintenance, and Wildfire Management Funds. These funds were deemed <i>moderate risks</i> for improper payments.</p> <p>In FY 2007, the agency continued working with an outside contractor to provide research services for improper payments, based on a materiality level established for erroneous payments. Oversight for this position is performed by a designated Forest Service employee. In accordance with the recovery contract, the contractor independently provides support services to satisfy the overall operational objectives for recovery of erroneous payments made to vendors.</p> <p>The primary objective of audit recovery is identifying inadvertent overpayments made by the Forest Service to suppliers of services or goods. Once an overpayment is discovered the following steps were taken:</p> <ul style="list-style-type: none"> <li>▪ Related suppliers were contacted for verification of erroneous payments and documentation of erroneous payments is obtained.</li> <li>▪ Billings for collection were then sent to the vendors and refund checks were remitted to the Forest Service.</li> <li>▪ Cash deposits of all recovered monies were made to appropriate Forest Service budget fund accounts.</li> <li>▪ When the cause(s) for error was identified, information related to all recovered monies and the underlying transactions were reported to management. If the agency determined that the cause for improper payments was a lack of knowledge or skill, training was provided to the relevant employees.</li> </ul> <p>Forest Service complied with all reporting requirements using the Management Initiatives Tracking System (MITS), quarterly USDA reporting, and fiscal year end reporting in the P&amp;AR.</p> |
| <p>To maintain green status, agency:</p>   |   |
| <ul style="list-style-type: none"> <li>• Demonstrates that improper payments are being reduced consistent with reduction targets; AND</li> <li>• Has established improper payments recovery targets, where appropriate, and is actively meeting such targets.</li> </ul>   | <p>The Forest Service continued to make improvements in its internal controls and processes in FY 2007. Specifically, the agency is developing and implementing a paperless system and processes to improve accuracy and efficiency, thus reducing the risk of making improper payments. When fully implemented in FY 2008, prompt payment interest should be dramatically reduced.</p>   |

**Federal Real Property Asset Management**

| OMB'S GREEN STANDARD  | STATUS AND PROGRESS   |
|---|---|
| <p>Agency:</p> <ul style="list-style-type: none"> <li>• Has a Senior Real Property Officer who actively serves on the Federal Real Property Council (FRPC);</li> <li>• Established asset management performance measures, consistent with the published requirements of the FRPC;</li> <li>• Completed and maintained a comprehensive inventory and profile of agency real property, consistent with the published requirements of the FRPC;</li> <li>• Provided timely and accurate information for inclusion into the government-wide real property inventory database; AND</li> <li>• Developed an OMB-approved comprehensive asset management plan that:                             <ul style="list-style-type: none"> <li>• Complies with guidance established by FRPC,</li> <li>• Includes policies and methodologies for maintaining property holdings in an amount and type according to agency budget and mission, and</li> <li>• Seeks to optimize level of real property operating, maintenance, and security costs.</li> </ul> </li> </ul> | <p>In FY 2007, Forest Service created a Real Property Asset Management Review Board (AMRB), pursuant to Executive Order (E.O.) 13327, Federal Real Property Asset Management.</p> <p>The board's primary responsibilities are to:</p> <ul style="list-style-type: none"> <li>▪ Recommend new real property investments and evaluate existing projects to create a Forest Service Real Property Portfolio that best supports the Forest Service's program delivery process;</li> <li>▪ Assemble and evaluate the Forest Service Real Property Portfolio using a standard set of criteria;</li> <li>▪ Support the Forest Service Real Property Management function; and</li> <li>▪ Ensure that the Forest Service Real Property program remains in compliance with E.O. 13327.</li> </ul> <p>To better coordinate efforts with USDA's Real Property Council and Senior Real Property Officer, the Forest Service established a full-time position as Asset Manager within the Acquisition Management Staff. The agency plans to fill the position in FY 2008.</p> <p>Forest Service led the effort to develop standard acquisition performance measures consistent with the published FRPC requirements across the Department, and determine baselines for agency performance tracking.</p> <p>Also in FY 2007, the agency developed a strategy and targets for reducing the growth of deferred maintenance in owned buildings and structures (see Annual Operating Costs Goals and Targets).</p> <p>In support of the Forest Service's "right-sizing" effort, goals and targets were developed using the criterion "mission dependency" to determine which real property assets (owned and leased buildings) may be disposed. The Disposition Decision Tree also considers the criteria operation and maintenance, condition index, and utilization for targeting assets for disposal.</p> <p>System modifications to Infra were completed in FY 2006 to accept the required 23 data elements that will be necessary for the Federal Real Property Profile (FRPP).</p> <p>In FY 2007, the Forest Service made the necessary system modifications in Infra to accept the 24th data element for reporting disposition for the FRPP. Infra's new Disposition Module was mirrored by USDA and incorporated into the Corporate Property Automated Information System (CPAIS), now available to all other USDA agencies in CPAIS. The Disposition Module allows a user to enter data for both planned and accomplished dispositions of real property.</p> <p>In accordance with the agency's Asset Management Plan, the Forest Service:</p> <ul style="list-style-type: none"> <li>▪ Complied with FRPC disposition guidance;</li> <li>▪ Developed policies and methodologies to examine reoccurring needs so that any needed modifications to automate the reporting process, such as the Disposition Module in CPAIS, could be made; and</li> <li>▪ Sought to optimize the costs of operating, maintaining, and securing real properties in partnership with Department of the Interior's <i>Service First</i>.</li> </ul> |
| <p>To maintain green status, agency:</p> <ul style="list-style-type: none"> <li>• Meets all Yellow Standards for Success;</li> <li>• Established an OMB-approved 3-year rolling timeline with date certain deadlines by which agency will address opportunities and determine its priorities as identified in the</li> </ul>  | <p>The Forest Service completed its annual update to the Building Block Plan, the agency's component to the USDA Asset Management Plan, adhering to the 3-year rolling timeline. The plan adheres to the disposition guidance and targets to determine assets suitable for disposal.</p> <p>The agency developed a deferred maintenance status report to track annual condition surveys and their frequency, as established by current policy and procedure.</p>  |

| OMB'S GREEN STANDARD  | STATUS AND PROGRESS  |
|---|--|
| <p><i>asset management plan;</i></p> <ul style="list-style-type: none"> <li>• <i>Demonstrated steps taken toward implementation of asset management plan as stated in yellow standards (including meeting established deadlines in 3-year timeline, meeting prioritized management improvement actions, maintaining appropriate amount of holdings, and estimating and optimizing cost levels);</i></li> <li>• <i>Accurate and current asset inventory information and asset maximization performance measures are used routinely in management decision-making (such as reducing the amount of unneeded and underused properties); AND</i></li> </ul> <p><i>The management of agency property assets is consistent with the agency's overall strategic plan, the agency asset management plan, and the performance measures established by the FRPC as stated in the Federal Real Property Asset Management Executive Order.</i></p> | <p>The agency plans to work with USDA to develop a process for performing condition assessments on various asset categories within the inventory and develop a planning process for securing sufficient funding for assessment activities, including:</p> <ul style="list-style-type: none"> <li>▪ Review existing status of condition assessment;</li> <li>▪ Develop cost-effective solution based on parametric models and statistical sampling;</li> <li>▪ Establish a reporting vehicle and update schedule;</li> <li>▪ Estimate cost and develop a budget package; and</li> <li>▪ Develop draft policy documents.</li> </ul> <p>The agency will work with USDA in the development of the process and requirements for establishing operation and maintenance plans commensurate with the maintenance level required for the asset being managed.</p> <p>Will submit an accurate inventory and performance measure data for inclusion in the Federal Real Property Profile.</p> <p>Will complete required initiatives in accordance with USDA "Proud To Be."</p> |

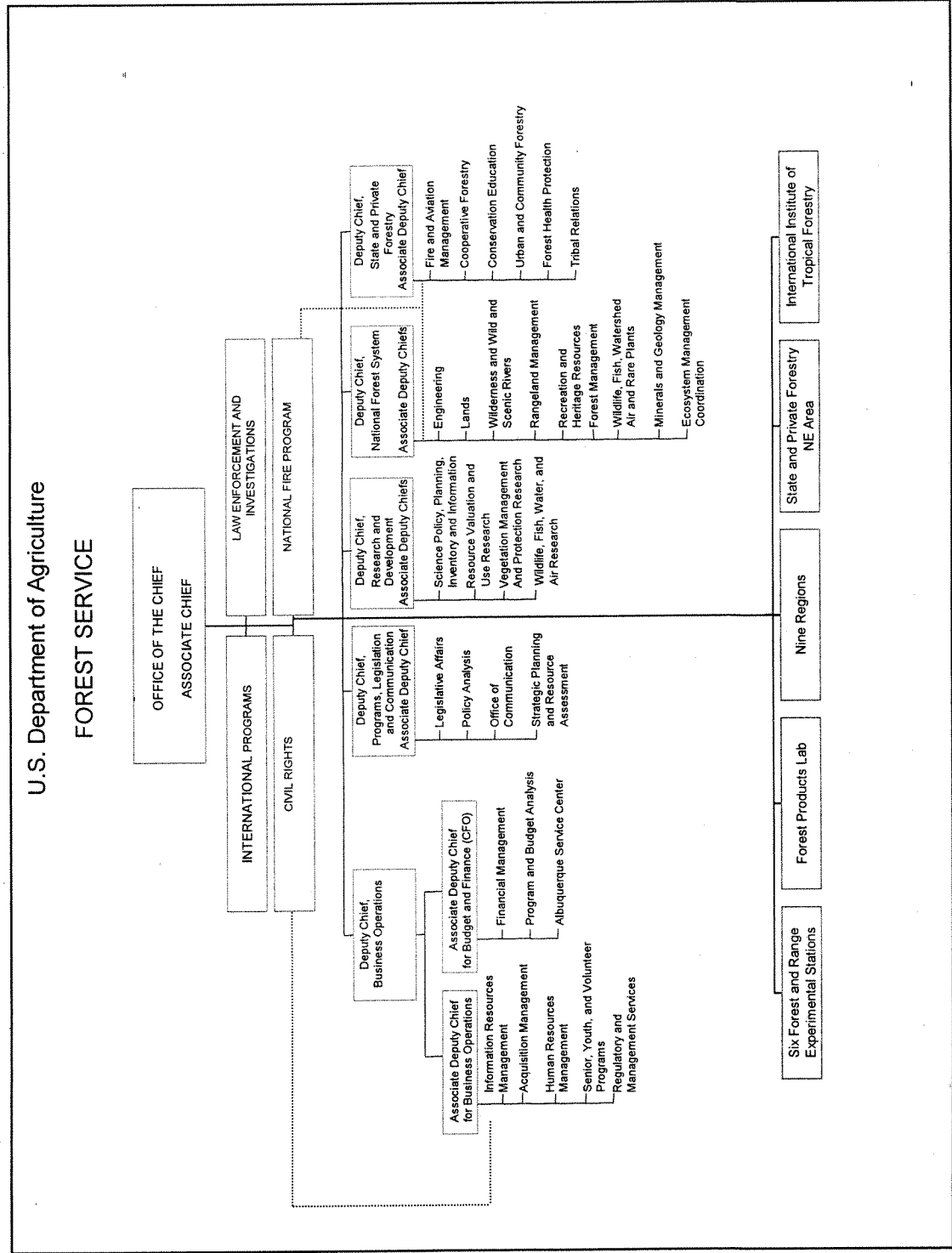
## LIMITATIONS OF FINANCIAL STATEMENTS

The Forest Service's principal financial statements have been prepared to report the financial position and results of operations of the agency, pursuant to the requirements of 31 U.S.C. 3515 (b).

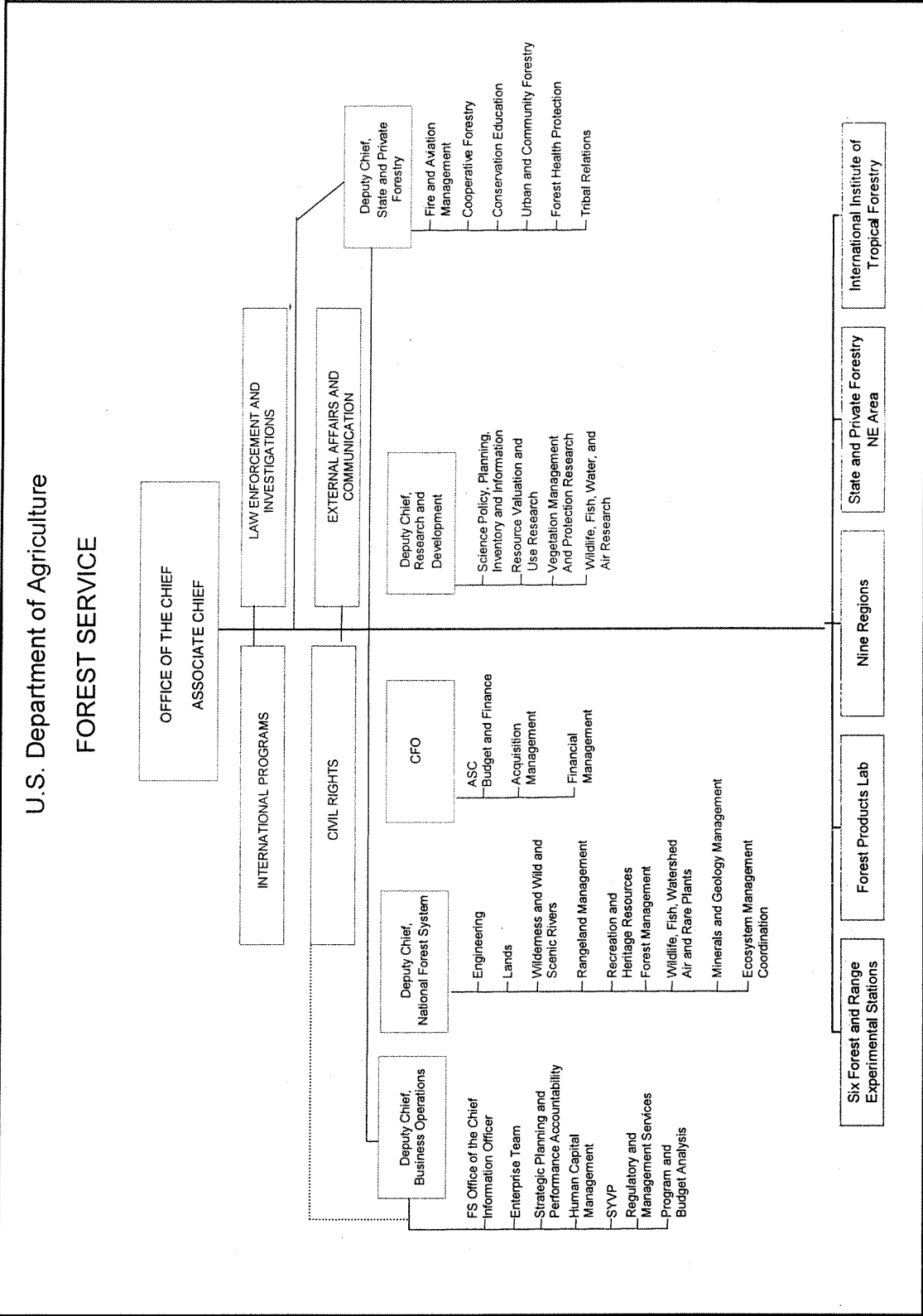
The Forest Service statements have been prepared from its books and records in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB. The statements, however, are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Appendix A—Forest Service's Approved Organization Chart (2004)



Forest Service's Unapproved Organization Chart (2007)



