

USDA



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Office of Inspector General

Audit Report

Forest Service
Audit of Fiscal Year 1999
Financial Statements



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EXECUTIVE SUMMARY

AUDIT OF FOREST SERVICE'S FISCAL YEAR 1999 FINANCIAL STATEMENTS

PURPOSE

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

RESULTS IN BRIEF

Due to limitations on the scope of our examination, we were unable to express an opinion on the Consolidated Balance Sheet as of September 30, 1999, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the period then ended. The use of a non-integrated general ledger system, the Central Accounting System (CAS), for approximately 80 percent of Forest Service's financial activity, and the inability to trace individual transactions from general ledger accounts to supporting subsidiary records along with significant financial systems weaknesses within the CAS system precluded us from performing sufficient tests to obtain assurances that amounts reported in the fiscal year (FY) 1999 financial statements were fairly presented.

Our review was also hampered due to data integrity problems within the Foundation Financial Information System (FFIS) data warehouse, which stores detailed information on individual transactions. Because of these problems, we were unable to timely obtain a reliable universe from which to sample transactions for our review.

Our examination of Forest Service's internal control structure disclosed that Forest Service initiated major changes to overcome continuing financial management deficiencies including (1) the elimination of the CAS general ledger system beginning in FY 2000, (2) the implementation of further

initiatives to improve real property records, and (3) the addition of more Forest Service and contractor personnel for the preparation of the FY 1999 financial statements. We also noted that many errors made during the compilation of the FY 1998 financial statements were eliminated during the compilation of the current year's statements. However, because of the continued use of CAS and because of various problems occurring within FFIS, Forest Service's financial data remained unreliable.

Our review also disclosed that internal controls were not sufficient to safeguard assets such as Property, Plant, and Equipment and Fund Balances With Treasury, which together comprise approximately 95 percent of Forest Service assets. To address the internal control deficiencies, Forest Service was in the process of developing a methodology for determining values for pooled assets (e.g., road prism and surfacing) acquired or constructed prior to FY 1995, and was working toward integrating real property accounting records in the agency's infrastructure (INFRA) system with FFIS. Additionally, a major effort was underway at the National Finance Center in New Orleans to reconcile differences between fund balances recorded in agency records and amounts in Treasury's records.

Based on a statistical sample of individual (non-pooled) real property assets, we estimated that \$197.8 million of the total \$1.75 billion of capitalized value was not adequately supported in accordance with Forest Service policy. Using our sample results, we also estimated that the capitalized values contained \$135.8 million in overstatements and \$79.9 million in understatements.

Our examination of Forest Service's compliance with laws and regulations disclosed that the agency was not in compliance with the Federal Financial Management Improvement Act (FFMIA) system requirements, because (1) the CAS and FFIS financial management systems were not fully integrated with the agency's subsystems, and (2) CAS did not fully adhere to the requirements of the U.S. Government Standard General Ledger (SGL).

KEY RECOMMENDATIONS

In our report on Forest Service's internal control structure, we recommended that Forest Service:

- Establish and implement controls to ensure that all intra-agency receivables are identified and eliminated during the processing of yearend adjusting entries.
- Prior to year-end, develop and test a methodology for compiling the Statement of Net Cost that accrues revenues and expenses into the proper responsibility segment and proper program area.

- Establish a process to ensure that obligations reflected on the Statement of Budgetary Resources are properly classified.
- In coordination with National Finance Center (NFC), establish controls to ensure that all systems feeding data into FFIS are sufficiently documented, and that interfaces between the feeder systems and FFIS are functioning properly so that postings to the FFIS general ledger are accurate.
- Establish and implement controls to ensure that journal voucher entries are properly authorized and accurately recorded, and that adequate documentation is maintained to support such adjustments.
- In coordination with NFC, ensure that posting problems in FFIS concerning the classification between intra-governmental and governmental transactions are corrected.
- Establish a specific plan to interface Automated Timber Sale Accounting (ATSA) and FFIS including timeframes for implementation. In the interim, establish controls to ensure that the manual posting of ASTA revenue to FFIS is timely recorded.
- In coordination with NFC, ensure that the FFIS posting model for write offs of accounts receivable is corrected.

AGENCY RESPONSE

On February 17, 2000, we discussed the issues presented in our reports with agency officials. They generally agreed with the report's findings and recommendations.



REPORT OF THE OFFICE OF INSPECTOR GENERAL DISCLAIMER OF OPINION

TO: Mike Dombeck
Chief
Forest Service

In accordance with the Chief Financial Officer (CFO) Act of 1990, as amended, we were engaged to audit the accompanying Consolidated Balance Sheet of the Forest Service as of September 30, 1999, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the fiscal year then ended. These Financial Statements are the responsibility of Forest Service's management.

Material Scope Limitations

The use of a non-integrated general ledger system, the Central Accounting System (CAS), to account for approximately 80 percent of Forest Service's financial activity, and the inability to trace individual transactions from general ledger trial balances to supporting subsidiary records, along with significant financial systems weaknesses in CAS prevented us from performing sufficient tests to obtain assurances that amounts reported in the fiscal year (FY) 1999 financial statements were fairly presented in accordance with Federal accounting standards. FY 1999 was the last year Forest Service utilized CAS as their primary accounting system. On October 1, 1999, Forest Service switched to the Foundation Financial Information System (FFIS).

Data integrity problems within the FFIS data warehouse, which stores detailed information on individual transactions, impacted the accuracy of the accounting records for the remaining 20 percent of Forest Service's financial activity. Because of these problems, we were unable to timely obtain a reliable universe from which to sample transactions for our review.

Conditions Impairing The Scope of Our Audit

Consolidated Balance Sheet

For FY 1999, Forest Service reported approximately \$2.6 billion in funds held at the U.S. Treasury, which represented 43 percent of the agency's total assets. However, we could

not verify fund balances with Treasury because the reconciliation of agency records with Treasury records had not been completed. The National Finance Center (NFC) in New Orleans, along with the Forest Service and a contractor, PricewaterhouseCoopers (PWC), were in the process of reconciling the differences between agency and Treasury records. As of December 31, 1999, out-of-balance conditions totaling over \$1.6 billion in CAS (includes all of USDA) and over \$794 million in FFIS (includes Forest Service only) had not been fully resolved. The planned completion date for the reconciliation is March 31, 2000.

We were unable to determine the accuracy of the reported \$3.1 billion in net Property, Plant, and Equipment (PP&E), which represents 51 percent of the agency's total assets. We could not verify the accuracy of pooled assets, valued at \$1.5 billion in the balance sheet, because of the lack of sufficient documentation for pre-FY 1995 pooled assets to support capitalized values and in-service dates, and to calculate accumulated depreciation. Forest Service was in the process of developing a methodology for determining values for pre-FY 1995 pooled assets such as road surfacing. Additionally, Forest Service did not include, in the balance sheet, the book value of road prism for roads constructed prior to FY 1998. Forest Service plans to include the book value of road prisms in the FY financial statements 2000 based on methodologies being developed to value pooled assets.