## Appendix B— FY 2007 Annual Strategic Measures

### Strategic Measures Summary - Yr End Estimates National Strategic Plan Goal

#### National Strategic Plan Objective

| FY 2007 Annual Strategic Measures  | Agency Target | Estimated Yr End Accomplishment                       | Strategic Item Code |
|--|---------------|---|---------------------|
| <b>1.0 Reduce the risk from catastrophic wildland fire</b>   |               |   |                     |
| <b>1.1 Improve the health of National Forest System (NFS) lands that have the greatest potential for catastrophic wildland fire</b>  | 2,900,000     | 2,532,160   | S 1.1A              |
| Number of acres treated to reduce the risk of catastrophic wildland fire   |               |   |                     |
| Percent of at-risk communities at reduced risk from wildland fire from NFS lands   | None          | 6%  | S 1.1B              |
| <b>1.2 Consistent with resource objectives, wildland fires are suppressed at a minimum cost, considering firefighter and public safety benefits, and values to be protected exceed a Stratified Cost Index (SCI)</b>   | None          | 21%   | S 1.2A              |
| Accident Frequency Rate for all firefighter injuries incurred during suppression of fires under Forest Service jurisdiction  | None          | Data not obtainable for FY2007. Will not be reported. | S 1.2B              |
| <b>1.3 Assist 2,500 communities and those non-NFS lands most at risk with developing and implementing hazardous fuels reduction and fire prevention plans and programs</b>   | None          | 8%  | S 1.3A              |
| Percentage of Communities At-Risk at reduced risk from wildland fire   |               |   |                     |
| <b>2.0 Reduce the impacts from invasive species</b>  |               |   |                     |
| <b>2.1 Improve the effectiveness of treating selected invasive species on the Nation's forests and grasslands</b>  | None          | 18%   | S 2.1A              |
| Percentage of priority acres protected from invasive species on Cooperative and Federal Lands  |               |   |                     |
| Dollar Value of NPWF partnership contributions   | None          | 47,000,000  | S 2.1B              |
| <b>3.0 Provide outdoor recreation opportunities</b>  |               |   |                     |
| <b>3.1 Improve public access to NFS land and water and provide opportunities for outdoor health-enhancing activities</b>   | 42%           | 16%   | S 3.1A              |
| Percentage of total system trail miles meeting standard  |               |   |                     |
| Percentage of facilities that meet accessibility standards   | None          | Data not obtainable for FY2007. Will not be reported. | S 3.1B              |
| <b>3.2 Improve the management of off-highway-vehicle use to protect natural resources, promote safety of all users, and minimize conflicts among various uses through the collaborative development and areas</b>  | 67%           | 52%   | S 3.1C              |
| Percentage of NFS lands covered by motor vehicle use maps reflecting a designated use system of roads, trails, and areas   | 16%           | 13%   | S 3.2A              |
| <b>4.0 Help meet energy resource needs</b>   |               |   |                     |
| <b>4.1 Work with other agencies to identify and designate corridors for energy facilities, improve efficiency of processing permit applications, and establish appropriate land tenure (including transferability facilities or right-of-ways that are completed within prescribed timeframes)</b> | None          | 81%   | S 4.1A              |
| Percentage of special use applications for energy-related facilities or right-of-ways that are completed within prescribed timeframes  |               |   |                     |
| <b>4.2 Stimulate commercial use of small-diameter trees from NFS lands for biomass energy.</b>   | 2,100,000     | 2,300,000   | S 4.2A              |
| Green tons from small diameter and low value trees removed from NFS lands and made available for bio-energy production   |               |   |                     |



|   |         |         |               |
|---|---------|---------|---------------|
| <b>5.0 Improve Watershed condition</b>  |         |         |               |
| <b>5.1 Assess and restore high priority watersheds and maintain riparian habitat in these watersheds</b>  |         |         | <b>S 5.1A</b> |
| Percentage of sub-watersheds where watershed/riparian functions are on an improving trend   | None    | 26%     |               |
| <b>5.2 Monitor water quality impacts of activities on NFS lands</b>   |         |         | <b>S 5.2A</b> |
| Percentage of grazing allotment acres managed to 100-percent standard   | None    | 34%     |               |
| <b>5.3 Restore and maintain native and desired non-native plant and animal species diversity in terrestrial and aquatic ecosystems and reduce the rate of species endangerment by contributing to species</b> |         |         | <b>S 5.3A</b> |
| Acres of wildlife habitat (terrestrial) (TES and non TES) restored or improved  | 152,940 | 247,490 |               |
| Highest Priority acres treated annually for noxious weeds and invasive plants on NFS Lands  | 121,065 | 114,938 | <b>S 5.3B</b> |
| <b>6.0 Conduct mission-related work in addition to that which supports the agency goals</b>   |         |         | <b>S 6.0A</b> |
| Percentage of diversity groups represented in mission critical positions in the Forest Service  | None    | 44%     |               |
| <b>6.1 Provide current resource data, monitoring, and research information in a timely manner</b>   |         |         | <b>S 6.1A</b> |
| Percentage of the Nation for which FIA data is current and accessible   | 88%     | 88%     |               |
| Customer Satisfaction Index   | 72%     | 72%     | <b>S 6.1B</b> |
| <b>6.2 Meet Federal financial management standards and integrate budget with performance</b>  |         |         | <b>S 6.2A</b> |
| Indirect costs as a percentage of targeted indirect cost caps   | <100%   | 91%     |               |
| <b>6.3 Maintain the environmental, social and economic benefits of forests and grasslands by reducing their conversion to other uses</b>  |         |         | <b>S 6.3A</b> |
| Acres of land adjustments to conserve the integrity of undeveloped lands and habitat quality  | 37,190  | 203,038 |               |
| Private forest acres protected by the Forest Legacy Program from conversion through conservation easements and fee simple purchases   | 120,000 | 80,000  | <b>S 6.3B</b> |
| <b>6.4 Maintain Office of Safety and Health Administration standards</b>  |         |         | <b>S 6.4A</b> |
| Safety & Health Assessment Rating   | 3       | 3       |               |

**Appendix C—FY 2007 Corrective Actions for FY 2006 Unmet Executive Priorities**

The fiscal year (FY) 2008 Budget Justification reported corrective actions taken for the following FY 2006 Executive Priorities that missed the targeted, or planned, accomplishment by a significant margin.

| <b>FY 2006 EXECUTIVE PRIORITY MEASURE</b>  | <b>FY 2006 TARGET</b> | <b>FY 2006 ACTUAL</b> | <b>RESULT</b> |
|--|-----------------------|-----------------------|---------------|
| Number of acres covered by partnership agreements  | 152,750               | 81,966                | 54%           |
| Percent of inventoried forest and grassland watersheds in fully functioning condition as a percent of all watersheds | 40%                   | 31%                   | 78%           |
| Acres of NIPF Lands Under Approved Stewardship Management Plans  | 1,575,000             | 1,409,170             | 89%           |
| Number of land management plan (LMP) monitoring and evaluation reports completed                                     | 90                    | 84                    | 93%           |
| Number of LMP revisions or creations completed   | 20                    | 9                     | 45%           |

For FY 2007, the executive leadership of the Forest Service, using the framework of Government Performance and Results Act, selected a set of key performance measures designed to improve the agency's ability to describe progress toward meeting the goals and objectives contained in the National Strategic Plan. This required a number of measure changes from the previous year, as the process of upgrading took place. The new measures—the Annual Strategic Measures—are listed in Appendix B for the FY 2007 targets and preliminary performance reporting.

The FY 2008 Budget Justification also reported corrective actions taken for the following FY 2006 Executive Priorities that exceeded the targeted accomplishment by a significant margin.

| <b>FY 2006 EXECUTIVE PRIORITY MEASURE</b>   | <b>FY 2006 TARGET</b> | <b>FY 2006 ACTUAL</b> | <b>RESULT</b> |
|---|-----------------------|-----------------------|---------------|
| Percent of communities at risk with completed and current fire management plans or risk assessments   | 23%                   | 28%                   | 123%          |
| Number of acres treated for selected invasive species, noxious weeds and invasive plants on National Forest System and State and Private lands  | 655,515               | 1,011,560             | 154%          |
| Miles of trail maintained to standard   | 20,557                | 24,931                | 121%          |
| Miles of road maintained  | 65,508                | 73,579                | 112%          |
| Percent of energy or oil and gas applications processed within prescribed timeframe   | 45%                   | 71%                   | 157%          |
| Miles of stream habitat enhanced  | 1,457                 | 1,655                 | 114%          |
| Acres of lake habitat enhanced  | 13,742                | 15,996                | 116%          |
| Percent of the Nation for which forest inventory and analysis (FIA) information is accessible to external customers   | 72%                   | 84%                   | 117%          |
| Acres of lands acquired or adjusted, including fee title and conservation easements, to conserve the integrity of undeveloped lands and habitat quality on National Forest System and State and Private lands | 288,369               | 425,737               | 148%          |

All but one of the Executive Priorities for which the target was significantly exceeded required "no action" because the results were attributed to leveraging the agency's partnership support.

For the "miles of road maintained" measure, the Forest Service improved the definitions for measures associated with roads maintained.

## **Appendix D— Federal Managers' Financial Integrity Act Action Plans**

### Material Weakness

#### *Number 1: The Forest Service Needs To Continue To Improve Its General Controls Environment (Repeat Condition).*

The Forest Service has implemented a joint Chief Financial Officer (CFO)/Chief Information Officer (CIO) project team to address all deficiencies related to information technology (IT). The following describes the corrective actions planned to resolve the four major components of the material weakness.

1. **Security Planning Controls Need Continued Improvement.** Security Planning Controls are included in Phase 1 of the SecureCAP Project, a multi-phased implementation of new IT control systems that comply with NIST 800-53, with an estimated completion date (ECD) of December 2007. Office of Management and Budget (OMB) Circular A-123—required testing will be conducted the first quarter of fiscal year (FY) 2008, with an ECD of April 2008.
2. **Adherence to Change Control Process Is Lacking.** Phase 1 of the SecureCAP Project includes Change Control Procedures, which are scheduled for implementation by December 2007. The testing required by OMB A-123 will be conducted the first quarter of FY 2008 with an ECD of April 2008.
3. **Segregation of Duties Needs Improvement.** Phase 1 of the SecureCAP Project includes the scheduled implementation of Paycheck 8 to rectify the segregation of duties problems related to Human Capital Management (HCM) personnel. Segregation of duties controls and monitoring are scheduled for completion in December 2007, with subsequent A-123 testing conducted by April 2008.
4. **Forest Service Systems are vulnerable to unauthorized access.** Forest Service has already resolved 70 percent of the vulnerabilities identified by the financial statement audit; the remaining vulnerabilities will be corrected by December 2007. Forest Service will institute a monitoring process to ensure the timely installation of patches and to verify operating effectiveness through A-123 testing, with an ECD of April 2008.

### Significant Deficiencies

#### *Number 1: The Forest Service Needs To Continue To Improve Its Financial Management and Reporting Process (Repeat Condition).*

Forest Service needs to review deposit funds, clearing accounts, and undeposited collections, as well as improve review and approval of nonroutine transactions. In FY 2007, these accounts were reviewed and many transactions were cleared, resulting in the downgrade of this condition from material weakness to significant deficiency. Forest Service will continue to review these accounts to ensure transactions are properly recorded. ECD of June 2008.

#### *Number 2: The Forest Service Needs To Refine and Monitor its Expense Accrual.*

Forest Service will implement a more sophisticated statistical software package to eliminate variances from the computations of the external auditor. In addition, the accrual process for intra-governmental liabilities will be revised to require confirmation with other Federal entities for material liability balances, and those specific agencies required by TFM Bulletin 2007-03. ECD of March 2008.

#### *Number 3: Accountability for Unliquidated Obligations (ULOs) Needs Continued Improvement (Repeat Condition).*

Forest Service will ensure the likelihood of compliance by revising reports used by the field to a more user-friendly format. In addition, regular monitoring controls will be strengthened. The Forest Service will work with the U.S. Department of Agriculture (USDA) to validate that all USDA ULO balances are accrued properly. ECD of March 2008.

*Number 4: Review of Credit Card Transactions and Controls Over the Programs Need Continued Improvement (Repeat Condition).*

To strengthen the internal controls, the Internal Quality Assurance (IQA) Branch is conducting additional Purchase Card Management System (PCMS) monitoring. Reviews will be expanded from PCMS cards to include Fleet card evaluations as well. Reviews will be ongoing.

*Number 5: The Forest Service Needs To Improve Internal Controls Over its Environmental and Disposal Liabilities (EDL) Process.*

Forest Service will analyze and evaluate the control design of the EDL process to determine where improvements are necessary to ensure compliance. ECD of March 2008.

If the process can be evaluated for operating effectiveness, IQA will conduct an internal control evaluation to provide management with evidence that the process is working effectively. ECD of May 2008.

*Number 6: Controls Related to Physical Inventories of Pooled Real Property Need Continued Improvement (Repeat Condition).*

Forest Service will resolve issues identified for the FY 2007 pooled inventory that remain to be closed. ECD of December 31, 2008. Forest Service established a multi-disciplinary team to evaluate the real property inventory process for the next inventory cycle. The team's progress is dependent on another effort currently underway, so the ECD of December 31, 2008 is preliminary.

*Number 7: The Forest Service Needs To Improve Its Business Process for Revenue Transactions (Repeat Condition).*

Forest Service will monitor funds held in accounts to be returned to Treasury to ensure they are returned timely. Monitoring will be ongoing (continuous).

*Number 8: Process Improvements Are Needed Over Personal Property Transactions (Repeat Condition).*

Forest Service will establish a stronger internal control environment over the development and capitalization of internal use software. ECD of March 2008.

*Number 9: The Compilation of Performance Measures Needs Continued Improvement (Repeat Condition).*

Forest Service will continue to implement the performance measurement process. Validation that Forest Service managers and executives have been evaluated on performance accountability will also be completed. ECD of March 2008.

**Appendix E— Federal Financial Management Improvement Act Remediation Plans**

U.S. Standard General Ledger (SGL) Compliance at the Transaction Level

Four instances of noncompliance were identified.

Equipment Management Information System (EMIS)—used to manage working capital fund (WCF) equipment consisting of aircraft and vehicles—does not record depreciation of equipment at the transaction level using the SGL. Currently, EMIS records depreciation by administrative unit on a monthly basis at the summary level in the Forest Service's general ledger. Modifications to the current system would be extensive and the costs unreasonable, given the eminent data migration to a new system; therefore, Forest Service will not be in compliance until EMIS is migrated to another system.

Forest Service's capitalized lease and internal use software work in process transactions are not recorded in the general ledger at the transactional level. Instead, they are maintained in off-line spreadsheets and recorded in the general ledger on a quarterly basis.

Forest Service does not use proper posting logic to record exchange revenue transactions. When the agency moves revenue out of a receipt account and into an expenditure account, it realizes the earning of the revenue instead of treating the transaction like a transfer. This improper posting logic resulted in an understatement of revenue by approximately \$113 million.

During testwork over expenditures, it was noted that for stewardship land acquisitions, the Forest Service improperly debits 6100, *Operating Expenses/Program Expenses*, instead of debiting 6908, *Stewardship Land Acquisition (Nonproduction Cost)*. At the end of the year, Forest Service transfers the total stewardship land activity (for which title has transferred) from general ledger account 6100 to 6908. This occurs because the U.S. Department of Agriculture (USDA) currently does not have a posting model at the transactional level to accommodate this business process. Because this process requires manual involvement, it increases the chances for human error. During fiscal year 2007, the Forest Service transferred approximately \$5.6 Million to general ledger account 6908 which represented expense activity incurred via general ledger account 6100 in previous years. Forest Service will request a new posting model. ECD of March 2008.