We were unable to perform sufficient tests to verify that accounts receivable totaling approximately \$195 million were fairly stated because the CAS general ledger did not have an integrated subsidiary system from which we could select individual transactions for verification. For example, the subsidiary system for accounts receivable could not match an individual cash collection with the specific accounts receivable from which it emanated. Therefore, Forest Service units manually posted all accounts receivable in CAS each month, and then the system reversed (removed) the accounts receivable in the following month. Because of the reversals and the lack of a sufficient audit trail, we were unable to perform sufficient testing to determine whether established accounts receivable were omitted from manually posting in a subsequent month due to (a) collections made on the receivable, (b) write off of the receivable, or (3) an error.

We were unable to determine if the accounts payable totaling approximately \$116 million were fairly presented. Our and Forest Service's analytical reviews of accounts payable showed that intra-governmental payables increased 44 percent and governmental payables decreased 94 percent compared to amounts reported in FY 1998. Forest Service could not explain the cause of the significant change in these amounts. Systems problems within CAS and FFIS may have significantly contributed to these changes. However, time constraints prevented us from performing additional substantive testing to determine the exact cause of the differences.

FFIS contains integrated subsidiary systems for accounts receivable and accounts payable. However, our review of Forest Service units currently utilizing FFIS disclosed general ledger posting problems which could significantly impact the accuracy and reliability of accounts receivable and accounts payable.

Statement of Net Cost

Forest Service's initial methodology for compiling revenues and expenses on the Statement of Net Cost was to use fund codes to roll up amounts into the individual responsibility segments and program areas. However, the agency was unable to use this methodology because of problems in obtaining reliable information on fund codes from CAS and FFIS. Instead, revenues and expenses were compiled by summing Treasury symbol balances. Additionally, for two responsibility segments and the program areas, statement amounts were partially determined by allocating Treasury symbol balances. Forest Service allocated \$1.3 billion of the total \$3.5 billion in costs reported on the statement using percentages based on amount budgeted as of the beginning of FY 1999. The methodology used to compile this statement did not conform to the Federal Accounting Standards Advisory Board's Statements of Federal Financial Accounting Standards (SFFAS) No. 4, which requires that the statement present accrual-based measures. Additionally, the accuracy of the amounts recorded in the Statement of Net Cost were impacted by the out-of-balance conditions affecting fund balances.

Statement of Changes In Net Position

We were unable to determine the accuracy of Appropriations Used totaling approximately \$3.3 billion because of deviations from Treasury's standard general ledger crosswalk established for this line item. Amounts reported for this line item should be obtained from the accumulation of proprietary accounting entries made when funds are expended. However, because of problems with CAS, Forest Service obtained amounts reported in the line item based on a combination of budgetary and proprietary general ledger accounts. In effect, general ledger accounts comprised of budgetary accounting transactions in CAS were used to supplement incomplete or unreliable general ledger accounts comprised of proprietary accounting transactions.

Statement of Budgetary Resources

We were unable to determine the accuracy of the reported \$1 billion end of period Obligated Balance because of deviations from the crosswalk established for this line item. Amounts reported for the line item should be obtained from the accumulation of budgetary accounting entries made when funds are obligated. However, because of problems with CAS, Forest Service obtained amounts based on a combination of proprietary and budgetary general ledger accounts. In effect, general ledger accounts comprised of proprietary accounting transactions in CAS were used to supplement incomplete or unreliable general ledger accounts comprised of budgetary accounting transactions.

Statement of Financing

The Statement of Financing is used to reconcile the differences from the accrual-based measures in the Statement of Net Cost with the obligation-based measures used in the Statement of Budgetary Resources. Therefore, the scope limitations relating to the Statements of Net Cost and Budgetary Resources also affected the Statement of Financing.

Due to the significance of the limitations cited above on the scope of our examination, we were unable to express an opinion on the Consolidated Balance Sheet of the Forest Service as of September 30, 1999, and the related Statement of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the period then ended.

We have also issued a report on Forest Service's internal controls, which includes three findings concerning material internal controls, and a report on Forest Service compliance with laws and regulations which cites one material instance of noncompliance with laws and regulations.

/S/

ROGER C. VIADERO
Inspector General

February 17, 2000



REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE

TO: Mike Dombeck
Chief
Forest Service

We attempted to audit the accompanying financial statements of the Forest Service, as of, and for the fiscal year ended September 30, 1999, and have issued our report thereon dated February 17, 2000. In planning our audit of the Financial Statements of the Forest Service as of September 30, 1999, we considered Forest Service's internal control structure to determine whether the agency's plan of organization and adopted methods and procedures were sufficient to ensure that (1) reliable financial information was obtained, maintained, and fairly disclosed in Forest Service's reports, (2) resources were sufficiently safeguarded against waste, loss, and misuse, and (3) the use of resources was consistent with laws, regulations, and policies.

Scope of Our Review

Our review included obtaining an understanding of the internal control policies and procedures and assessing the level of control risk relevant to all significant cycles, classes of transactions, or accounting balances and, for those significant control policies that have been properly designed and placed in operation, performing sufficient tests to provide reasonable assurance that the controls are effective and working as designed.

In making our risk assessment, we considered Forest Service's FMFIA reports as well as our prior and current audit reports on financial matters and internal accounting control policies and procedures. We noted certain matters involving the internal control structure and its operations that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants and the Office of Management Budget (OMB) Bulletin No. 98-08, as amended. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to ensure that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenue and expenditures applicable to agency operations are

properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports in accordance with Federal accounting standards and to maintain accountability over assets. Our consideration of the internal control structure, made for the limited purposes previously described, would not necessarily disclose all matters in the internal control system that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered material weaknesses.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material to the Financial Statements being audited, would occur and not be detected within a timely period by employees in the normal course of performing their required functions. Matters considered to be material weaknesses are presented in the Findings and Recommendations section of this report.

Management's Responsibility for Internal Control Structure

The management of the Forest Service is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports to maintain accountability over assets. Projections of any evaluations of the structure to future periods are subject to the risk that procedures may become inadequate because of changes in conditions or the effectiveness of the design and operation of policies and procedures may deteriorate.

Significant Internal Control Structure Policies and Procedures

For the purpose of this report, we have classified Forest Service's significant internal control structure policies and procedures into the following cycles.

1. The Property Cycle includes those transactions related to acquiring real property through lease, purchase, or construction, and the acquisition and maintenance of personal property and equipment.
2. The Revenue Cycle includes those transactions related to timber sales, grazing fees, campground collections, mineral leases, interest income, payments to States and counties based on revenues, other revenues, and maintaining the associated accounts receivable.
3. The Expenditure Cycle includes those transactions related to selecting vendors, purchasing and receiving functions, ensuring quality control, and maintaining accounts payable.