**U.S. Department of Agriculture  
Forest Service  
CONSOLIDATED BALANCE SHEETS  
As of September 30, 2007 and 2006  
(in millions)**

|  | <u>2007</u>            | <u>2006</u>            |
|--|------------------------|------------------------|
| <b>Assets:</b>   |                        |                        |
| Intragovernmental:   |                        |                        |
| Fund Balance with Treasury (Note 2)                          | \$ 3,641               | \$ 3,877               |
| Investments  | 6                      | 5                      |
| Accounts Receivable, Net (Note 3)                            | 43                     | 45                     |
| Total Intragovernmental                                      | <u>3,690</u>           | <u>3,927</u>           |
| Cash and Other Monetary Assets                               | 1                      | 1                      |
| Accounts Receivable, Net (Note 3)                            | 177                    | 209                    |
| General Property, Plant, and Equipment (PP&E), Net (Note 4)  | 3,458                  | 3,585                  |
| Other  | <u>13</u>              | <u>19</u>              |
| <b>Total Assets</b>  | <u><u>\$ 7,339</u></u> | <u><u>\$ 7,741</u></u> |
| Stewardship PP&E (Note 5)                                    |                        |                        |
| <b>Liabilities:</b>  |                        |                        |
| Intragovernmental:   |                        |                        |
| Federal Employee Benefits (Note 7)                           | \$ 66                  | \$ 67                  |
| Other (Note 8)   | 132                    | 137                    |
| Total Intragovernmental                                      | <u>198</u>             | <u>204</u>             |
| Accounts Payable   | 64                     | 55                     |
| Federal Employee Benefits (Note 7)                           | 317                    | 331                    |
| Environmental and Disposal Liabilities                       | 97                     | 53                     |
| Other (Note 8)   | <u>1,385</u>           | <u>1,684</u>           |
| <b>Total Liabilities (Note 6)</b>                            | <u><u>2,061</u></u>    | <u><u>2,327</u></u>    |
| Commitments and Contingencies (Note 8)                       |                        |                        |
| <b>Net Position:</b>   |                        |                        |
| Unexpended Appropriations - Other Funds                      | 1,307                  | 1,054                  |
| Cumulative Results of Operations - Earmarked Funds (Note 10) | 1,125                  | 1,303                  |
| Cumulative Results of Operations - Other Funds               | <u>2,846</u>           | <u>3,057</u>           |
| <b>Total Net Position</b>                                    | <u><u>5,278</u></u>    | <u><u>5,414</u></u>    |
| <b>Total Liabilities and Net Position</b>                    | <u><u>\$ 7,339</u></u> | <u><u>\$ 7,741</u></u> |

The accompanying notes are an integral part of these statements.

**U.S. Department of Agriculture  
Forest Service  
CONSOLIDATED STATEMENTS OF NET COST  
For the years ended September 30, 2007 and 2006  
(in millions)**

|                                 | <u>2007</u>     | <u>2006</u>     |
|---------------------------------|-----------------|-----------------|
| <b>Program Costs (Note 11):</b> |                 |                 |
| Total Gross Costs               | \$ 6,315        | \$ 6,937        |
| Total Earned Revenue            | 598             | 1,034           |
| <b>Net Cost of Operations</b>   | <u>\$ 5,717</u> | <u>\$ 5,903</u> |

The accompanying notes are an integral part of these statements.

**U.S. Department of Agriculture  
Forest Service**

**CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION**  
**For the years ended September 30, 2007 and 2006**  
**(in millions)**

|  | FY 2007                   |                 | FY 2006                   |                 | Consolidated Total |
|--|---------------------------|-----------------|---------------------------|-----------------|--------------------|
|  | Earmarked Funds (Note 10) | All Other Funds | Earmarked Funds (Note 10) | All Other Funds |                    |
| <b>Cumulative Results of Operations:</b>       |                           |                 |                           |                 |                    |
| Beginning Balance Adjustments                  | \$ 1,303                  | \$ 3,057        | \$ 1,533                  | \$ 2,820        | \$ 4,353           |
| Changes in Accounting Principles (Note 1N)     | (59)                      | (2)             | -                         | -               | -                  |
| Beginning Balance, as Adjusted                 | 1,244                     | 3,055           | 1,533                     | 2,820           | 4,353              |
| <b>Budgetary Financing Sources:</b>            |                           |                 |                           |                 |                    |
| Appropriations Used                            | -                         | 4,896           | (2)                       | 5,460           | 5,458              |
| Non-Exchange Revenue                           | -                         | 7               | -                         | (16)            | (16)               |
| Donations and Forfeitures of Cash              | 1                         | -               | -                         | -               | -                  |
| Transfers - In/Out without Reimbursement       | 67                        | 85              | (28)                      | 188             | 160                |
| <b>Other Financing Sources (Non-Exchange):</b> |                           |                 |                           |                 |                    |
| Transfers without Reimbursement                | -                         | -               | -                         | 1               | 1                  |
| Imputed Financing                              | -                         | 328             | -                         | 303             | 303                |
| Other  | 5                         | -               | 4                         | -               | 4                  |
| Total Financing Sources                        | 73                        | 5,316           | (26)                      | 5,936           | 5,910              |
| Net Cost of Operations                         | (192)                     | (5,525)         | (204)                     | (5,699)         | (5,903)            |
| Net Change                                     | (119)                     | (209)           | (230)                     | 237             | 7                  |
| <b>Cumulative Results of Operations</b>        | <b>1,125</b>              | <b>2,846</b>    | <b>1,303</b>              | <b>3,057</b>    | <b>4,360</b>       |
| <b>Unexpended Appropriations:</b>              |                           |                 |                           |                 |                    |
| Beginning Balance Adjustments                  | -                         | 1,054           | (2)                       | 1,794           | 1,792              |
| Changes in Accounting Principles (Note 1N)     | -                         | (24)            | -                         | -               | -                  |
| Beginning Balance, as Adjusted                 | -                         | 1,030           | (2)                       | 1,794           | 1,792              |
| <b>Budgetary Financing Sources:</b>            |                           |                 |                           |                 |                    |
| Appropriations Received                        | -                         | 5,180           | -                         | 4,632           | 4,632              |
| Appropriations Transferred - In/Out            | -                         | (2)             | -                         | 96              | 96                 |
| Other Adjustments                              | -                         | (5)             | -                         | (8)             | (8)                |
| Appropriations Used                            | -                         | (4,896)         | 2                         | (5,460)         | (5,458)            |
| Total Budgetary Financing Sources              | -                         | 277             | 2                         | (740)           | (738)              |
| <b>Total Unexpended Appropriations</b>         | <b>-</b>                  | <b>1,307</b>    | <b>-</b>                  | <b>1,054</b>    | <b>1,054</b>       |
| <b>Net Position</b>                            | <b>\$ 1,125</b>           | <b>\$ 4,153</b> | <b>\$ 1,303</b>           | <b>\$ 4,111</b> | <b>\$ 5,414</b>    |

The accompanying notes are an integral part of these statements.



**U. S. Department of Agriculture  
Forest Service  
COMBINED STATEMENTS OF BUDGETARY RESOURCES  
For the years ended September 30, 2007 and 2006  
(in millions)**

|  | <u>2007</u>            | <u>2006</u>            |
|--|------------------------|------------------------|
| <b>Budgetary Resources:</b>  |                        |                        |
| Unobligated Balance, Brought Forward, October 1  | \$ 1,809               | \$ 2,429               |
| Recoveries of Prior Year Unpaid Obligations  | 111                    | 78                     |
| Budget Authority:  |                        |                        |
| Appropriations   | 5,586                  | 5,362                  |
| Spending Authority from Offsetting Collections:  |                        |                        |
| Earned:  |                        |                        |
| Collected  | 525                    | 666                    |
| Change in Receivables from Federal Sources   | (44)                   | (21)                   |
| Change in Unfilled Customer Orders:  |                        |                        |
| Advance Received   | 5                      | 19                     |
| Without Advance from Federal Sources   | (5)                    | 36                     |
| Expenditure Transfers from Trust Funds   | -                      | 159                    |
| Subtotal   | <u>6,067</u>           | <u>6,221</u>           |
| Nonexpenditure Transfers, net  | 21                     | 3                      |
| Permanently Not Available  | -                      | (65)                   |
| <b>Total Budgetary Resources (Note 14)</b>   | <u><u>\$ 8,008</u></u> | <u><u>\$ 8,666</u></u> |
| <b>Status of Budgetary Resources:</b>  |                        |                        |
| Obligations Incurred: (Note 13)  |                        |                        |
| Direct   | \$ 6,048               | \$ 6,382               |
| Reimbursable   | 289                    | 475                    |
| Subtotal   | <u>6,337</u>           | <u>6,857</u>           |
| Unobligated Balance-Apportioned  | 840                    | 1,052                  |
| Unobligated Balance Not Available  | 831                    | 757                    |
| <b>Total Status of Budgetary Resources (Note 14)</b>                                   | <u><u>\$ 8,008</u></u> | <u><u>\$ 8,666</u></u> |
| <b>Change in Obligated Balance:</b>  |                        |                        |
| Obligated Balance, net   |                        |                        |
| Unpaid Obligations, Brought Forward, October 1   | \$ 2,383               | \$ 1,979               |
| Less: Uncollected Customer Payments from<br>Federal Sources, Brought Forward October 1 | <u>(433)</u>           | <u>(418)</u>           |
| Total Unpaid Obligated Balance, net  | 1,950                  | 1,561                  |
| Obligations Incurred net   | 6,337                  | 6,857                  |
| Less: Gross Outlays  | (6,366)                | (6,375)                |
| Less: Recoveries of Prior Year Unpaid Obligations, actual                              | (111)                  | (78)                   |
| Change in Uncollected Customer Payments from Federal Sources                           | 49                     | (15)                   |
| Obligated Balance, net, End of Period  |                        |                        |
| Unpaid Obligations (Note 15)   | 2,243                  | 2,383                  |
| Less: Uncollected Customer Payments from Federal Sources                               | <u>(384)</u>           | <u>(433)</u>           |
| Total, Unpaid Obligated Balance, net, End of Period                                    | <u><u>\$ 1,859</u></u> | <u><u>\$ 1,950</u></u> |
| <b>Net Outlays:</b>  |                        |                        |
| Net Outlays:   |                        |                        |
| Gross Outlays  | \$ 6,366               | \$ 6,375               |
| Less: Offsetting Collections   | (531)                  | (844)                  |
| Less: Distributed Offsetting Receipts  | <u>(500)</u>           | <u>(457)</u>           |
| Net Outlays  | <u><u>\$ 5,335</u></u> | <u><u>\$ 5,074</u></u> |

The accompanying notes are an integral part of these statements.

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

### A: REPORTING ENTITY

The U.S. Department of Agriculture (USDA) Forest Service (Forest Service) was established on February 1, 1905, as an agency of the United States Federal Government within the Department of Agriculture, 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. Forest Service policy is implemented through nine regional National Forest System (NFS) offices, one State and Private Forestry (S&PF) area office, five research (R&D) offices, the Forest Products Laboratory (FPL) and the International Institute of Tropical Forestry (IITF), functioning in nearly all States, Puerto Rico, and the Virgin Islands.

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

**National Forests and Grasslands** - Protection and management of an estimated 193 million acres (unaudited) of NFS land that includes 34.8 million acres (unaudited) of designated wilderness areas. In addition, the Forest Service partners with other nations and organizations to foster global natural resource conservation and sustainable development of the world's forest resources;

**Forest and Rangeland Research** - Research and development of forest and rangeland management practices to provide scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the 1.6 billion acres (unaudited) of forests and associated rangelands in the United States;

**State and Private Forestry** - Cooperation with and assistance to State and local governments, Tribal governments, forest industries, and private landowners to help protect and manage non-Federal forests and associated rangeland and watershed areas; and

**Wildland Fire Management** - Protection of life, property, and natural resources on NFS lands, extending to an estimated additional 20 million acres (unaudited) of adjacent State and private lands.

The accompanying consolidated and combined financial statements of the Forest Service account for all funds under the Forest Service's control. Substantially all assets are considered "entity assets" and are available for use in the Forest Service's operations.

### B: BASIS OF PRESENTATION AND ACCOUNTING

The Consolidated Balance Sheets (BS), Statements of Net Cost (SNC), Statements of Changes in Net Position (SCNP), and the Combined Statements of Budgetary Resources (SBR) (hereinafter referred to as the "financial statements") were prepared to report the financial position, net costs, changes in net position, and budgetary resources of the Forest Service. The financial statements have been prepared from the books and records of the Forest Service in accordance with accounting principles generally accepted in the United States of America and in accordance with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised June 29, 2007. All material intra-agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the SBR is presented on a combined basis in accordance with OMB Circular A-136.

In the year ended September 30, 2007, OMB changed the required reconciliation of net cost to budgetary resources from the separately presented Statement of Financing (SOF) to a note disclosure and required that the previously presented SOF be appropriately reclassified. See Note 17 for the new presentation.

These financial statements present proprietary and budgetary information. The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize

**U. S. Department of Agriculture  
Forest Service  
Notes to the Consolidated and Combined Financial Statements  
For the years ended September 30, 2007 and 2006**

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the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

The Forest Service recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through the U.S. Department of the Treasury (Treasury) General Fund warrants and other transfers. In addition to appropriated funds, the Forest Service is authorized by law to retain specific earned revenues primarily from sales of forest products and services and to spend these monies on resource management activities identified in the governing legislation. Some examples of the Forest Service's earned revenues are monies collected from timber sales or recreation fees.

**C: FUND BALANCE WITH THE U.S. TREASURY**

The Treasury processes cash receipts and disbursements on behalf of the Forest Service. Funds on deposit with the Treasury are primarily appropriated, trust and other fund types such as special funds that are available to pay current liabilities and finance authorized purchase commitments.

**D: OTHER ASSETS**

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

**E: GENERAL PROPERTY, PLANT, AND EQUIPMENT**

General property, plant, and equipment (PP&E) includes real and personal property used in normal business operations. Real and personal property is recorded at cost or estimated fair value and must have an estimated useful life of 2 years or more. The Forest Service capitalization threshold for real and personal property is \$25 thousand or more. Internal use software is capitalized in accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 10, *Accounting for Internal Use Software*, if the fair value meets or exceeds \$100 thousand. The Forest Service recognizes liabilities for capital leases in accordance with SFFAS No. 6 *Accounting for Property, Plant and Equipment*. Under SFFAS No. 6 the cost of general PP&E acquired under a capital lease is equal to the amount recognized as a liability for the capital lease at its inception (net present value of the lease payments) unless the net present value exceeds the fair value of the asset. There are no restrictions on the use or convertibility of general PP&E.

See Note 5 for specific disclosure requirements related to multi-use Heritage Assets.

**F: LIABILITIES**

Liabilities represent the amount of monies or other resources that are likely to be paid by the Forest Service as a result of a transaction or event that has occurred. However, the Forest Service cannot satisfy a liability 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 U.S. Government, acting in its sovereign capacity, can abrogate liabilities.

**G: ENVIRONMENTAL AND DISPOSAL LIABILITIES**

The Forest Service's estimated government-related environmental liabilities are principally associated with the future remediation of certain landfills, buildings, and other related sites in accordance with all applicable Federal,

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State and local laws. Such estimates do not consider the effect of future inflation, new technology, laws or regulations.

**H: COMMITMENTS AND CONTINGENCIES**

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

**I: 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. Benefit claims incurred for the Forest Service's employees under FECA are administered by the U.S. Department of Labor (DOL). The USDA uses Forest Service funds to reimburse the DOL for FECA claims. Consequently, the Forest Service recognizes a liability for this compensation comprised of: (1) an accrued liability that represents money owed for claims paid by the DOL through the current fiscal year and (2) an actuarial liability that represents the expected liability for Forest Service approved compensation cases to be paid beyond the current fiscal year.

**J: EMPLOYEE ANNUAL, SICK, AND OTHER LEAVE**

Annual and other vested leave such as compensatory, credit hours, and restored leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each quarter, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Sick leave is generally nonvested. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Sick leave and other types of nonvested leave are expensed when used.

**K: PENSION AND OTHER RETIREMENT BENEFITS**

Forest Service employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The employees who participate in CSRS are beneficiaries of the Forest Service's matching contribution, equal to 7.0 percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987, pursuant to Public Law 99-335. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect to join FERS and Social Security, or to remain in CSRS. FERS offers a savings plan to which the Forest Service automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For FERS participants, the Forest Service also contributes the employer's matching share for Social Security.

The Forest Service recognizes the imputed cost of pension and other health and life insurance retirement benefits during the employees' active years of service. Office of Personnel Management (OPM) actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors and information regarding the full cost of health and life insurance benefits to the

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Forest Service for current period expense reporting.

**L: REVENUES AND OTHER FINANCING SOURCES**

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

Appropriations are used at the time the related program or administrative expenses are incurred or when the appropriations are expended for capital property and equipment. Other revenues are recognized as earned when goods have been delivered or services rendered.

In accordance with Federal government accounting guidance, the Forest Service classifies revenue as either "exchange revenue" or "non-exchange revenue." Exchange revenue arises from transactions that occur when each party to the transaction sacrifices value and receives value in return. An example of exchange revenue is the income from the sale of forest products. In some cases, the Forest Service is required to remit exchange revenue receipts to the Treasury. In other instances the Forest Service is authorized to use all, or a portion, of its exchange revenues for specific purposes. Non-exchange revenue is revenue the Federal government is able to demand or receive because of its sovereign powers. Penalties and cash donations received from private citizens and organizations are examples of non-exchange revenue.

The Forest Service reports the full cost of products and services generated from the consumption of resources. Full cost is the total amount of resources used to produce a product or provide a service unless otherwise noted. In accordance with SFFAS No.7, *Accounting for Revenue and Other Financing Sources*, the Forest Service's pricing policies are set to recover full cost except where mandated by law or for the public good, such as in the case of grazing fees. Also, costs and exchange revenue are disclosed in Note 11 as intragovernmental or with the public based on the related source or customer, respectively.

**M: IMPUTED FINANCING**

The Forest Service recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the OPM. Amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against the Forest Service are also recognized as imputed financing. Imputed financing for the years ended September 30, 2007 and 2006 was \$328 million and \$303 million, respectively.

**N: PARENT/CHILD REPORTING REQUIREMENTS**

The Forest Service is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Effective October 1, 2006, in accordance with OMB Circular A-136, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. The Forest Service allocates funds, as the parent, to the Department of Transportation, Department of Interior, Department of the Army, Department of the Navy, Department of the Air

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Force, and the Corps of Engineers, Civil. The Forest Service receives allocation transfers, as the child, from the Department of Labor, Department of Transportation, and Department of Interior.

Previous to October 1, 2006, only the budgetary activity related to allocation transfers was required to be reported in the parent entity's financial statements. As a result of the accounting change, the beginning balances of cumulative results of operations and unexpended appropriations as of October 1, 2006 were reduced on a net basis by \$61 million and \$24 million, respectively, in the FY 2007 Statement of Changes in Net Position.

**O: USE OF ESTIMATES**

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statements include the majority of accrued liabilities, environmental and disposal liabilities, and federal employee benefits liabilities.

**P: EARMARKED FUNDS**

The Forest Service reports the earmarked funds for which it has program management responsibility, using the following three criteria:

- A statute committing the Federal government to use specifically identified revenues and other financing sources only for designated activities, benefits, or purposes;
- Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Federal government's general revenues.

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**NOTE 2: FUND BALANCE WITH TREASURY**

Funds with the Treasury are primarily appropriated (general and special funds), revolving (working capital fund), and trust funds that are available to pay current liabilities and finance authorized purchase commitments. The category of other fund types includes deposit and clearing accounts. It is the Forest Service's policy to ensure the Fund Balance with Treasury reported on the Balance Sheets is consistent with the records of the Treasury.

Fund Balance with Treasury as of September 30, 2007 and 2006 consisted of the following:

|   |  | (in millions)  |                |
|---|--|----------------|----------------|
|   |  | <u>2007</u>    | <u>2006</u>    |
| A. Fund Balances:                       |  |                |                |
| (1) Trust Funds                         |  | \$354          | \$451          |
| (2) Special Funds                       |  | \$767          | \$988          |
| (3) Revolving Funds                     |  | 136            | 123            |
| (4) General Funds                       |  | 2,305          | 2,277          |
| (5) Other Fund Types                    |  | 79             | 38             |
| Total                                   |  | <u>\$3,641</u> | <u>\$3,877</u> |
| B. Status of Funds:                     |  |                |                |
| (1) Unobligated Balance                 |  |                |                |
| (a) Available                           |  | \$840          | \$1,052        |
| (b) Unavailable                         |  | 831            | 757            |
| (2) Obligated Balance not yet Disbursed |  | 1,859          | 1,950          |
| (3) Other Balances                      |  | 111            | 118            |
| Total                                   |  | <u>\$3,641</u> | <u>\$3,877</u> |

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**NOTE 3: ACCOUNTS RECEIVABLE, NET**

Intragovernmental accounts receivable represent amounts due under reimbursable and cooperative agreements with Federal entities for services provided by the Forest Service. An allowance for receivables deemed uncollectible is not established for these amounts because monies due from other Federal entities are considered fully collectible. As of September 30, 2007 and 2006, the intragovernmental accounts receivable balances were \$43 million and \$45 million, respectively.

Non-intragovernmental accounts receivable are comprised primarily of timber harvest and reimbursements and refunds owed to the Forest Service for fire prevention and suppression activities. An allowance for receivables deemed uncollectible is established against outstanding non-Federal accounts receivable, based on historical experience.

Non-intragovernmental accounts receivable as of September 30, 2007 and 2006 consisted of the following:

|                                 | (in millions) |              |
|---------------------------------|---------------|--------------|
|                                 | <u>2007</u>   | <u>2006</u>  |
| Accounts Receivable             | \$187         | \$227        |
| Allowance for Doubtful Accounts | (10)          | (18)         |
| Accounts Receivable, Net        | <u>\$177</u>  | <u>\$209</u> |



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**NOTE 4: GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET**

Depreciation of General PP&E for the Forest Service is recorded on the straight-line method based on the estimated useful lives listed below. Capitalization thresholds are provided in Note 1, Section E.

As of September 30, 2007 and 2006, the Forest Service's General PP&E consisted of the following:

**September 30, 2007  
(in millions)**

| Property Class                             | Estimated<br>Useful Life<br>(Years) | Cost           | Accumulated<br>Depreciation | Book<br>Value  |
|--|-------------------------------------|----------------|-----------------------------|----------------|
| <b>Personal Property</b>                   |                                     |                |                             |                |
| Equipment                                  | 5 - 20                              | \$739          | (\$550)                     | \$189          |
| Internal Use Software                      | 5                                   | 130            | (121)                       | 9              |
| Internal Use Software in<br>Development    | n/a                                 | 7              | -                           | 7              |
| <b>Total Personal Property</b>             |                                     | <b>876</b>     | <b>(671)</b>                | <b>205</b>     |
| <b>Real Property</b>                       |                                     |                |                             |                |
| Land and Land Rights                       | n/a                                 | 52             | -                           | 52             |
| Improvements to Land                       | 10 - 50                             | 5,021          | (2,817)                     | 2,204          |
| Construction in Progress                   | n/a                                 | 184            | -                           | 184            |
| Buildings, Improvements and<br>Renovations | 30                                  | 874            | (529)                       | 345            |
| Other Structures and Facilities            | 15 - 50                             | 1,589          | (1,165)                     | 424            |
| Assets Under Capital Lease                 | 5 - 30                              | 70             | (34)                        | 36             |
| Leasehold Improvements                     | 10                                  | 11             | (3)                         | 8              |
| <b>Total Real Property</b>                 |                                     | <b>7,801</b>   | <b>(4,548)</b>              | <b>3,253</b>   |
| <b>Total</b>                               |                                     | <b>\$8,677</b> | <b>(\$5,219)</b>            | <b>\$3,458</b> |

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September 30, 2006  
(in millions)

| Property Class                             | Estimated<br>Useful Life<br>(Years) | Cost           | Accumulated<br>Depreciation | Book<br>Value  |
|--|-------------------------------------|----------------|-----------------------------|----------------|
| <b>Personal Property</b>                   |                                     |                |                             |                |
| Equipment                                  | 5 - 20                              | \$752          | (\$563)                     | \$189          |
| Internal Use Software                      | 5                                   | 134            | (113)                       | 21             |
| Internal Use Software in<br>Development    | n/a                                 | 7              | -                           | 7              |
| <b>Total Personal Property</b>             |                                     | <b>893</b>     | <b>(676)</b>                | <b>217</b>     |
| <b>Real Property</b>                       |                                     |                |                             |                |
| Land and Land Rights                       | n/a                                 | 51             | -                           | 51             |
| Improvements to Land                       | 10 - 50                             | 4,979          | (2,705)                     | 2,274          |
| Construction in Progress                   | n/a                                 | 311            | -                           | 311            |
| Buildings, Improvements and<br>Renovations | 30                                  | 803            | (503)                       | 300            |
| Other Structures and Facilities            | 15 - 50                             | 1,510          | (1,115)                     | 395            |
| Assets Under Capital Lease                 | 5 - 30                              | 44             | (16)                        | 28             |
| Leasehold Improvements                     | 10                                  | 11             | (2)                         | 9              |
| <b>Total Real Property</b>                 |                                     | <b>7,709</b>   | <b>(4,341)</b>              | <b>3,368</b>   |
| <b>Total</b>                               |                                     | <b>\$8,602</b> | <b>(\$5,017)</b>            | <b>\$3,585</b> |

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**NOTE 5: STEWARDSHIP PP&E**

This note provides information on certain resources entrusted to the Forest Service and certain stewardship responsibilities assumed by the Forest Service. These resources and responsibilities are required to be referenced in the Forest Service's Balance Sheets and described below in accordance with SFFAS No. 29, *Heritage Assets and Stewardship Land*.

*Stewardship Property, Plant, and Equipment (Stewardship PP&E)*

Stewardship PP&E are assets, the physical properties of which resemble those of the General PP&E that is traditionally capitalized in the financial statements. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful. Stewardship PP&E includes heritage assets and stewardship land.

The mission of the 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 Forest Service also strives to achieve quality land management under the sustainable multiple-use management concept to meet the diverse needs of people.

*Heritage Assets*

Heritage assets are unique for their historical or natural significance, for their cultural, educational, or artistic importance, or for their significant architectural characteristics. The Forest Service generally expects that these assets will be preserved indefinitely.

The Forest Service's non-collection heritage assets are comprised primarily of historic and prehistoric sites located on national forest wilderness areas, primitive areas, national monument areas, and scenic river areas. Some heritage assets are listed on the National Register of Historic Places, and some are designated as National Historic Landmarks. Assets held at museums and universities are managed by those entities. Heritage assets that are not used for administrative or public purposes receive no annual maintenance.

The Forest Service uses the Condition Assessment Survey (CAS) method to describe the condition of its heritage assets. The CAS method is based on a 5-point scale for condition, where 1 represents excellent; 2 is good; 3 is fair; 4 is poor; and 5 is very poor. Assets with a condition assessment level between 1 and 3 are defined as being suitable for public display. The majority of Forest Service's heritage assets are in poor to fair condition.

*Stewardship Land*

Stewardship land consists primarily of the national forests and grasslands owned by the Forest Service. Stewardship land is valued for its environmental resources, recreational and scenic value, cultural and paleontological resources, vast open spaces, and resource commodities and revenue provided to the Federal government, States, and counties.

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**NOTE 6: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

Liabilities not covered by budgetary resources as of September 30, 2007 and 2006 consisted of the following:

|  | (in millions) |             |
|--|---------------|-------------|
|  | <b>2007</b>   | <b>2006</b> |
| Intragovernmental:                                   |               |             |
| Treasury Judgment Fund                               | \$15          | \$14        |
| Federal Employee Benefits (Note 7)                   | 66            | 67          |
| Total Intragovernmental                              | 81            | 81          |
| Federal Employee Benefits (Note 7)                   | 317           | 331         |
| Annual Leave Liability                               | 193           | 194         |
| Contingent Liabilities                               | 11            | 5           |
| Accrued Liability for Payments to States             | 394           | 398         |
| Environmental and Disposal Liabilities               | 97            | 53          |
| Total Liabilities Not Covered by Budgetary Resources | 1,093         | 1,062       |
| Total Liabilities Covered by Budgetary Resources     | 968           | 1,265       |
| Total Liabilities                                    | \$2,061       | \$2,327     |

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**NOTE 7: FEDERAL EMPLOYEE BENEFITS**

Liabilities under the Federal Employees' Compensation Act (FECA) are incurred as a result of accrued workers' compensation benefits not yet paid by the 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 (DOL) actuarially determines the expected future liability for the U.S. Department of Agriculture as a whole, including the Forest Service. The Forest Service is billed annually as its claims are paid by the DOL. Payments to the DOL are deferred for two years so that the bills may be funded through the budget. Payments to the DOL are also recognized as an expense when billed and recorded in the Statements of Net Cost. The amounts of unpaid FECA billings constitute the accrued FECA payable.

The total components of accrued FECA payable as of September 30, 2007 and 2006 consisted of the following:

|  | (in millions) |              |
|--|---------------|--------------|
|  | <u>2007</u>   | <u>2006</u>  |
| Intragovernmental Federal Employee Benefits (Note 6) | \$66          | \$67         |
| Federal Employee Benefits (Note 6)                   | 317           | 331          |
| Total  | <u>\$383</u>  | <u>\$398</u> |

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**NOTE 8: OTHER LIABILITIES**

|  | (in millions) |                 |                 |              |                 |                 |
|--|---------------|-----------------|-----------------|--------------|-----------------|-----------------|
|  | <u>2007</u>   |                 |                 | <u>2006</u>  |                 |                 |
|  | Non-Current   | Current         | Total           | Non-Current  | Current         | Total           |
| <b>Intragovernmental</b>                             |               |                 |                 |              |                 |                 |
| Employer Contributions & Payroll Tax                 | \$ -          | \$ 14           | 14              | \$ -         | \$ 14           | \$ 14           |
| Accrued Liabilities                                  | 15            | 43              | 58              | 14           | 105             | 119             |
| Advances from Others                                 | -             | 24              | 24              | -            | 24              | 24              |
| Deposit Liabilities                                  | -             | 27              | 27              | -            | (34)            | (34)            |
| Custodial Liabilities                                | -             | 9               | 9               | -            | 14              | 14              |
| <b>Total Intragovernmental</b>                       | <b>\$ 15</b>  | <b>\$ 117</b>   | <b>\$ 132</b>   | <b>\$ 14</b> | <b>\$ 123</b>   | <b>\$ 137</b>   |
| <b>Other</b>   |               |                 |                 |              |                 |                 |
| Accrued Liabilities                                  | \$ -          | \$ 654          | \$ 654          | \$ -         | \$ 916          | \$ 916          |
| Advances from Others                                 | -             | 49              | 49              | -            | 44              | 44              |
| Deposit Liabilities                                  | -             | 46              | 46              | -            | 73              | 73              |
| Purchaser Road Credits                               | -             | 2               | 2               | -            | 2               | 2               |
| Accrued Liability for Payments to States             | -             | 394             | 394             | -            | 398             | 398             |
| Annual Leave Liability                               | -             | 193             | 193             | -            | 194             | 194             |
| Contingent Liabilities                               | 11            | -               | 11              | 5            | -               | 5               |
| Custodial Liabilities                                | -             | -               | -               | -            | 24              | 24              |
| Capital Leases (Note 9)                              | 32            | 4               | 36              | 26           | 2               | 28              |
| <b>Total Other</b>                                   | <b>\$ 43</b>  | <b>\$ 1,342</b> | <b>\$ 1,385</b> | <b>\$ 31</b> | <b>\$ 1,653</b> | <b>\$ 1,684</b> |
| <b>Total Other and Intragovernmental Liabilities</b> | <b>\$ 58</b>  | <b>\$ 1,459</b> | <b>\$ 1,517</b> | <b>\$ 45</b> | <b>\$ 1,776</b> | <b>\$ 1,821</b> |

As of September 30, 2007 and 2006, the Forest Service's major components of other liabilities are as follows:

**Accrued Liabilities:** Accrued liabilities consist primarily of accruals for payroll and for receipt of goods and services.