4. The Treasury Cycle includes those transactions related to the operation of the agency general ledger and the summarization of general ledger accounting data into financial and budgetary reports, and the monitoring of agency cash accounts with the U.S. Department of the Treasury.
5. The Financial Reporting Cycle includes those transactions related to the recording (posting) of journal vouchers in the general ledger; the recognition of events not included in the other cycles that require disclosure; and the preparation of Financial Statements, footnotes, data supplemental to the Financial Statements, and budget and accounting reports.
6. With respect to the Forest Service's performance measures reported in the Overview to the Annual Financial Statements, we obtained an understanding of the design of significant controls relating to the existence and completion assertions, as required by OMB Bulletin 98-08, as amended. Our work is continuing in this area and we will report on this matter under separate cover.

For each of the internal control cycles listed above, we obtained an understanding of relevant policies and procedures and whether they have been placed in operation and we assessed control risk. However, it was not our objective to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Finding 1

Implementation of Changes to Address Continuing Financial Management Deficiencies

Since the Office of Inspector General (OIG) began auditing Forest Service's financial statements in FY 1991, we have identified continuous weaknesses in the agency's accounting for accounts receivables; property, plant, and equipment; as well as for other material Forest Service accounts. These continuing financial management deficiencies have affected the quality of Forest Service's financial statements for many years, including the FY 1999 Statements. However, significant changes are underway to address these deficiencies.

Forest Service has initiated major changes to overcome the deficiencies including 1) the elimination of the CAS general ledger system beginning in FY 2000, 2) initiatives to improve real property records, and 3) increased resources devoted to the preparation of the financial statements.

Elimination of the CAS General Ledger System

General control weaknesses in CAS presented a major obstacle for Forest Service in their efforts to provide complete, reliable, timely, and consistent financial statements. CAS is a non-integrated system that is not SGL compliant, and generated unreliable trial balance amounts. The use of CAS trial balances required that significant adjustments must be made to the general ledger accounts before they could be presented in the financial statements. Because of the significant weaknesses in CAS, Forest Service and USDA were replacing the system with FFIS. On October 1, 1999, Forest Service began utilizing FFIS for all regions and National Forests. Amounts presented in the FY 1999 financial statements, however, were affected by the weaknesses in CAS.

Initiatives to Improve Real Property Records

Forest Service utilized the automated Infrastructure (INFRA) system to account for all real property assets in FY 1999. Forest Service field units completed real property inventories and populated the INFRA accounting subsidiary ledger. However, the automated system was not complete at FY 1999 yearend. CAS and FFIS were not designed to feed the INFRA subsidiary system. Although an interface was being developed to feed information between FFIS and INFRA, it was not operational during FY 1999. Also, INFRA's accounting system did not have an operational depreciation module. Forest Service plans to begin testing an INFRA to FFIS interface in April 2000, and expects to have an operational depreciation module by March or April of 2000.

For individual real property assets, our review disclosed that some capitalized values were unsupported, and that there were misstatements of capitalized values for some assets (see Finding No.3).

Because of the lack of supporting documentation for roads placed in service prior to October 1, 1994, Forest Service met with OIG, GAO, and USDA's Office of Chief Financial Officer (OCFO) to determine an agreed upon methodology for reporting costs associated with the road pools. In August of 1999, the Forest Service CFO instructed regional foresters to discontinue work that they were doing to arrive at appraised and estimated values for the road pools, and that they no longer needed to research through records to capture documentation for cost incurred prior to October 1, 1994. Forest Service, in consultation with OIG and GAO, is currently working on a methodology to estimate costs of its road pools.

Additional Resources Devoted to the Financial Statements

Forest Service hired a Director and an Assistant Director for the Financial Reports and Quality Assurance office. Also, a permanent, full-time Forest Service staff was assigned to the preparation of the financial statements. The number of contractor personnel compiling the statements was increased from 3 full-time and 1 part-time accountant for the FY 1998 statements to 8 full-time and 3 part-time accountants for FY 1999.

Additionally, Forest Service hired a contractor to prepare a risk assessment on each financial statement line item. The results of the report were discussed with OCFO and OIG in order to identify areas which would require more time and analysis during the compilation of the statements.

The Financial Statement Compilation Process

During our review of the financial statement compilation, we prepared four issue papers. One issue paper addressed the conversion from CAS to FFIS and did not directly address balances reported in the FY 1999 financial statements. The remaining 3 issue papers resulted in adjustments to the financial statements totaling approximately \$542.7 million.

In contrast, for the FY 1998 Forest Service Financial Statements, we prepared 12 issue papers resulting in adjustments totaling approximately \$8.3 billion. The FY 1998 adjustments concerned misstatements of property, earned and unearned revenue, program costs, unassigned costs, as well as other misstatements. Most of the errors were eliminated during the compilation of the FY 1999 Financial Statements. For example, we noted a recurring problem with the beginning balance for net position in both the audits of the FY 1997 and FY 1998 financial statements. This problem was eliminated during the compilation of the FY 1999 statements. However, we did note recurring problems for the FY 1999 statements. Forest Service did not prepare elimination entries for \$36.3 million of intra-agency accounts receivables. In FY 1998, we reported that the agency did not prepare elimination entries for \$44.3 million of intra-agency accounts receivables.

Also, Forest Service continued to experience problems compiling the Statement of Net Cost. In both FY 1998 and FY 1999, Forest Service initially planned to allocate costs to major responsibility segments using fund codes. A fund code is an accounting symbol for an agency appropriation for a specified program. However, the agency was unable to use this methodology because of problems in obtaining reliable information on fund codes from their primary financial systems. For two responsibility segments ("National Forests and Grasslands" and "Other"), Forest Service allocated \$1.3 billion of the total \$3.5 billion in costs reported on the statement using percentages based on amounts budgeted as of the beginning of FY 1999. This method assumed that funds were spent as budgeted during the year, and was not based on accrual accounting. SFFAS No. 4 states that:

*When managerial cost accounting is used to supply information for * * * financial reporting, that information should be consistent with the basis of accounting and recognition/measurement standards required by federal accounting principles. Traditionally this has meant the use of accrual accounting and historical cost measurement.*

We also reported this condition in FY 1998, the first year that OMB required the preparation of the Statement of Net Cost. Forest Service current plans are to begin developing and implementing an activity based costing system in March 2000 and complete implementation by April 2001.

In addition to the \$542.7 million of audit adjustments identified in our issue papers, we identified another \$548.6 million in audit adjustments bringing the total audit adjustments to almost \$1.1 billion (see Exhibit A, Audit Adjustments)

On their unaudited financial statements dated November 24, 1999, Forest Service reported a liability of approximately \$392.9 million for advances made from other funds to fight forest fires. Forest Service was authorized to advance funds from any resource to fight fires under 16 U.S.C., Section 556d which states:

Advances of money under any appropriation for the Forest Service may be made to the Forest Service and by authority of the Secretary of Agriculture to chiefs of field parties for fighting forest fires in emergency cases and detailed accounts arising under such advances shall be rendered through and by the Department of Agriculture to the General Accounting Office (GAO).