**Accrued Liability for Payments to States:** The Twenty-Five Percent Fund (Act of May 23, 1908, as amended) (16 U.S.C. 500), authorized the Payments to States. This program requires revenue generated by the sale of goods and services on the national forests to be shared with the States for public schools and public roads in the county or counties in which the national forests are located. In addition the Secure Rural School and Community Self Determination Act of 2000, (PL 106-393) as amended by PL 110-28 also provides for roads and schools, Forest Service projects and emergency services.

**Contingent Liabilities and Commitments:** As of September 30, 2007, the Forest Service had several legal actions pending. Based on information provided by legal counsel, management believes some adverse decisions are probable and approximately \$11 million related to such actions has been accrued. The Forest Service has a potential liability for approximately \$61 million, related to claims where the amount or probability of judgment is uncertain. There are no estimated obligations related to cancelled appropriations for which there is a contractual commitment for payment. In addition, there are no contractual arrangements which may require future financial obligations.

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**NOTE 9: LEASE LIABILITIES**

The Forest Service enters into leasing agreements through the General Service Administration (GSA) and through leasing authority delegated by GSA for general facilities (buildings and office space), equipment, and land. Leases may include renewal options for periods of one or more years. Most leases are subject to cancellation upon certain funding conditions. The Forest Service's assets under capital leases as of September 30, 2007 and 2006 and future capital and operating lease agreement payments as of September 30, 2007, consisted of the following:

| <b>Capital Leases:</b>                               | (in millions) |  |
|--|---------------|--|
|  | 2007          | 2006                                       |
| Summary of Assets Under Capital Leases               |               |  |
| Land, Buildings, Machinery, & Equipment              | \$70          | \$44                                       |
| Accumulated Amortization                             | (34)          | (16)                                       |
| <b>Total</b>   | <b>\$36</b>   | <b>\$28</b>                                |
| Future Payments Due:                                 |               |  |
|  |               | Land & Buildings,<br>Machinery & Equipment |
| Fiscal Year  |               |  |
| Year 1 (2008)  | \$11          |  |
| Year 2 (2009)  | 10            |  |
| Year 3 (2010)  | 10            |  |
| Year 4 (2011)  | 10            |  |
| Year 5 (2012)  | 10            |  |
| After 5 Years  | 65            |  |
| <b>Total Future Lease Payments</b>                   | <b>\$116</b>  |  |
| Less: Imputed Interest                               | 55            |  |
| Less: Executory Costs                                | 25            |  |
| <b>Subtotal</b>                                      | <b>36</b>     |  |
| Lease Liabilities covered by Budgetary Resources     | \$36          |  |
| Lease Liabilities not covered by Budgetary Resources | -             |  |

| <b>Operating Leases:</b>           | (in millions) |  |
|------------------------------------|---------------|--|
| Future Payments Due:               |               |  |
|                                    |               | Land & Buildings,<br>Machinery & Equipment |
| Fiscal Year                        |               |  |
| Year 1 (2008)                      | \$38          |  |
| Year 2 (2009)                      | 36            |  |
| Year 3 (2010)                      | 35            |  |
| Year 4 (2011)                      | 33            |  |
| Year 5 (2012)                      | 30            |  |
| After 5 Years                      | 261           |  |
| <b>Total Future Lease Payments</b> | <b>\$433</b>  |  |

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**NOTE 10: EARMARKED FUNDS**

In accordance with SFFAS 27, *Identifying and Reporting Earmarked Funds*, the Forest Service administers certain earmarked funds, which are specifically identified revenues, often supplemented by other financing sources that remain available over time. These funds predominately finance the enhancement and maintenance of National Forest System (NFS) lands, including reforestation. Donations are handled on a cash basis and all other collections are accounted for on an accrual basis. The following is a list of earmarked funds and their base treasury symbols for which the Forest Service has program management responsibility. Those with an asterisk are authorized by specific legislative acts as permanent indefinite appropriations.

**Treasury Account Symbols and Titles**

5004 Land Acquisition  
5008 National Forest Fund Receipts  
5010 Recreation Fees for Collection Costs  
5072 Fees, Operation and Maintenance of Recreation Facilities  
5201 Payments to States, National Forest Fund  
\*5202 Timber Roads Purchaser Election  
\*5203 Roads and Trails for States, National Forest Funds  
\*5204 Timber Salvage Sales  
\*5206 Expenses, Brush Disposal  
5207 Range Betterment Fund  
5208 Acquisition of Lands for National Forests, Special Acts  
5212 Construction of Facilities or Land Acquisition  
\*5213 Payments to Minnesota (Cook, Lake and St. Louis Counties), National Forest Funds  
\*5214 Licensee Program  
\*5215 Restoration of Forest Lands and Improvements  
5216 Acquisition of Lands to Complete Land Exchanges (Funds EXSL and EXSC)  
5217 Tongass Timber Supply Fund  
\*5219 Operation and Maintenance of Quarters  
\*5220 Resource Management Timber Receipts  
\*5223 Quinault Special Management Area  
\*5224 Strawberry Valley Land Transfer  
\*5225 Pacific Yew, Forest Service  
\*5264 Timber Sales Pipeline Restoration Fund  
\*5268 Recreation Fee Demonstration Program  
\*5277 MNP Rental Fee Account  
\*5278 Midewin National Tallgrass Prairie Restoration Fund  
\*5360 Land Between the Lakes Management Fund  
\*5361 Administration of Rights-of-Way and Other Land Uses Fund  
\*5363 Valles Caldera Fund  
5367 State, Private and International Forestry Land and Water Conservation Fund  
\*5462 Hardwood Technology Transfer and Applied Research Fund  
\*5540 Stewardship Contracting Product Sales, Funds Retained  
5573 Permit Processing Fund  
\*5896 Payments to Counties, National Grasslands  
\*8028 Cooperative Work, Forest Service  
8029 Mount Saint Helens Highway  
\*8034 Gifts, Donations, and Bequests for Forest and Rangeland Research  
\*8039 Land Between the Lakes Trust Fund  
8046 Reforestation Trust Fund  
\*8203 Gifts and Bequests, Department of Agriculture



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Financial information for the significant earmarked funds, identified by total asset value, is shown below:

**Earmarked Funds  
As of and for the year ended September 30, 2007  
(in millions)**

|   | Cooperative<br>Work | Recreation<br>Fee<br>Demonstration<br>Program | Payments to<br>States,<br>National<br>Forest Fund | Land and<br>Water<br>Conservation<br>Fund | Other<br>Funds | Total           |
|---|---------------------|---|---|---|----------------|-----------------|
| <b>ASSETS</b>                             |                     |   |   |   |                |                 |
| Fund Balance with Treasury                | \$ 338              | \$ 150  | \$ 146  | \$ 101                                    | \$ 387         | \$ 1,122        |
| Investments                               | -                   | -   | -   | -   | 6              | 6               |
| Accounts Receivable, Net                  | 4                   | 1   | -   | -   | 38             | 43              |
| Advances To Others                        | -                   | -   | 1   | 2   | -              | 3               |
| General Property, Plant & Equipment, Net  | 20                  | 3   | 4   | -   | 89             | 116             |
| <b>TOTAL ASSETS</b>                       | <b>\$ 362</b>       | <b>\$ 154</b>                                 | <b>\$ 151</b>                                     | <b>\$ 103</b>                             | <b>\$ 520</b>  | <b>\$ 1,290</b> |
| <b>LIABILITIES</b>                        |                     |   |   |   |                |                 |
| Accounts Payable                          | \$ 3                | \$ 1  | \$ 2  | \$ -                                      | \$ 3           | \$ 9            |
| Other Liabilities                         | 55                  | 2   | 73  | 3   | 23             | 156             |
| <b>TOTAL LIABILITIES</b>                  | <b>58</b>           | <b>3</b>                                      | <b>75</b>   | <b>3</b>                                  | <b>26</b>      | <b>165</b>      |
| Total Net Position                        | 304                 | 151   | 76  | 100                                       | 494            | 1,125           |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <b>\$ 362</b>       | <b>\$ 154</b>                                 | <b>\$ 151</b>                                     | <b>\$ 103</b>                             | <b>\$ 520</b>  | <b>\$ 1,290</b> |
| <b>CHANGE IN NET POSITION</b>             |                     |   |   |   |                |                 |
| Beginning Balances, as adjusted           | \$ 377              | \$ 135  | \$ 128  | \$ 84                                     | \$ 520         | \$ 1,244        |
| Budgetary Financing Sources:              |                     |   |   |   |                |                 |
| Donations and Forfeitures of Cash         | -                   | -   | -   | -   | 1              | 1               |
| Transfers -in/out without Reimbursement   | -                   | 13  | -   | 57  | (3)            | 67              |
| Other                                     | -                   | -   | -   | -   | 5              | 5               |
| <b>Total Financing Sources</b>            | <b>-</b>            | <b>13</b>                                     | <b>-</b>  | <b>57</b>                                 | <b>3</b>       | <b>73</b>       |
| Revenue                                   | 97                  | 60  | (21)  | -   | 192            | 328             |
| Expenses                                  | (170)               | (57)  | (31)  | (41)                                      | (221)          | (520)           |
| <b>Net Cost of Operations</b>             | <b>(73)</b>         | <b>3</b>                                      | <b>(52)</b>                                       | <b>(41)</b>                               | <b>(29)</b>    | <b>(192)</b>    |
| <b>ENDING BALANCES</b>                    | <b>\$ 304</b>       | <b>\$ 151</b>                                 | <b>\$ 76</b>                                      | <b>\$ 100</b>                             | <b>\$ 494</b>  | <b>\$ 1,125</b> |

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**Earmarked Funds**

**As of and for the year ended September 30, 2006**

(in millions)

|   | Cooperative<br>Work | Payments to<br>States,<br>National<br>Forest Fund | Recreation Fee<br>Demonstration<br>Program | Other<br>Funds | Total           |
|---|---------------------|---|--|----------------|-----------------|
| <b>ASSETS</b>                             |                     |   |  |                |                 |
| Fund Balance with Treasury                | \$ 412              | \$ 324  | \$ 133                                     | \$ 571         | \$ 1,440        |
| Investments                               | -                   | -   | -  | 5              | 5               |
| Accounts Receivable, Net                  | 4                   | -   | 2  | 34             | 40              |
| Advances To Others                        | -                   | -   | -  | 3              | 3               |
| General Property, Plant & Equipment, Net  | 18                  | 4   | 4  | 89             | 115             |
| <b>TOTAL ASSETS</b>                       | <b>\$ 434</b>       | <b>\$ 328</b>                                     | <b>\$ 139</b>                              | <b>\$ 702</b>  | <b>\$ 1,603</b> |
| <b>LIABILITIES</b>                        |                     |   |  |                |                 |
| Accounts Payable                          | \$ 1                | \$ 1  | \$ 1                                       | \$ 1           | \$ 4            |
| Other Liabilities                         | 56                  | 200   | 3  | 37             | 296             |
| <b>TOTAL LIABILITIES</b>                  | <b>57</b>           | <b>201</b>  | <b>4</b>                                   | <b>38</b>      | <b>300</b>      |
| Total Net Position                        | 377                 | 127   | 135  | 664            | 1,303           |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <b>\$ 434</b>       | <b>\$ 328</b>                                     | <b>\$ 139</b>                              | <b>\$ 702</b>  | <b>\$ 1,603</b> |
| <b>CHANGE IN NET POSITION</b>             |                     |   |  |                |                 |
| Beginning Balances                        | \$ 594              | \$ 101  | \$ 131                                     | \$ 705         | \$ 1,531        |
| Budgetary Financing Sources:              |                     |   |  |                |                 |
| Donations and Forfeitures of Cash         | -                   | -   | -  | -              | -               |
| Transfers -in/out without Reimbursement   | (159)               | -   | -  | 131            | (28)            |
| Other                                     | -                   | -   | -  | 4              | 4               |
| <b>Total Financing Sources</b>            | <b>(159)</b>        | <b>-</b>  | <b>-</b>                                   | <b>135</b>     | <b>(24)</b>     |
| Revenue                                   | 115                 | 271   | 54   | 179            | 619             |
| Expenses                                  | (173)               | (245)   | (50)                                       | (355)          | (823)           |
| Net Cost of Operations                    | (58)                | 26  | 4  | (176)          | (204)           |
| <b>ENDING BALANCES</b>                    | <b>\$ 377</b>       | <b>\$ 127</b>                                     | <b>\$ 135</b>                              | <b>\$ 664</b>  | <b>\$ 1,303</b> |

Descriptions of the significant earmarked funds are as follows:

**Cooperative Work**

Cooperative contributions are deposited into Treasury account 12X8028 for disbursement in compliance with the terms and provisions of the agreement between the cooperator and the Forest Service. Cooperators include timber purchasers, not-for-profit organizations, and local hunting and fishing clubs. The governing authorities are the Act of June 30, 1914 (16 U.S.C. 498), and the Knutson-Vandenberg Act.

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**Recreation Fee Demonstration Program**

The Recreation Fee Demonstration Program Treasury account 12X5268 receives deposits of recreation fees collected from projects that are part of the Recreation Fee Demonstration program. These monies are retained and used for backlog repair and maintenance of recreation areas, sites or projects. These funds are also used for interpretation, signage, habitat or facility enhancement, resource preservation, annual operation, maintenance, and law enforcement related to public use of recreation areas and sites. The Recreation Fee Demonstration Program is authorized by 16 U.S.C. 4601-6a.

**Payments to States, National Forest Fund**

The Payments to States, National Forest Fund Treasury account 12X5201 receives amounts from receipt account 125008, the National Forest Fund. These monies are generated by the sale of goods and services on the national forests. Annually, revenue-sharing payments are made to the States in which the national forests are located, for public schools and public roads in the county or counties in which the national forests are situated. The Act of May 23, 1908, as amended, (16 U.S.C. 500) authorized the Payments to States, National Forest Fund program.

**State, Private, and International Forestry, Land and Water Conservation Fund**

The FY 2004 Department of Interior and Related Agencies Appropriation Act (Public Law 108-108) authorizes the Forest Service to receive a transfer of receipts from Department of Interior's (DOI) Land and Water Conservation Fund to finance the existing Forest Legacy Program, which was previously funded by State and Private Forestry general appropriation, 12X1105.

To accommodate the new financing arrangement and at OMB's request, the Department of Treasury established a new special fund, 12X5367, "State, Private and International Forestry Land and Water Conservation Fund". The program expenditures include grants and an occasional land purchase but no real property will be procured or constructed.