Forest Service utilized funds held under the Knutson-Vandenberg (K-V) Act of 1930 for fire fighting advances. The K-V Act provides funds collected from timber sales that must be used to reforest lands where the timber was harvested. A GAO report dated June 1996, "Forest Service Reforestation Funding – Financial Sources, Uses, and Condition of the Knutson-Vandenberg Fund," concluded that 16 U.S.C., Section 556d did not authorize Forest Service to restore amounts transferred to fight forest fires, and that Congressional action was required to restore the funds. We determined that, since there was no legal obligation to repay the K-V funds for these advances, there should be no liability realized on Forest Service's balance sheet.

The GAO report also concluded that Forest Service had not timely requested supplemental appropriations to restore the K-V fund for the fire fighting advances. GAO recommended that Forest Service seek Congressional appropriations to restore the funds, and report on the impact of not restoring the K-V funds. Forest Service implemented the recommendations, and received authority to repay the K-V fund \$100 million in FY 1999. Even though we determined that the advances should not be realized as a liability in the balance sheet, we concluded that Forest Service should disclose the amount that the K-V fund advanced for fire fighting purposes on the footnotes to the financial statements so that Congress will have the opportunity to see the impact on the fund through review of Forest Service's financial statements. Forest Service agreed, and made the changes to its final Consolidated Balance Sheet as of September 30, 1999, as well as applicable changes to the Statement of Budgetary Resources and the accompanying footnotes.

As part of the end-of-year obligations in the Statement of Budgetary Resources, Forest Service included approximately \$155.7 million for timber sale advances. The purpose of the Statement of Budgetary Resources is to report the status of appropriations, borrowing authority, and contract authority at fiscal year end. However, timber sale advances represent a Forest Service liability held in trust until timber is harvested and revenue is earned. Since the advances would not be a resource until such time that the revenue is earned and the funds are available for use by the Forest Service, these collections would not affect the agency's budgetary resources. Therefore, we concluded that the \$155.7 million should not be reported as obligations on the statement. Forest Service agreed and omitted the amount from its final statements.

RECOMMENDATION NO. 1a

Establish and implement controls to ensure that all intra-agency receivables are identified and eliminated during the processing of year-end adjusting entries.

RECOMMENDATION NO. 1b

Prior to year-end, develop and test a methodology for compiling the Statement of Net Cost that accrues revenues and expenses into the proper responsibility segment and proper program area.

RECOMMENDATION NO. 1c

Establish a process to ensure that obligations reflected on the Statement of Budgetary Resources are properly classified.

Finding 2

Weaknesses Within the Current Financial Accounting Systems Resulted in Inaccurate and Unreliable Financial Data

Various problems occurred within FFIS that affected Forest Service's ability to produce accurate financial reports. For example, transactions were improperly posted, abnormal balances existed in FFIS general ledger accounts, and unsupported adjustments were made to the accounts. Additionally, Forest Service maintained stand-alone accounting systems that produced accounting data but did not interface with its two primary accounting systems, CAS and FFIS. Because these systems were not integrated into the general ledger, manual intervention was necessary to ensure that transactions were included in the financial statements. The problems within FFIS and the use of inaccurate and unreliable stand-alone systems reduced the quality of Forest Service's FY 1999 financial statements.

Implementation of FFIS

Since October of 1997, Forest Service has used FFIS for three major accounting centers. These units, Regions 6 (Oregon and Washington), and 10 (Alaska) and the Pacific Northwest Experiment Station, comprised about 20 percent of Forest Service's accounting activity. Substantial problems in processing and reporting accounting transactions arose within the new system, some of which were not corrected by yearend. Therefore, we could place no reliance on amounts generated from FFIS.

During our audit, we identified various problems occurring within FFIS that reduced the overall quality of the financial statements. For example, on the FFIS trial balance for Regions 6 and 10, and the Pacific Northwest Experiment Station, dated November 3, 1999, we noted an abnormal debit balance totaling \$15.6 million for Accrued Program Liabilities. According to Treasury's SGL crosswalk, this line item should have a credit balance. During meetings with Forest Service and USDA's Office of Chief Financial Officer (OCFO), we were informed that certain posting model problems were causing abnormal balances. OCFO was reviewing the FFIS accounting tables to identify the posting model errors that need to be corrected to meet Treasury's SGL definitions.

In addition, our Evaluation Report No. 50801-7-FM, "Effective Implementation of FFIS Will Reduce USDA's Many Financial Management System Problems," issued on September 29, 1999, identified several issues which should be addressed to effectively implement FFIS, including the following.

Most transactions in FFIS were interfaced through old and inefficient “feeder” systems. These systems were poorly documented, and did not provide a good trail for ensuring that transactions were posted properly during the interface process. We identified posting model errors such as transactions that should have been recorded as disbursements were incorrectly recorded as negative collections. We also found instances in the agency’s trial balances where debits did not equal credits for both proprietary and budgetary accounts, where assets did not equal liabilities plus equity.

Internal controls over manual adjustments to the FFIS general ledger did not ensure that the adjustments were appropriate, authorized, documented, and processed accurately. For example, there were over 92,000 manual adjustments totaling \$13.2 billion made to Forest Service data from the beginning of FY 1998 through July 1999. The adjustments included 1070 journal voucher (JV) entries totaling about \$8.2 billion. We categorized these adjustments as high-risk because the preparer of a JV determined which accounts were posted rather than using established posting models. Additionally, 117 of the JV entries totaling over \$671 million were proposed and made by the National Finance Center (NFC) in New Orleans to force certain accounts to balance without performing sufficient research to identify the cause of the out-of-balance conditions.

Forest Service also informed us of posting problems with the classification of intra-governmental (between Forest Service and other Federal agencies) versus governmental (between Forest Service and non-Government entities) transactions. The misclassification affects the compilation of the financial statements and is critical for the preparation of the Statement of Net Cost. Instead of using the trial balance generated by FFIS, Forest Service had to obtain a special query by vendor codes to determine the split between intra-governmental and governmental transactions.

Inaccurate and Unreliable Stand-alone Automated Systems

Major accounting functions were not integrated into the general ledger requiring manual intervention to ensure that transactions were included in the financial statements. Because reconciliations were not always completed by the Forest Service, errors in timber sales revenue, accounts receivable, and property may not have been identified and corrected.

Timber Revenue - In prior audits, we have reported problems with the reconciliation of timber revenue between the Automated Timber Sale Accounting (ATSA) system and CAS. The timber sale is accounted for in the ATSA, which is a stand-alone system; while the timber payment is recognized in the Bank of America Lockbox System, which is integrated to CAS. CAS collections are posted to the ledger in the Timber Sale Deposit Fund. As timber was harvested, revenue was accrued in ATSA. Individual units were required to prepare an adjustment to transfer the revenue from the deposit fund to other fund accounts in the general ledger where they could be used in program activities. Due to timing

differences, and because ATSA was not integrated to CAS, manual entries were made to record timber revenue in the general ledger. Forest Service staff confirmed that the manual process was also used in FFIS units, but they planned to develop an automated interface between ATSA and FFIS. Our fieldwork confirmed that not all units were timely transferring ATSA data into FFIS resulting in an understatement of revenue.

Accounts Receivable – Forest Service did not have an integrated accounts receivable system as part of its CAS general ledger. Each month Forest Service field offices must transmit accounts receivable to the NFC. The accounts receivable were then reversed (removed) during the following month. This was done each month because NFC's accounting feeder system used by Forest Service could not match individual cash collections or individual write offs with specific receivables. Additionally, write offs were not posted to the ledger. Amounts written off during the month were simply excluded from the accounts receivable postings during the subsequent month. Since write offs were not posted to the ledger, the provision for loss expense account was understated.

Furthermore, write offs were not properly posted in FFIS. Although the FFIS is an integrated system, we found that the accounting tables showed "NULL" or no postings for write-off transactions. In prior audits, we have reported that CAS did not recognize write offs and as a result the provision for loss expense was understated. It appears the condition has not been corrected in FFIS. The U.S. Standard General Ledger identifies the write off of receivables as a transaction with a debit to the allowance for loss on accounts receivable and a credit to accounts receivable. We found one region wrote off approximately \$10 million of receivables and did not post the transaction properly. Forest Service staff stated that a flag noted in the table represented a reversal of the original account (a debit to an account receivable and a credit to a revenue account). The entry was not in conformance with the SGL, and was thus inaccurate.

RECOMMENDATION NO. 2a

In coordination with NFC, establish controls to ensure that all systems feeding data into FFIS are sufficiently documented, and that interfaces between the feeder systems and FFIS are functioning properly so that postings to the FFIS general ledger are accurate.

RECOMMENDATION NO. 2b

Establish and implement controls to ensure that journal voucher entries are properly authorized and accurately recorded, and that adequate documentation is maintained to support such adjustments.

RECOMMENDATION NO. 2c

In coordination with NFC, ensure that posting problems in FFIS concerning the classification between intra-governmental and governmental are corrected.

RECOMMENDATION NO. 2d

Establish a specific plan to interface ATSA with FFIS, including timeframes for implementation. In the interim, establish controls to ensure that the manual posting of ATSA revenue to FFIS is timely.

RECOMMENDATION NO. 2e

In coordination with NFC, ensure that the FFIS posting model for write offs of accounts receivable is corrected.

Finding 3

Internal Controls Were Not Sufficient to Safeguard Assets

We found that internal controls over (1) Property, Plant, and Equipment and (2) Fund Balances with Treasury were not sufficient to ensure that the assets were adequately safeguarded. Forest Service's Consolidated Balance Sheet, as of September 30, 1999, reported total assets of approximately \$6 billion. The total Fund Balances with U.S. Treasury and the Property, Plant, and Equipment accounts comprise a combined total of \$5.72 billion or almost 95 percent of the total assets.

The Statements on Auditing Standards (SAS) No. 1 states that the broad objectives of internal accounting controls are to provide management with reasonable assurance assets that are safeguarded from unauthorized use or disposition and that financial records are reliable to permit the preparation of financial statements. SAS No. 1 also states that:

In the context of internal accounting controls, safeguarding of assets refers only to protection against loss arising from errors and irregularities in processing transactions and handling the related assets. It does not include the loss of assets arising from management's operating business decisions.

Controls for Safeguarding Property, Plant and Equipment Were Not Fully Implemented

As of September 30, 1999, Forest Service reported property, plant and equipment totaling approximately \$3.1 billion or 51 percent of the agency's total reported assets. Approximately \$2.6 billion or 84 percent of the balance consisted of the agency's real property, such as buildings, administrative sites, recreation sites, and roads. Real Property assets were accounted for in INFRA both individually and in asset cost pools. Individual real property assets were valued at \$1.1 billion on the balance sheet and consisted of:

- Buildings
- Administrative Sites
- Recreation Sites
- Improvement to Recreation Sites (not capitalized and Depreciated as part of the original sites)
- Dams
- Utility Systems

Pooled assets consisted primarily of road costs, recreation trails, and improvements to forest habitat and comprised \$1.5 billion of the real property reported on the balance sheet. At the request of Forest Service, we reviewed the FY 1999 beginning balance for individual real property assets. However, we were unable to review pooled assets because of the lack of sufficient documentation for pre-FY 1995 road costs.

Individual Real Property Assets

Using an INFRA universe database reflecting the FY 1999 beginning balances for real property, we statistically selected 150 individual real property assets for review.

Our substantive testing found that 48 of the 150 sampled assets, with reported capitalized values totaling approximately \$69 million, lacked adequate documentation to support the capitalized values. Using the sample results, we estimated that \$197.8 million of the \$1.75 billion total capitalized value for individual real property assets was unsupported. We are 95 percent confident that at least \$120.6 million was unsupported, and that as much as \$275 million could be unsupported.

To determine whether the capitalized values for assets were adequately supported, we followed Forest Service's Financial Handbook, Chapter 5, dated May 12, 1999. Forest Service policy requires that units maintain actual documentation (e.g., contracts, invoices, purchase orders) for all real assets acquired on or after October 1, 1994. For assets acquired before October 1, 1994, the agency established a documentation hierarchy that units must follow:

1. actual documentation to support costs,
2. auditor accepted values including prior accounting records such as Forest Service forms 6500-53, BUDG 4Y1 reports, Unit Financial Statements, or Statements of Obligations (We also accepted other accounting records such as ORACLE reports.)
3. appraisals or estimates identifying the individual determining the estimate and documentation to support the estimate (e.g., documentation of similar property acquired at approximately the same time as that being estimated, or documentation of similar property acquired at a different time deflated or inflated to the time of acquisition using the Consumer Price Index.)

For our review of the 150 individual real property assets, we classified capitalized values as unsupported when the Forest Service units did not provide adequate supporting documentation as prescribed by the handbook. For example, we determined that two administrative sites with capitalized values of approximately \$1.1 million and \$1.6 million, respectively, to be unsupported because the National Forest provided a computerized spreadsheet containing a listing of components (e.g., landscaping costs, utilities, parking) of the site with items and dollar amounts with no support for the determinations of the values. We contacted the National Forest to determine if there was additional support.

We were informed that there was no other documentation to support the values.