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**NOTE 11: SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT**

The Forest Service reflects costs through four primary responsibility segments: National Forests and Grasslands, Forest and Rangeland Research, State and Private Forestry, and Wildland Fire Management. The following tables illustrate program costs by segment for the year ended September 30, 2007 and 2006.

**Program Costs by Segment  
For the year ended September 30, 2007**

(in millions)

|  | National<br>Forests and<br>Grasslands | Forest and<br>Rangeland<br>Research | State and<br>Private<br>Forestry | Wildland Fire<br>Management | Total           |
|--|---------------------------------------|-------------------------------------|----------------------------------|-----------------------------|-----------------|
| Intragovernmental Gross Costs:             |                                       |                                     |                                  |                             |                 |
| Benefit Program Costs                      | \$ 361                                | \$ 1                                | \$ 1                             | \$ 9                        | \$ 372          |
| Imputed Costs                              | 328                                   | -                                   | -                                | -                           | 328             |
| Reimbursable Costs                         | 186                                   | 18                                  | 18                               | 277                         | 499             |
| <b>Total Intragovernmental Gross Costs</b> | <b>875</b>                            | <b>19</b>                           | <b>19</b>                        | <b>286</b>                  | <b>1,199</b>    |
| Less: Intragovernmental Earned Revenue     | 69                                    | 37                                  | 17                               | 12                          | 135             |
| <b>Intragovernmental Net Costs</b>         | <b>806</b>                            | <b>(18)</b>                         | <b>2</b>                         | <b>274</b>                  | <b>1,064</b>    |
| Gross Costs With the Public:               |                                       |                                     |                                  |                             |                 |
| Grants and Indemnities                     | 444                                   | 8                                   | 229                              | 19                          | 700             |
| Stewardship Land Acquisition (Note 12)     | 73                                    | -                                   | -                                | -                           | 73              |
| Other:                                     |                                       |                                     |                                  |                             |                 |
| Operating Costs                            | 1,595                                 | 247                                 | 114                              | 1,924                       | 3,880           |
| Depreciation Expense                       | 223                                   | 2                                   | -                                | 21                          | 246             |
| Reimbursable Costs                         | 67                                    | 26                                  | 16                               | 108                         | 217             |
| <b>Total Other</b>                         | <b>1,885</b>                          | <b>275</b>                          | <b>130</b>                       | <b>2,053</b>                | <b>4,343</b>    |
| <b>Total Gross Costs with the Public</b>   | <b>2,402</b>                          | <b>283</b>                          | <b>359</b>                       | <b>2,072</b>                | <b>5,116</b>    |
| Less: Earned Revenues from the Public      | 362                                   | 3                                   | -                                | 98                          | 463             |
| <b>Net Costs with the Public</b>           | <b>2,040</b>                          | <b>280</b>                          | <b>359</b>                       | <b>1,974</b>                | <b>4,653</b>    |
| <b>Net Cost of Operations</b>              | <b>\$ 2,846</b>                       | <b>\$ 262</b>                       | <b>\$ 361</b>                    | <b>\$ 2,248</b>             | <b>\$ 5,717</b> |

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**Program Costs by Segment**  
For the year ended September 30, 2006

(in millions)

|  | National<br>Forests and<br>Grasslands | Forest and<br>Rangeland<br>Research | State and<br>Private<br>Forestry | Wildland Fire<br>Management | Total           |
|--|---------------------------------------|-------------------------------------|----------------------------------|-----------------------------|-----------------|
| Intragovernmental Gross Costs:         |                                       |                                     |                                  |                             |                 |
| Benefit Program Costs                  | \$ 366                                | \$ 1                                | \$ -                             | \$ 10                       | \$ 377          |
| Imputed Costs                          | 303                                   | -                                   | -                                | -                           | 303             |
| Reimbursable Costs                     | 189                                   | 21                                  | 51                               | 165                         | 426             |
| Total Intragovernmental Gross Costs    | 858                                   | 22                                  | 51                               | 175                         | 1,106           |
| Less: Intragovernmental Earned Revenue | 210                                   | 31                                  | 15                               | 130                         | 386             |
| Intragovernmental Net Costs            | 648                                   | (9)                                 | 36                               | 45                          | 720             |
| Gross Costs With the Public:           |                                       |                                     |                                  |                             |                 |
| Grants and Indemnities                 | 409                                   | 1                                   | 255                              | 20                          | 685             |
| Stewardship Land Acquisition (Note 12) | 69                                    | -                                   | -                                | -                           | 69              |
| Other:                                 |                                       |                                     |                                  |                             |                 |
| Operating Costs                        | 1,868                                 | 299                                 | 93                               | 2,302                       | 4,562           |
| Depreciation Expense                   | 227                                   | 2                                   | -                                | 26                          | 255             |
| Reimbursable Costs                     | 90                                    | 33                                  | 17                               | 120                         | 260             |
| Total Other                            | 2,185                                 | 334                                 | 110                              | 2,448                       | 5,077           |
| Total Gross Costs with the Public      | 2,663                                 | 335                                 | 365                              | 2,468                       | 5,831           |
| Less: Earned Revenues from the Public  | 503                                   | 3                                   | 6                                | 136                         | 648             |
| Net Costs with the Public              | 2,160                                 | 332                                 | 359                              | 2,332                       | 5,183           |
| <b>Net Cost of Operations</b>          | <b>\$ 2,808</b>                       | <b>\$ 323</b>                       | <b>\$ 395</b>                    | <b>\$ 2,377</b>             | <b>\$ 5,903</b> |

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**NOTE 12: COST OF STEWARDSHIP PP&E**

Stewardship assets acquired through purchase in FYs 2007 and 2006 amounted to \$73 and \$69 million, respectively, and consisted of land, easements, and rights-of-way. Stewardship land is land and land rights owned by the Federal government and is excluded from General PP&E. Examples of stewardship land include land used for forests, grazing, and wildlife.

Costs for stewardship land include all costs to acquire and prepare the land for its intended use.

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**NOTE 13: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED**

The Office of Management and Budget (OMB) usually distributes budgetary resources in an account or fund by specific time periods, activities, projects, objects or a combination of these categories by a process called apportionments. Apportionments by fiscal quarters are classified as category A and all other apportionments are classified as category B. The funds on quarterly apportionment are National Forest System (12X1106) and Wildland Fire Management (12X1115). Presented below is the amount of direct and reimbursable obligations incurred by apportionment category for FY 2007 and 2006.

**For the year ended September 30, 2007**  
 (in millions)

|                                     | Apportionment<br>Category A | Apportionment<br>Category B | Total          |
|-------------------------------------|-----------------------------|-----------------------------|----------------|
| Obligations Incurred - Direct       | \$3,785                     | \$2,263                     | \$6,048        |
| Obligations Incurred - Reimbursable | 218                         | 71                          | 289            |
| <b>Total Obligations Incurred</b>   | <b>\$4,003</b>              | <b>\$2,334</b>              | <b>\$6,337</b> |

**For the year ended September 30, 2006**  
 (in millions)

|                                     | Apportionment<br>Category A | Apportionment<br>Category B | Total          |
|-------------------------------------|-----------------------------|-----------------------------|----------------|
| Obligations Incurred - Direct       | \$3,901                     | \$2,481                     | \$6,382        |
| Obligations Incurred - Reimbursable | 413                         | 62                          | 475            |
| <b>Total Obligations Incurred</b>   | <b>\$4,314</b>              | <b>\$2,543</b>              | <b>\$6,857</b> |

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**NOTE 14: EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT**

The differences between the fiscal 2006 Statement of Budgetary Resources (SBR) and the fiscal 2006 actual numbers presented in the fiscal 2008 Budget of the United States Government (Budget) are summarized in the table below.

The President's Budget with the actual numbers for the current fiscal year is not yet available and should be published in February 2008. The publication can be located at <http://www.whitehouse.gov/omb>.

| SBR Line Description                                    | (in millions) |                  |                    |                        |
|---|---------------|------------------|--------------------|------------------------|
|   | SBR<br>Amount | Budget<br>Amount | Dollar<br>Variance | Percentage<br>Variance |
| Total Budgetary Resources/Status of Resources           | \$ 8,666      | \$ 8,659         | \$ 7               | 0%                     |
| Total Status of Resources                               | 8,666         | 8,659            | 7                  | 0%                     |
| Unobligated Balance-Beginning of Year                   | 2,429         | 2,416            | 13                 | 1%                     |
| Recoveries of Prior Year Obligations                    | 78            | 78               | -                  | 0%                     |
| New Budget Authority                                    | 5,362         | 5,365            | (3)                | 0%                     |
| Spending Authority from Offsetting Collections          | 859           | 859              | -                  | 0%                     |
| Non Expenditure Transfers                               | 3             | 3                | -                  | 0%                     |
| Permanently not Available                               | (65)          | (62)             | (3)                | 5%                     |
| Total New Obligations                                   | 6,857         | 6,859            | (2)                | 0%                     |
| Unobligated Balance & Unobligated Balance not Available | 1,809         | 1,800            | 9                  | 1%                     |
| Obligated Balance - Beginning of Year                   | 1,561         | 1,553            | 8                  | 1%                     |
| Obligated Balance - End of Year                         | 1,950         | 1,947            | 3                  | 0%                     |
| Net Outlays   | 5,531         | 5,528            | 3                  | 0%                     |
| Offsetting Receipts                                     | 457           | 461              | (4)                | -1%                    |



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**NOTE 15: UNDELIVERED ORDERS AT THE END OF THE PERIOD**

The undelivered orders included in unpaid obligations as of September 30, 2007 and 2006 are \$1,481 and \$1,310 million, respectively.

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**NOTE 16: SEIZED PROPERTY**

A seizure is the act of taking possession of goods in consequence of a violation of public law. Seized property may consist of monetary instruments, real property, tangible personal property and evidence. Until judicially or administratively forfeited, the Forest Service does not legally own such property. Seized evidence includes cash, weapons, illegal drugs and non-monetary valuables.

Pursuant to Federal Financial Accounting and Auditing Technical Release No. 4, *Reporting on Non-Valued Seized and Forfeited Property* (Release No. 4), property that is seized but not forfeited (e.g., weapons, chemicals, drug paraphernalia, gambling devices) is not included on the balance sheet.

The Forest Service has custody of illegal drugs and weapons seized as evidence for legal proceedings. Illegal drugs and weapons have no saleable value to the Federal government and are destroyed upon resolution of legal proceedings. Marijuana represents the major significant seized drug for the Forest Service. As of September 30, 2007 and 2006, the amount of marijuana on hand was 34,021(kg) and 32,504(kg), respectively. Since the amount of seized property is deemed to be immaterial, a schedule of brought forward balances, additions, deletions and adjustments is not presented.

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**NOTE 17: RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO  
BUDGET (FORMERLY THE STATEMENT OF FINANCING)**

|  | 2007            | 2006            |
|--|-----------------|-----------------|
| <b>Resources Used to Finance Activities:</b>   |                 |                 |
| Budgetary Resources Obligated:   |                 |                 |
| Obligations Incurred   | \$ 6,337        | \$ 6,857        |
| Less: Spending Authority from Offsetting Collections and Recoveries  | 592             | 937             |
| Obligations Net of Offsetting Collections and Recoveries   | 5,745           | 5,920           |
| Less: Offsetting Receipts  | 500             | 457             |
| Net Obligations  | 5,245           | 5,463           |
| Other Resources:   |                 |                 |
| Transfers In/Out Without Reimbursement   | -               | 1               |
| Imputed Financing from Costs Absorbed by Others  | 328             | 303             |
| Other  | 5               | 4               |
| Net Other Resources Used to Finance Activities   | 333             | 308             |
| <b>Total Resources Used to Finance Activities</b>  | <b>5,578</b>    | <b>5,771</b>    |
| <b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>                                     |                 |                 |
| Change in Budgetary Resources Obligated for Goods,   |                 |                 |
| Services and Benefits Ordered But Not Yet Provided   | (159)           | (89)            |
| Resources that Fund Expenses Recognized in Prior Periods   | (80)            | (85)            |
| Budgetary Offsetting Collections and Receipts that do not Affect   |                 |                 |
| Net Cost of Operations   |                 |                 |
| Change in Unfilled Orders  | 26              | 64              |
| Decrease in Exchange Revenue Receivable for the Public   | 1               | -               |
| Other  | (23)            | -               |
| Resources that Finance the Acquisition of Assets   | (128)           | (135)           |
| Other Resources or Adjustments to Net Obligated Resources that do not  |                 |                 |
| Affect the Net Cost of Operations  | 196             | (59)            |
| Total Resources Used to Finance Items Not Part of the Net Cost of Operations                                       | (167)           | (304)           |
| <b>Total Resources Used to Finance the Net Cost of Operations</b>  | <b>5,411</b>    | <b>5,467</b>    |
| <b>Components of the Net Cost of Operations That will not Require or Generate Resources in the Current Period:</b> |                 |                 |
| Components Requiring or Generating Resources in Future Periods   |                 |                 |
| Increase in Annual Leave Liability   | -               | 21              |
| Increase in Environmental and Disposal Liability   | 44              | 36              |
| Increase in Exchange Revenue Receivable from the Public  | -               | (12)            |
| Increase in Accrued Liability for Payments to States   | -               | 20              |
| Other  | 1               | 7               |
| Total Components of Net Cost of Operations that will Require or  | 45              | 72              |
| Generate Resources in Future Periods   |                 |                 |
| Components not Requiring or Generating Resources:  |                 |                 |
| Depreciation and Amortization  | 246             | 255             |
| Revaluation of Assets or Liabilities   | 3               | 3               |
| Other Components not Requiring or Generating Resources   |                 |                 |
| Allocation Transfers   | -               | 150             |
| Bad Debt Expense and Other   | 12              | (44)            |
| Total Components of Net Cost of Operations That will not Require or  | 261             | 364             |
| Generate Resources   |                 |                 |
| <b>Total Components of Net Cost of Operations that will not Require or</b>   |                 |                 |
| <b>    Generate Resources in the Current Period</b>  | <b>306</b>      | <b>436</b>      |
| <b>Net Cost of Operations</b>  | <b>\$ 5,717</b> | <b>\$ 5,903</b> |

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This note is intended to be a bridge between the entity's budgetary and financial (proprietary) accounting. This reconciliation first identifies total resources used by an entity during the period (budgetary and other) and then makes adjustments to the resources based upon how they were used to finance net obligations or cost. The budgetary information used to calculate net obligations (the first four lines) must be presented on a combined basis to enable a direct tie to the Statement of Budgetary Resources. The reconciliation then explains the difference between the budgetary net obligations and the proprietary net cost of operations by setting forth the items that reconcile the two amounts. The budgetary net obligations and the proprietary net cost of operations are different in that (1) the net cost of operations may be financed by non-budgetary resources; (2) the budgetary and non-budgetary resources used by an agency may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the period.

## REQUIRED SUPPLEMENTARY INFORMATION

### **DEFERRED MAINTENANCE**

#### Overview

Deferred maintenance is maintenance that was scheduled to be performed but was delayed until a future period. Deferred maintenance represents a cost that the Federal Government has elected not to fund and, therefore, the costs are not reflected in the financial statements.

Maintenance is defined to include preventive 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. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to service needs different from, or significantly greater than, those originally intended.

Deferred maintenance is reported for general Property, Plant, and Equipment (PP&E), heritage assets, and stewardship 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. Critical maintenance is defined as a serious threat to public health or safety, a natural resource, or the ability to carry out the mission of the organization. Noncritical maintenance is defined as a potential risk to the public or employee safety or health (e.g., compliance with codes, standards, or regulations) and potential adverse consequences to natural resources or mission accomplishment.