Our substantive testing also revealed that 22 of the 150 assets were overstated by a total of approximately \$12.2 million, and that 18 assets were understated by a total of \$1.9 million. Using the sample results, we estimated that the capitalized values for the FY 1999 beginning inventory of individual real property assets contained overstatements totaling \$135.8 million and understatements totaling almost \$79.9 million. We are 95 percent confident that overstatements in the beginning inventory range from over \$61.6 million to almost \$210 million, and that understatements range from almost \$14.3 million to over \$145.4 million.

The following are some examples of the misstatements we found during our review:

One asset, 47 acres of land acquired in 1959 and used in Forest Service operations was valued at over \$3.1 million based on a recent appraisal. However, the land value had not been deflated to the date acquired. Using the Consumer Price Index as shown in Chapter 5 of Forest Service's Financial Desk Guide, we determined that the amount capitalized should have been approximately \$560,000. Therefore, the capitalized value in INFRA was overstated by over \$2.5 million.

For an administrative site, the "Real Property Ledger," form 6500-53, showed that a value of \$1,251 was brought forward from prior years. However, the value entered into the INFRA subledger was \$1,251,000. This error, along with other posting errors for this administrative site, resulted in an overstatement in INFRA of approximately \$1.2 million.

One recreation site valued at approximately \$900,000 in our sample of the INFRA beginning inventory, was determined to be overstated by the Forest Service field unit. The unit initially used an estimate to value the site which was acquired after October 1, 1994. Subsequently, the unit found the missing documentation supporting the actual value, and determined the value to be approximately \$700,000. Therefore, for our statistical sample, the asset value was overstated by approximately \$200,000. Upon discovering the missing documentation, the unit posted an entry to remove the \$900,000 value from the INFRA subledger. This entry occurred prior to Forest Service closing INFRA on October 13, 1999. However, an entry to post the correct value of approximately \$700,000 was not made prior to the October 13th closing. Therefore, the asset was understated in the INFRA FY 1999 ending inventory by approximately \$700,000.

In our audit of the agency's FY 1998 financial statements (OIG Audit No. 08401-8-At, dated February 23, 1999), we recommended that Forest Service conduct sufficient reviews to ensure that INFRA accounting subledgers are complete, accurate, and reliable. This recommendation is also applicable to the conditions noted during our review of the FY 1999 financial statements. Therefore, we are not making additional recommendations for this finding.

Fund Balances With Treasury Were Not Sufficiently Safeguarded

Forest Service's balance sheet, as of September 30, 1999, reported total Fund Balances with the U.S. Treasury of approximately \$2.6 billion or 43 percent of the total assets. Fund Balances with the U.S. Treasury represents (a) amounts that are available from which Forest Service is authorized to make expenditures and pay liabilities (entity assets) and (b) amounts held on behalf of other entities (nonentity assets). The balances are made up of deposits and disbursements.

A General Accounting Office report, dated September 17, 1999, stated that the reconciliation of agencies' Fund Balances with Treasury was a significant problem contributing to their inability to render an opinion on the U.S. Government's FY 1998 financial statements. The GAO report explained the importance of the reconciliation process and the impact of not performing sufficient reconciliations.

Because most assets, liabilities, revenues, and expenses stem from or result from or result in cash transactions, errors in the receipt or disbursement data affect the accuracy of the individual agency financial reports and various U.S. Government financial reports, including data provided by agencies for inclusion in the President's budget concerning fiscal year obligations and outlays. Further, the lack of effective reconciliations increases the risk of fraud, waste, and mismanagement of government funds. Inaccurate receipt and disbursement data also contribute to the overall inability of the federal government to accurately measure the full cost of its programs.

Since 1992, OIG has reported weaknesses in the processes and procedures used to reconcile Fund Balances with Treasury. For the FY 1998 Forest Service financial statement audit report, we concluded that reconciliations of fund balances were not sufficient to ensure that cash accounts were safeguarded against errors or irregularities in processing transactions because there were unexplained variances between deposits and disbursements shown in Treasury records compared to the amounts reflected in the accounting system utilized by Forest Service. The Department recently contracted with PricewaterhouseCoopers (PWC) to assess the scope and magnitude of the cash reconciliation project, and to participate in the reconciliation process. A PWC report dated September 30, 1999, stated that

Although NFC had a small team in place to reconcile out-of-balance conditions, no resources were dedicated to resolving Forest Service out-of-balance schedules. Forest Service has unreconciled deposits of almost \$163 million and unreconciled disbursements of over \$511 million.

NFC had not dedicated any resources to reconciling CAS out-of-balance conditions for deposits and disbursements prior to May 1999. This includes unreconciled deposits of over \$216 million and unreconciled disbursements of over \$1.7 billion.

For FFIS balances, PWC concluded that, although Forest Service had begun to provide direct support and resources, increased support is “imperative in order to accomplish successful and timely resolution of all out-of-balance conditions.” The report also cited (1) a lack of a good network of contacts for systems feeding into FFIS which has increased the time interval for resolving the out-of-balance conditions, and (2) inadequate internal controls, audit trail, and audit follow-up procedures for the FFIS reconciliation process.

For CAS balances, PWC stated that some reconciliations for out-of-balance conditions had been completed for the period from October 1998 through April 1999, and some work had been completed on the May 1999 disbursement reconciliation. Several systemic problems were identified and resolved during this work. However, a shortage of resources prevented all of the out-of-balance conditions from being reconciled. The report also pointed out that a large number of unreconciled schedules remained for this time period, and a relatively large number of resources should be dedicated to clearing these items.

As of December 31, 1999, out-of-balance conditions totaling over \$1.6 billion in CAS (includes all of USDA) and over \$794 million in FFIS (includes Forest Service only) had not been fully resolved. USDA’s current goal is to complete the reconciliations by March 2000. Until reconciliations are completed, there is a higher risk of fraud, waste, and abuse related to Forest Service funds.

Since the work to reconcile fund balances is ongoing and scheduled for completion during FY 2000, we are not making recommendations for this finding.

/S/

ROGER C. VIADERO
Inspector General

February 17, 2000



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

TO: Mike Dombeck
Chief
Forest Service

We attempted to audit the accompanying financial statements of Forest Service as of and for the fiscal year ended September 30, 1999, and have issued our report thereon dated February 17, 2000.

The management of Forest Service is responsible for compliance with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the FY 1999 Financial Statements were free of material misstatement, we tested compliance with laws and regulations that may directly affect the Financial Statements and certain other laws and regulations designated by OMB.

Scope of Our Review

As part of our audit, we obtained an understanding of the process by which the Forest Service identifies and evaluates weaknesses required to be reported under the FMFIA. We were unable to test supporting documentation for Required Supplemental Stewardship Information because data was not provided by Forest Service in time to conduct audit testing. Our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Under FFMA, we are required to report whether Forest Service's financial management systems substantially comply with Federal financial management systems' requirements, Federal accounting standards, and the U.S. Government SGL at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance issued for FFMA included in Appendix D or OMB Bulletin 98-08, as amended.. The results of our tests disclosed instances where the agency's financial management systems did not substantially comply with the requirements.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or the sensitivity of the matter would cause it to be perceived as significant by others. Matters that we consider to be reportable conditions are presented in the findings and recommendations section of this report.