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

Currently, no comprehensive national assessment of Forest Service property exists. Estimates of deferred maintenance for all assets are based on condition surveys. The agency's deferred maintenance for roads is determined from surveys of an annual random sample of a sufficient number of roads to achieve estimates of 95 percent accuracy and 95 percent confidence. Five hundred roads were included in the FY 2007 sample.

Deferred maintenance needs for all other asset groups are determined from surveys of all individual assets on a revolving schedule where the interval between visits does not exceed 5 years.

The overall agency indirect cost for managing the program is 13 percent, which is not included in the figures in Exhibit 1.

**Exhibit 1. Deferred Maintenance Totals by Asset Class as of September 30, 2007**

| Asset Class                | Overall Condition | Cost To Return To Acceptable Condition | Critical Maintenance | Noncritical Maintenance |
|----------------------------|-------------------|--|----------------------|-------------------------|
| Bridge                     | Varies            | \$122,622,031                          | 28,523,235           | 94,098,796              |
| Building                   | Varies            | 543,070,143                            | 113,993,705          | 429,076,438             |
| Dam                        | Varies            | 21,117,036                             | 6,692,021            | 14,425,015              |
| Fence                      | Varies            | 324,248,697                            | 323,893,999          | 354,698                 |
| Handling facility          | Varies            | 23,359,054                             | 23,335,532           | 23,522                  |
| Heritage                   | Varies            | 17,666,474                             | 5,472,465            | 12,194,009              |
| Minor Constructed Features | Varies            | 90,427,891                             | 0                    | 90,427,891              |
| Road                       | Varies            | 8,133,500,763                          | 3,674,970,257        | 4,458,530,506           |
| Trail                      | Varies            | 224,165,294                            | 1,767,336            | 222,397,958             |
| Trail bridge               | Varies            | 9,600,991                              | 3,208,394            | 6,392,597               |
| Wastewater System          | Varies            | 31,749,060                             | 17,108,288           | 14,640,772              |
| Water System               | Varies            | 88,458,190                             | 53,560,322           | 34,897,868              |
| Wildlife, Fish, and TES    | Varies            | 6,400,636                              | 4,451,418            | 1,949,218               |
| TOTAL                      |                   | \$9,636,386,260                        | \$4,256,976,972      | \$5,379,409,288         |

In previous years, the Forest Service reported deferred maintenance estimates for General Forest Areas (GFA) and Developed Sites (Minor Constructed Features) in this exhibit. The new Heritage Assets and Stewardship Lands Standard (SFFAS 29) provides the Forest Service the means to report these land units' deferred maintenance by their respective individual asset, although deferred maintenance for the Minor Constructed Features located on the Developed Sites will remain in this exhibit.

The overall condition of major asset classes range from poor to good depending on the location, age, and type of property. The standards for acceptable operating condition for various classes of general PP&E, stewardship, and heritage assets are as follows:

Conditions of roads and bridges within the National Forest System (NFS) road system are measured by various standards:

1. Federal Highway Administration regulations for the Federal Highway Safety Act;
2. Best management practices (BMP) for the nonpoint source provisions of the Clean Water Act from Environmental Protection Agency and States;
3. Road management objectives developed through the National Forest Management Act (NFMA) forest planning process; and
4. Forest Service Directives—Forest Service Manual (FSM) 7730, Operation and Maintenance (January 2003 amendment was superseded with August 25, 2005, revision); Forest Service Handbook (FSH) 7709.56a, Road Preconstruction, and FSH 7709.56b, Transportation Structures Handbook.

Dams shall be managed according to FSM 7500, Water Storage and Transmission, and FSH 7509.11, Dams Management Handbook, as determined by condition surveys. The overall condition of dams is below acceptable. The condition of a dam is acceptable when the dam meets current design standards and does not have any deficiencies that threaten the safety of the structure or public. For dams to be rated in acceptable condition, the agency needs to restore the dams to the original functional purpose, correct unsightly conditions, or prevent more costly repairs.

Buildings shall comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys. These requirements are found in FSM 7310, Buildings and Related Facilities, revised November 19, 2004. The condition of administrative facilities ranges from poor to good, with approximately 34 percent needing major repairs or renovations; approximately 11 percent in fair condition; and 55 percent of the facilities in good condition.

Recreation facilities include developed recreation sites, general forest areas, campgrounds, trailheads, trails, water and wastewater systems, interpretive facilities, and visitor centers. These components are included in several asset classes of the deferred maintenance exhibit. All developed sites are managed in accordance with Federal laws and regulations (CFR 36).

Detailed management guidelines are contained in FSM 2330, Publicly Managed Recreation Opportunities, and forest- and regional-level user guides. Quality standards for developed recreation sites were established as Meaningful Measures for health and cleanliness, settings, safety and security, responsiveness, and the condition of the facility.

The condition assessment for range structures (fences and stock handling facilities) is based on (1) a determination by knowledgeable range specialists or other district personnel of whether the structure would perform the originally intended function, and (2) a determination through the use of a protocol system to assess conditions based on age. A long-standing range methodology is used to gather this data.

Heritage 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 in the agency is as visitation or recreation sites and, therefore, may not fall under the management responsibility of the heritage program.

Trails and trail bridges are managed according to Federal law and regulations (CFR 36). More specific direction is contained in FSM 2350, Trail, River, and Similar Recreation Opportunities, and the FSH 2309.18, Trails Management Handbook.

Deferred maintenance of structures for wildlife, fish, and threatened and endangered species (TES) is determined by field biologists using their professional judgment. The deferred maintenance is considered critical if resource damage or species endangerment would likely occur if maintenance were deferred much longer.

#### ***STEWARDSHIP—PROPERTY, PLANT, AND EQUIPMENT***

The stewardship objective of Federal financial reporting requires the Forest Service to report on its stewardship over certain resources entrusted to it, and certain responsibilities assumed by it, that cannot be measured in traditional financial reports.

These resources and responsibilities do not meet the criteria for assets and liabilities that are reported in the financial statements, but are important for understanding the operations and financial condition of the Forest Service at the date of the financial statements and in subsequent periods.

Stewardship resources involve substantial investment by the Forest Service for long-term benefits for the American public. By treating stewardship resources as expenses in the year the costs are incurred, the Forest Service demonstrates our accountability for them. Depending on the nature of the resources, stewardship reporting could consist of financial or nonfinancial data.

To achieve the objectives of SFFAS 29 for Heritage Assets and Stewardship Lands, resources and responsibilities for which the Forest Service has stewardship accountability have been moved from the Required Supplementary Stewardship Information (RSSI) component of the financial statements to the Required Supplementary Information (RSI) for the short term. In FY 2008, heritage assets and stewardship lands information will move to the financial statements. The section on the Condition of NFS Lands will remain in the RSI.

Stewardship PP&E consists of assets whose physical properties resemble those of the general PP&E, traditionally in financial statements. However, due to the nature of these assets, valuation would be difficult and matching costs within a given reporting period would not be meaningful. One category of stewardship PP&E is heritage assets, which are historically or culturally significant property, memorials, and Federal monuments. A second category is stewardship land, which is land other than that acquired for, or in connection with, general PP&E.

#### Heritage Assets

The Forest Service estimates that more than 350,000 heritage assets are on land that it manages. Some of these assets are listed on the National Register of Historic Places, and some are designated as National Historic Landmarks. Collection assets held at museums and universities are managed by those entities, and not the Forest Service.

The historic structures are works consciously created to serve some human purpose, such as buildings, monuments, logging and mining camps, and ruins.

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

Heritage assets listed in the National Register of Historic Places include properties, buildings, and structures that are significant in U.S. history, architecture, and archaeology, and in the cultural foundation of the Nation. Sites formally determined as eligible for the National Register by the Keeper of the National Register, or documented through consultation with State Historic Preservation Offices, are considered potentially eligible for the National Register.

The Forest Service heritage resource specialists on the 155 national forests maintain separate inventories of heritage assets. Most assets not used for administrative or public purposes receive no annual maintenance. A long-term methodology to better assess the extent and condition of these assets is being formulated to comply with Executive Order 13287, Preserve America. Most heritage asset data is captured and managed in INFRA's heritage module, before being used for management decisions on heritage assets. A smaller number of heritage assets are reported through FRPP or are in the INFRA buildings module.

Recent changes in accounting standards for heritage assets have altered the reporting timeline from that of calendar year end—as mandated by the annual DOI report to Congress—to fiscal year end.

In the past Performance and Accountability Reports, the Forest Service reported the previous calendar year's additions, withdrawals, and total assets. For FY 2006 the agency reported a calendar year 2005 total. In FY 2007, the column labeled, "2006 Final Sites" is actually the 2005 total, with additions and withdrawals occurring in FYs 2006 and 2007.



*Acquisition and Withdrawal of Heritage Assets*

The Forest Service generally does not construct heritage assets, although in some circumstances important site-structural components may be rehabilitated or reconstructed into viable historic properties to provide forest visitors with use and interpretation. Heritage assets can be acquired through the procurement process, but this rarely occurs. Normally, heritage assets are part of the land acquisition and inventory process. Withdrawal occurs through land exchange or natural disasters. Most additions occur through inventory activities, where previously undocumented sites are discovered and added to the total. Although not technically additions—they already existed on NFS lands—they do represent an increased management responsibility commensurate with the spirit of “additions.” Exhibit 2 shows the major heritage assets by category and condition for FY 2007.

**Exhibit 2. Major Heritage Assets by Category and Condition, FY 2007**

| Category  | 2006 Final Sites | Additions | Withdrawals | FY 2007 Ending Balance | Condition |
|---|------------------|-----------|-------------|------------------------|-----------|
| Total heritage assets                                 | 342,361          | 6,591     | 0           | 348,952                | Poor-Fair |
| Eligible for the National Register of Historic Places | 53,962           | 603       | 0           | 54,565                 | Poor-Fair |
| Listed on the National Register                       | 3,478            | 5         | 0           | 3,483                  | Fair      |
| Sites with structures listed on the National Register | 1,956            | 0         | 0           | 1,956                  | Poor-Fair |
| National Historic Landmarks                           | 20               | 0         | 0           | 20                     | Fair-Good |

*Stewardship Land*

*National Forest System*

The Forest Service manages an estimated 193 million acres of public land, most of which are classified as stewardship assets. These stewardship assets are valued for the following reasons:

- 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.

*Acquisition and Withdrawal of Stewardship Lands*

The Land and Water Conservation Fund (L&WCF) Land Acquisition Program acquires land for the National Forest System of the Forest Service. The program coordinates with a variety of partners, including State, local, and Tribal governments, and private landowners through statewide planning for development of a land-adjustment strategy.

The Land Acquisition Program preserves, develops, and maintains access to NFS lands and waters for the public and provides permanent access to public lands for recreation, commodity production, resource management, public safety, and community economic viability.

The L&WCF statutory authority specifically defines the purpose to also include protecting the quality of scientific, scenic, historical, ecological, environmental, air and atmospheric, water resource, archeological values as well as food and habitat for fish and wildlife; and managing the public lands for minerals, food, timber and fiber.

From these several allowable uses of program funding, the program concentrates on protecting habitat for priority species identified in the national forest and grassland's Land Management Plans (LMPs) and enhancing recreational opportunities for areas with high demand for recreation. The program focuses acquisitions on inholdings and areas adjacent to existing NFS lands.

The Forest Legacy program also protects environmentally sensitive forestlands, but such lands remain in private ownership.

#### National Forests

The national forests are 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:

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

#### National Grasslands

National grasslands are designated by the Secretary of Agriculture and permanently held by the USDA under Title III of the Bankhead-Jones Farm Tenant Act.

#### Purchase Units

Purchase units are lands designated by the Secretary of Agriculture or previously approved by the National Forest Reservation Commission for purposes of Weeks Law acquisition. The law authorizes the Federal Government to purchase lands for streamflow protection and maintain the acquired lands as national forests.

#### Land Utilization Projects

Land utilization projects are reserved and dedicated by the Secretary of Agriculture for forest and range research and experimentation.

#### Research and Experimental Areas

Research and experimental areas are reserved and dedicated by the Secretary of Agriculture for forest and range research experimentation.

#### Other Areas

There are areas administered by the Forest Service that are not included in one of the above groups.

Exhibit 3 shows the net change in acres between FY 2006 and FY 2007 on NFS lands by purpose.

**Exhibit 3. Net Change in Acres in National Forests by Purpose (FY 2006 to FY 2007)**

| Description                                       | FY 2006 Balance    | FY 2007 Additions | FY 2007 Withdrawals | FY 2007 Balance    |
|---|--------------------|-------------------|---------------------|--------------------|
| NFS Land (in acres):                              |                    |                   |                     |                    |
| National Forests                                  | 144,056,315        |                   | (123,140)           | 143,933,175        |
| National Forest Wilderness Areas                  | 34,816,228         | 56,445            |                     | 34,872,673         |
| National Forest Primitive Areas                   | 173,762            | 0                 |                     | 173,762            |
| National Wild and Scenic River Areas              | 931,314            | 0                 |                     | 931,314            |
| National Recreation Areas                         | 2,912,576          | 186               |                     | 2,912,762          |
| National Scenic Areas                             | 130,849            | 128,354           |                     | 259,203            |
| National Scenic—Research Areas                    | 6,637              | 0                 |                     | 6,637              |
| National Game Refuges and Wildlife Preserve Areas | 1,198,099          | 0                 |                     | 1,198,099          |
| National Monument Areas                           | 3,660,074          | 65                |                     | 3,660,139          |
| National Monument Volcanic Areas                  | 167,427            | 0                 |                     | 167,427            |
| National Historic Areas                           | 6,540              | 0                 |                     | 6,540              |
| National Grasslands                               | 3,837,870          | 5,167             |                     | 3,843,037          |
| Purchase Units                                    | 374,749            |                   | (156)               | 374,593            |
| Land Utilization Projects                         | 1,876              | 0                 |                     | 1,876              |
| Research and Experiment Areas                     | 64,871             | 0                 |                     | 64,871             |
| Other Areas                                       | 357,910            |                   | (59,061)            | 298,849            |
| National Preserves                                | 89,716             | 0                 |                     | 89,716             |
| <b>Total NFS Land (in acres)</b>                  | <b>192,786,813</b> | <b>190,217</b>    | <b>(182,357)</b>    | <b>192,794,673</b> |

Condition of NFS Lands

The condition of NFS lands varies by purpose and location. The Forest Service monitors the condition of NFS lands based on information compiled by two national inventory and monitoring programs—Forest Inventory and Analysis (FIA) and Forest Health Monitoring (FHM).

The FIA program conducts annual inventories of forest status and trends. FIA has historic inventory data in all 50 States and is currently collecting annual inventory data in 46 States, including 38 of the 41 States containing NFS land. Active throughout all 50 States, FHM provides surveys and evaluations of forest health conditions and trends.

Although most of the estimated 193 million acres of NFS forest lands continue to produce valuable benefits (i.e., clean air, clean water, habitat for wildlife, and products for human use), significant portions are at risk to pest outbreaks or catastrophic fires. There are 25 million acres of NFS forestlands at risk to future mortality from insects and diseases, based on the 2007 Insect and Disease Risk Map. Invasive species of insects, diseases, and plants continue to affect our native ecosystems by causing mortality to, or displacement of, native vegetation. The Forest Service completed insect and disease prevention and suppression treatments on over 43,300 acres of NFS lands in FY 2007.

By 2009, a map of fire fuels conditions across the United States will be provided by LANDFIRE<sup>1</sup>.

<sup>1</sup> LANDFIRE is a set of over 20 digital layers of vegetation, fuels and departure from historic conditions covering all ownerships at a 30-meter pixel resolution. LANDFIRE creates standardized comprehensive products across the United States as it integrates relational databases, remote sensing, systems ecology, gradient modeling, and landscape simulation. Products will be delivered incrementally through 2009, although layers are currently available for the 11 western States, Florida, North Carolina, Alabama, Mississippi and parts of Texas. The project is on schedule and within budget for completion of the continental United States in FY 2008, with Alaska and Hawaii completed in FY 2009.

Required Supplementary Information—Unaudited  
For the Years Ended September 30, 2007 and 2006

For the year ended September 30, 2007  
Combined Statement of Budgetary Resources by Major Budget Account  
(In millions)

|   | National Forest<br>and Grasslands | Forest and<br>Rangeland Research | State and<br>Private Forestry | Capital Improvement<br>and Maintenance | Wildland Fire<br>Management | Permanent and<br>Trust Funds | Working<br>Capital Fund | Total           |
|---|-----------------------------------|----------------------------------|-------------------------------|--|-----------------------------|------------------------------|-------------------------|-----------------|
| <b>Budgetary Resources:</b>   |                                   |                                  |                               |  |                             |                              |                         |                 |
| Unobligated balance, brought forward, October 1:                                    | \$ 212                            | \$ 36                            | \$ 61                         | \$ 101                                 | \$ 211                      | \$ 1,094                     | \$ 94                   | \$ 1,809        |
| Recoveries of prior year unpaid obligations   | 10                                | 1                                | 13                            | 6                                      | 71                          | 5                            | 5                       | 111             |
| Budget authority:   |                                   |                                  |                               |  |                             |                              |                         |                 |
| Appropriations  | 1,544                             | 281                              | 280                           | 436                                    | 2,194                       | 851                          | -                       | 5,586           |
| Spending authority from offsetting collections:                                     |                                   |                                  |                               |  |                             |                              |                         |                 |
| Earned:   |                                   |                                  |                               |  |                             |                              |                         |                 |
| Collected   | 72                                | 38                               | 23                            | 18                                     | 138                         | 29                           | 207                     | 525             |
| Change in receivables from Federal sources  | (3)                               | 2                                | (6)                           | -                                      | (36)                        | -                            | (1)                     | (44)            |
| Change in unfilled customer orders:   |                                   |                                  |                               |  |                             |                              |                         |                 |
| Advance received  | 1                                 | 1                                | (2)                           | 1                                      | -                           | 4                            | -                       | 5               |
| Without advance from Federal sources  | 3                                 | (4)                              | -                             | (2)                                    | (2)                         | -                            | -                       | (5)             |
| Subtotal  | 1,617                             | 318                              | 295                           | 453                                    | 2,294                       | 884                          | 206                     | 6,067           |
| Nonexpenditure transfers, net, actual   | (11)                              | 23                               | 76                            | 4                                      | (19)                        | (52)                         | -                       | 21              |
| <b>Total Budgetary Resources (Note 14)</b>  | <b>\$ 1,828</b>                   | <b>\$ 378</b>                    | <b>\$ 445</b>                 | <b>\$ 564</b>                          | <b>\$ 2,557</b>             | <b>\$ 1,931</b>              | <b>\$ 305</b>           | <b>\$ 8,008</b> |
| <b>Status of Budgetary Resources:</b>   |                                   |                                  |                               |  |                             |                              |                         |                 |
| Obligations incurred: (Note 13)   |                                   |                                  |                               |  |                             |                              |                         |                 |
| Direct  | \$ 1,506                          | \$ 320                           | \$ 372                        | \$ 444                                 | \$ 2,351                    | \$ 847                       | \$ 208                  | \$ 6,048        |
| Reimbursable  | 102                               | 33                               | 21                            | 17                                     | 116                         | -                            | -                       | 289             |
| Subtotal  | 1,608                             | 353                              | 393                           | 461                                    | 2,467                       | 847                          | 208                     | 6,337           |
| Unobligated balance-apportioned   | 99                                | 24                               | 31                            | 83                                     | 65                          | 525                          | 13                      | 840             |
| Unobligated balance not available   | 121                               | 1                                | 21                            | 20                                     | 25                          | 559                          | 84                      | 831             |
| <b>Total status of budgetary resources (Note 14)</b>                                | <b>\$ 1,828</b>                   | <b>\$ 378</b>                    | <b>\$ 445</b>                 | <b>\$ 564</b>                          | <b>\$ 2,557</b>             | <b>\$ 1,931</b>              | <b>\$ 305</b>           | <b>\$ 8,008</b> |
| <b>Change in Obligated Balances:</b>  |                                   |                                  |                               |  |                             |                              |                         |                 |
| Obligated balance, net  | \$ 368                            | \$ 118                           | \$ 578                        | \$ 235                                 | \$ 927                      | \$ 127                       | \$ 30                   | \$ 2,383        |
| Unpaid obligations, brought forward, October 1                                      | (165)                             | (34)                             | (22)                          | (41)                                   | (170)                       | -                            | (1)                     | (433)           |
| Less: Uncollected customer payments from Federal sources, brought forward October 1 | 203                               | 84                               | 556                           | 194                                    | 757                         | 127                          | 29                      | 1,950           |
| Total unpaid obligated balance, net   | 1,608                             | 353                              | 393                           | 461                                    | 2,467                       | 847                          | 208                     | 6,337           |
| Less: Gross outlays   | (1,553)                           | (334)                            | (425)                         | (461)                                  | (2,577)                     | (822)                        | (194)                   | (6,366)         |
| Less: Recoveries of prior year unpaid obligations, actual                           | (10)                              | (1)                              | (13)                          | (6)                                    | (71)                        | (5)                          | (5)                     | (111)           |
| Change in uncollected customer payments from Federal sources                        | -                                 | 2                                | 6                             | 2                                      | 38                          | -                            | 1                       | 49              |
| Obligated balance, net, end of period   | 413                               | 137                              | 533                           | 228                                    | 746                         | 147                          | 39                      | 2,243           |
| Unpaid obligations (Note 15)  | (165)                             | (33)                             | (16)                          | (38)                                   | (132)                       | -                            | -                       | (384)           |
| Less: Uncollected customer payments from Federal sources                            | 248                               | 104                              | 517                           | 190                                    | 614                         | 147                          | 39                      | 1,859           |
| Total, unpaid obligated balance, net, end of period                                 | \$ 1,553                          | \$ 334                           | \$ 425                        | \$ 461                                 | \$ 2,577                    | \$ 822                       | \$ 194                  | \$ 6,366        |
| <b>Net Outlays:</b>   |                                   |                                  |                               |  |                             |                              |                         |                 |
| Gross outlays:  | (73)                              | (40)                             | (21)                          | (19)                                   | (139)                       | (32)                         | (207)                   | (531)           |
| Less: Offsetting collections  | (256)                             | -                                | -                             | -                                      | -                           | (244)                        | -                       | (500)           |
| Less: Distributed offsetting receipts   |                                   |                                  |                               |  |                             |                              |                         |                 |
| <b>Net Outlays</b>  | <b>\$ 1,224</b>                   | <b>\$ 294</b>                    | <b>\$ 404</b>                 | <b>\$ 442</b>                          | <b>\$ 2,438</b>             | <b>\$ 546</b>                | <b>\$ (13)</b>          | <b>\$ 5,335</b> |

Required Supplementary Information—Unaudited  
For the Years Ended September 30, 2007 and 2006

For the year ended September 30, 2006  
Combined Statement of Budgetary Resources by Major Budget Account  
(in millions)

|  | National Forest and Grasslands | Forest and Rangeland Research | State and Private Forestry | Capital Improvement and Maintenance | Wildland Fire Management | Permanent and Trust Funds | Working Capital Fund | Total           |
|--|--------------------------------|-------------------------------|----------------------------|-------------------------------------|--------------------------|---------------------------|----------------------|-----------------|
| <b>Budgetary Resources:</b>                      |                                |                               |                            |                                     |                          |                           |                      |                 |
| Unobligated balance, brought forward, October 1: | \$ 184                         | \$ 41                         | \$ 56                      | \$ 99                               | \$ 769                   | \$ 1,177                  | \$ 103               | \$ 2,429        |
| Recoveries of prior year unpaid obligations      | 7                              | -                             | 1                          | 2                                   | 67                       | -                         | 1                    | 78              |
| Budget authority:                                |                                |                               |                            |                                     |                          |                           |                      |                 |
| Appropriations                                   | 1,568                          | 283                           | 314                        | 448                                 | 1,879                    | 870                       | -                    | 5,362           |
| Spending authority from offsetting collections:  |                                |                               |                            |                                     |                          |                           |                      |                 |
| Earned:  |                                |                               |                            |                                     |                          |                           |                      |                 |
| Collected  | 110                            | 40                            | 22                         | 15                                  | 248                      | 30                        | 201                  | 666             |
| Change in receivables from Federal sources       | (18)                           | (5)                           | (1)                        | 1                                   | 3                        | -                         | (1)                  | (21)            |
| Change in unfilled customer orders:              |                                |                               |                            |                                     |                          |                           |                      |                 |
| Advance received                                 | -                              | 9                             | 3                          | -                                   | -                        | 7                         | -                    | 19              |
| Without advance from Federal sources             | 86                             | (10)                          | -                          | 17                                  | (57)                     | -                         | -                    | 36              |
| Expenditure transfers from trust funds           | -                              | -                             | -                          | -                                   | 159                      | -                         | -                    | 159             |
| Subtotal   | 1,746                          | 317                           | 338                        | 481                                 | 2,232                    | 907                       | 200                  | 6,221           |
| Nonexpenditure transfers, net, actual            | (5)                            | 22                            | 84                         | (3)                                 | (75)                     | (10)                      | (10)                 | 3               |
| Permanently not available                        | (24)                           | (5)                           | (3)                        | (6)                                 | (26)                     | -                         | -                    | (65)            |
| <b>Total Budgetary Resources (Note 14)</b>       | <b>\$ 1,907</b>                | <b>\$ 375</b>                 | <b>\$ 476</b>              | <b>\$ 573</b>                       | <b>\$ 2,967</b>          | <b>\$ 2,074</b>           | <b>\$ 294</b>        | <b>\$ 8,666</b> |

**Status of Budgetary Resources:**

|  |                 |               |               |               |                 |                 |               |                 |
|--|-----------------|---------------|---------------|---------------|-----------------|-----------------|---------------|-----------------|
| Obligations incurred: (Note 13)                      | \$ 1,589        | \$ 307        | \$ 399        | \$ 460        | \$ 2,434        | \$ 993          | \$ 200        | \$ 6,382        |
| Direct   | 93              | 32            | 16            | 12            | 322             | -               | -             | 475             |
| Reimbursable   | 1,682           | 339           | 415           | 472           | 2,766           | 993             | 200           | 6,857           |
| Subtotal   | 1,688           | 31            | 39            | 87            | (45)            | 756             | 16            | 1,052           |
| Unobligated balance-apportioned                      | 168             | 31            | 39            | 87            | (45)            | 325             | 78            | 757             |
| Unobligated balance not available                    | 57              | 5             | 22            | 14            | 256             | -               | -             | 325             |
| <b>Total status of budgetary resources (Note 14)</b> | <b>\$ 1,907</b> | <b>\$ 375</b> | <b>\$ 476</b> | <b>\$ 573</b> | <b>\$ 2,967</b> | <b>\$ 2,074</b> | <b>\$ 294</b> | <b>\$ 8,666</b> |

**Change in Obligated Balances:**

|   |         |        |        |        |         |        |       |          |
|---|---------|--------|--------|--------|---------|--------|-------|----------|
| Obligated balance, net  | \$ 292  | \$ 119 | \$ 611 | \$ 312 | \$ 527  | \$ 92  | \$ 26 | \$ 1,979 |
| Unpaid obligations, brought forward, October 1                                      | (96)    | (50)   | (24)   | (23)   | (224)   | -      | (1)   | (418)    |
| Less: Uncollected customer payments from Federal sources, brought forward October 1 | 196     | 69     | 587    | 289    | 303     | 92     | 25    | 1,561    |
| Total unpaid obligated balance, net   | 1,682   | 339    | 415    | 472    | 2,756   | 993    | 200   | 6,857    |
| Obligations incurred net  | (1,599) | (340)  | (446)  | (547)  | (2,288) | (958)  | (196) | (6,375)  |
| Less: Gross outlays   | (7)     | -      | (1)    | (2)    | (67)    | -      | (1)   | (78)     |
| Less: Recoveries of prior year unpaid obligations, actual                           | (68)    | 15     | 1      | (18)   | 54      | -      | 1     | (15)     |
| Change in uncollected customer payments from Federal sources                        | 368     | 118    | 578    | 235    | 927     | 127    | 30    | 2,383    |
| Obligated balance, net, end of period   | (164)   | (35)   | (22)   | (41)   | (170)   | -      | (1)   | (433)    |
| Less: Uncollected customer payments from Federal sources                            | 204     | 83     | 556    | 194    | 757     | 127    | 29    | 1,950    |
| Total, unpaid obligated balance, net, end of period                                 | \$ 204  | \$ 83  | \$ 556 | \$ 194 | \$ 757  | \$ 127 | \$ 29 | \$ 1,950 |

**Net Outlays:**

|                                       |                 |               |               |               |                 |               |               |                 |
|---------------------------------------|-----------------|---------------|---------------|---------------|-----------------|---------------|---------------|-----------------|
| Gross outlays:                        | \$ 1,599        | \$ 340        | \$ 446        | \$ 547        | \$ 2,289        | \$ 958        | \$ 196        | \$ 6,375        |
| Less: Offsetting collections          | (109)           | (49)          | (26)          | (15)          | (407)           | (37)          | (201)         | (844)           |
| Less: Distributed offsetting receipts | 33              | -             | -             | -             | -               | (490)         | -             | (457)           |
| <b>Net Outlays</b>                    | <b>\$ 1,523</b> | <b>\$ 291</b> | <b>\$ 420</b> | <b>\$ 532</b> | <b>\$ 1,882</b> | <b>\$ 431</b> | <b>\$ (5)</b> | <b>\$ 5,074</b> |

## REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

The stewardship objective of Federal financial reporting includes accountability for Stewardship Investments.

### STEWARDSHIP INVESTMENTS

Stewardship investments are expenses and investments incurred for education and training of the public that is intended to increase national economic productive capacity (investment in human capital), and research and development intended to produce future benefits.

#### Research and Development—Forest and Rangeland Research

FY 2007 Net Cost of Operations: \$262 Million

Of the \$262 million, \$241 million was an investment of Research and Development (R&D) funding, and \$21 million was an investment of National Fire Plan funding.

Forest Service R&D provides reliable, science-based information that is incorporated into natural resource decision-making. Efforts consist of developing new technology and then adapting and transferring this technology to facilitate more effective resource management. Within the R&D Program are the following major research strategic program areas:

- Fire
- Invasives
- Recreation
- Research Management and Use
- Water and Air
- Fish and Wildlife
- Research Data and Analysis

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

A representative summary of FY 2007 accomplishments using Forest Service appropriated funds include the following:

| <b>R&amp;D Stewardship Investments</b>         | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| Net Cost of Operations (in millions)           | \$262       | \$318       | \$296       | \$313       | \$233       |
| New interagency agreements and contracts       | 41          | 54          | 63          | 250         | 316         |
| Interagency agreements and contracts continued | 17          | 15          | 93          | 445         | 221         |
| Articles published in journals                 | 1,336       | 1,691       | 1,320       | 1,539       | 1,326       |
| Articles published in all other publications   | 1,846       | 1,817       | 1,779       | 2,419       | 1,829       |
| Patent(s) granted                              | 3           | 7           | 7           | 8           | 6           |
| Right(s) to inventions established             | 0           | 1           | 16          | 27          | 18          |