Finding 4 Financial Management Systems Were Not in Compliance With the Federal Financial Management Improvement Act

Financial management systems used by Forest Service did not comply with the requirements of the FFMIA. Specifically, the financial management systems were not fully integrated and did not conform to SGL requirements.

During FY 1999, Forest Service used the services of NFC's CAS and FFIS for processing accounting transactions and for its general ledger. CAS and FFIS financial management systems were not fully integrated with Forest Service's subsystems, and CAS did not fully adhere to the requirements of the U.S. Government SGL and the Joint Financial Management Improvement Program provisions. Specifically, the CAS system did not have

- standard data classifications established and used for recording financial events,
- common processes used for processing similar kinds of transactions (e.g., two different accounting systems with different protocols were used to compile the financial statements),
- adequate internal controls over data entry, transaction processing, and reporting, and
- single source data entry (e.g., purchaser road credits, obtained from ATSA, were manually input into property ledgers).

Forest Service discontinued using CAS on October 1, 1999, and is working toward integrating systems with FFIS. Therefore, we are not making additional recommendations for this finding.

/S/

ROGER C. VIADERO
Inspector General

February 17, 2000

EXHIBIT A
AUDIT ADJUSTMENTS

REASON FOR ADJUSTMENT	AMOUNT OF ADJUSTMENT (Millions)
<p>Issue Paper No.2, dated December 16, 1999: INCORRECT CLASSIFICATION BETWEEN UNOBLIGATED BALANCES AVAILABLE AND UNOBLIGATED BALANCES NOT AVAILABLE IN THE STATEMENT OF BUDGETARY RESOURCES</p> <p>Adjustments were made to increase the Unobligated Balances Available, and to decrease the Unobligated Balances Not Available in the Statement of Budgetary Resources.</p>	\$356.1
<p>Issue Paper No. 3, dated December 16, 1999: UNDERSTATEMENT OF TRANSFERS OUT ON THE STATEMENT OF CHANGES IN NET POSITION</p> <p>An adjustment was made to increase the amount of Transfers Out on the Statement of Changes in Net Position.</p>	\$150.3
<p>Issue Paper No. 4, dated December 17, 1999: OVERSTATEMENT OF ENTITY, FEDERAL ACCOUNTS RECEIVABLE</p> <p>Adjustments were made to eliminate intra-agency accounts receivable and to reduce the revenue.</p>	\$36.3
<p>OVERSTATEMENT OF LIABILITY RELATED TO ADVANCES FOR FIRE FIGHTING</p> <p>Adjustments were made to the remove the liability from the Balance Sheet and Statement of Budgetary Resources, and to disclose the nature of the advances in the accompanying footnotes</p>	\$392.9
<p>OVERSTATEMENT OF THE BEGINNING OF YEAR OBLIGATIONS IN THE STATEMENT OF BUDGETARY RESOURCES BECAUSE OF INCLUSION OF TIMBER SALE ADVANCES WHICH WERE NOT CURRENTLY A RESOURCE</p> <p>An adjustment was made to remove the advances from the obligations in the Statement of Budgetary Resources.</p>	\$155.7
TOTAL AUDIT ADJUSTMENTS	\$1,091.3

EXHIBIT B

STATISTICAL SAMPLE DESIGN

The general statistical sample design for this audit was a stratified simple random sample. The final universe was comprised of 22,035 Forest Service real property units. The 22,035 property units were stratified into 6 strata (STRATA 1-6) with respect to the capitalized amount using the cumulative square root of the frequencies methodology (Cochran, SAMPLING TECHNIQUES). A sample size of 150 real property units was selected. The sample size of 150 was allocated proportionally to STRATA 1-6 with respect to the percentage of the capitalized amount within these strata. All property units in STRATA 1-6 were selected with equal probability without replacement within each strata. The sample unit within each strata was a property unit. A 95% two-sided confidence level was used for all the statistical estimates in this review. Table 1 below contains the details for this stratification, allocation and sample selection.

TABLE ONE

STRATA	BOUNDARY Capitalized Amount	Number of Property Units	Capitalized Amount	N=150
1	0-20,000	11,619	107,418,738.18	10
2	20,000-60,000	5,572	188,660,482.54	16
3	60,000-170,000	2,876	290,512,486.86	25
4	170,000-400,000	1,246	320,647,160.17	27
5	400,000-960,000	518	304,619,663.18	26
6	Over 960,000	204	538,513,907.47	46
		22,035	1,750,372,438.40	150

Statistical Analysis

All statistical sample design, selection, and statistical estimation were accomplished on a DELL Pentium Personal Computer using SAS and SUDAAN. The statistical estimates used for projections along with their standard errors were produced using the Windows version of SUDAAN, a software system that analyzes sample survey data gathered from complex multistage sample designs. SUDAAN was written by B.V. Shah of Research Triangle Institute, Research Triangle Park, North Carolina.

The term sample precision (sp), as used in the report for estimating dollar values, averages, and number of occurrences is defined as

$$sp = \frac{t * STDERR}{PTEST}$$

Where t = t factor for a 95% two-sided confidence level, PTEST = point estimate (estimate of the total, mean, or number of occurrences), and STDERR = standard error of the point estimate.

EXHIBIT B

STATISTICAL SAMPLE DESIGN

The sample precision for estimating percentage values is defined as

$$Sp = t * STDERR$$

Where t = t factor for a 95% two-sided confidence level, and STDERR = standard error of the point estimate (percentage value).

Table two shows the projection of our sample results over the universe of individual real property asset that was presented in finding three of the internal control report.

TABLE TWO

CATEGORY	ESTIMATED AMOUNT	Lower Bound for 95 percent Confidence Level	Upper Bound for 95 percent Confidence Level	SAMPLING PRECISION
OVERSTATED ITEMS	\$135,796,943.36	\$61,631,097.69	\$209,962,789.03	54.6 %
UNDERSTATED ITEMS	\$79,854,105.52	\$14,283,364.40	\$145,424,846.64	82.1%
UNSUPPORTED ITEMS	\$197,817,561.85	\$120,603,683.22	\$275,031,440.48	39.0%

ABBREVIATIONS

ATSA	Automated Timber Sale Accounting
CAS	Central Accounting System
CFO	Chief Financial Officer
FFIS	Foundation Financial Information System
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
GAO	General Accounting Office
INFRA	Infrastructure
JV	Journal Voucher
K-V	Knutson – Vandenberg Act of 1930
OCFO	Office of Chief Financial Officer
NFC	National Finance Center
OIG	Office of Inspector General
OMB	Office of Management Budget
PP&E	Property, Plant and Equipment
PWC	PriceWaterhouseCoopers
SAS	Statement on Auditing Standards
SFFAS	Statements of Federal Financial Accounting Standards
SGL	U.S. Standard General Ledger
USDA	U.S. Department of Agriculture

United States
Department of
Agriculture

Forest Service

FS-662

February 2000



Overview and Annual Financial Statements

For Fiscal Year Ending September 30, 1999



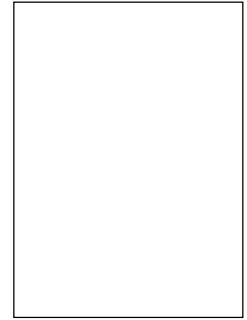
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Message from The Chief

Fiscal Year (FY) 1999 was an exciting year of dynamic change at the U.S. Department of Agriculture (USDA) Forest Service. Since early 1998, we have undertaken several major efforts to address our challenges in achieving financial accountability and determining how we can concentrate our efforts to recreate an environment of trust between the Forest Service and our stakeholders.



I am proud to report our accomplishments and our agenda for the future in protecting and enhancing our natural resources for generations to come.

To improve accountability, we have accomplished the following:

- ◆ Revised our strategic plan to place a greater emphasis on land health and the Natural Resource Agenda, which focuses on restoring and maintaining healthy, diverse, and productive ecosystems.
- ◆ Developed land based long-term performance measures that evaluate the health and diversity of the resources entrusted to our care.
- ◆ Worked closely with the Office of Management and Budget and Congressional Staff towards a simplified budget structure to be used in developing the FY 2001 budget. The new structure decreases the number of budget lines in the National Forest System appropriation.
- ◆ Employed the agency's first Chief Financial Officer (CFO) in September 1998.
- ◆ Implemented an integrated financial system on October 1, 1999.
- ◆ Implemented business process reengineering efforts to improve the current budget and financial processes and provide better customer service.

Full compliance with the Chief Financial Officer's Act of 1990 is still our goal as we strive to prepare auditable financial statements and improve our internal controls. I am confident we will continue to make progress towards achieving financial accountability that will ultimately result in an unqualified audit opinion.

We have accomplished many objectives in FY 1999 through the dedication and hard work of all Forest Service personnel. As we enter the new millennium, we look forward with optimism and pride to continuing our work as one team to conquer these financial challenges while "caring for the land and serving people."

MIKE DOMBECK
Chief

Message from the Chief Financial Officer

I am pleased to present the USDA Forest Service's FY 1999 Financial Statements prepared in accordance with the Chief Financial Officers Act, Office of Management and Budget guidelines, and Federal Accounting Standards.

My first action as CFO was to lead my organization in establishing a strategic plan. That plan is supported by four goals: providing financial management leadership; delivering quality, cost-effective customer service; cultivating a skilled, diverse workforce; and, delivering state-of-the-art financial systems. Achieving these goals is our highest priority for improving financial accountability in an aggressive and focused manner.

Financial Management Reforms

To achieve our goals, we have made some significant financial management reforms.

Implementing the Foundation Financial Information System (FFIS): This new, integrated, standard general ledger-compliant accounting system was implemented on October 1, 1999. Business process reengineering efforts included developing structured job codes to aid in identifying the funding source, implementing the primary purpose principle to more accurately reflect the agency's costs, developing a Service-wide definition of indirect costs to apply consistency in charging overhead costs, and eliminating retroactive redistribution to increase the accuracy and reliability of our financial data. Additionally, a Memorandum of Understanding with USDA's National Finance Center (NFC) was established with a primary focus on implementing FFIS and achieving a clean audit opinion in FY 2000.

Planning for Quality Results: We have worked closely with the Office of Management and Budget and Congressional Staff towards simplifying the Forest Service's budget structure. The new structure is more directly tied to the revised strategic plan. Additionally, progress has been made on developing a new set of land health performance measures to be used to support the FY 2001 budget request.

Obtaining a Clean Audit Opinion: Substantial progress has been made towards achieving a clean audit opinion, including the first steps towards assuring an accurate and complete inventory/valuation of real and personal property; continuing consulting services from the USDA Office of the Inspector General to identify and resolve problem areas; conducting a risk assessment to prioritize corrective actions; and working with the NFC on resolving cross-cutting issues such as general ledger posting model concerns and reconciliation.

Although I am very proud of the progress and success presented in this report, there is much more to accomplish. The Forest Service will continue to provide sound management of the resources under our stewardship, respond positively to the needs and concerns of the public, and demand quality results in meeting the challenges before us.

VINCETTE L. GOERL
Chief Financial Officer
Deputy Chief, Office of Finance

Introduction

The United States Department of Agriculture (USDA) Forest Service financial statements have been completed for Fiscal Year (FY) 1999 as required by the Chief Financial Officers Act of 1990, Office of Management and Budget (OMB) guidelines, and Federal Accounting Standards. The following chapters discuss these statements, including financial results for FY 1999 and selected highlights of Forest Service program and management accomplishments. Details of Forest Service accomplishments may be found in the agency's Government Performance and Results Act (GPRA) Annual Performance Report for FY 1999.

Forest Service Mission

The Forest Service's primary mission is to ensure—for present and future generations—the long-term health, diversity, and productivity of the land entrusted to its care. The phrase “caring for the land and serving people” expresses the spirit of this mission.

The agency is committed to using a science-based ecological approach to achieve multiple-use management of the national forests and grasslands. This approach blends the needs of people and environmental values to develop and maintain diverse, healthy, productive, and sustainable ecosystems.

The Forest Service has a strong commitment to partnerships and collaborative stewardship. Its goal is to strengthen decision-making processes that affect natural resources.

It is also a primary goal to provide maximum benefits to the public through proper management and use of renewable and nonrenewable resources in the Nation's forests and rangelands. These benefits can take many forms, including clean water; a higher quality environment for outdoor recreation; wood, paper, and other forest products; abundant fish and wildlife; energy and minerals; wilderness preservation; and forage for grazing livestock.

As a lead Federal agency in natural resources conservation, the Forest Service provides leadership in the protection, management, and use of the Nation's forest, rangeland, and aquatic ecosystems. An ecosystem approach to management integrates ecological, economic, and social factors to maintain and enhance the quality of the environment to meet current and future needs. The Forest Service ensures sustainable ecosystems and provides recreation, water, timber, fish, wildlife, wilderness, and aesthetic values for current and future generations on National Forest System (NFS) land.

As directed by the Forest and Rangeland Renewable Resources Planning Act (RPA), the Forest Service assesses the status and trends of the Nation's forest and rangeland resources on all ownerships every 10 years.

The Forest Service operates as part of an entire community. As Gifford Pinchot said in 1905, “Our responsibility to the Nation is to be more than careful stewards of the land, we must be constant catalyst for positive change.” With this philosophy,

the Forest Service has partnered with numerous groups and Federal agencies to facilitate the most effective stewardship. Additionally, operations within the Forest Service are equally interdependent.

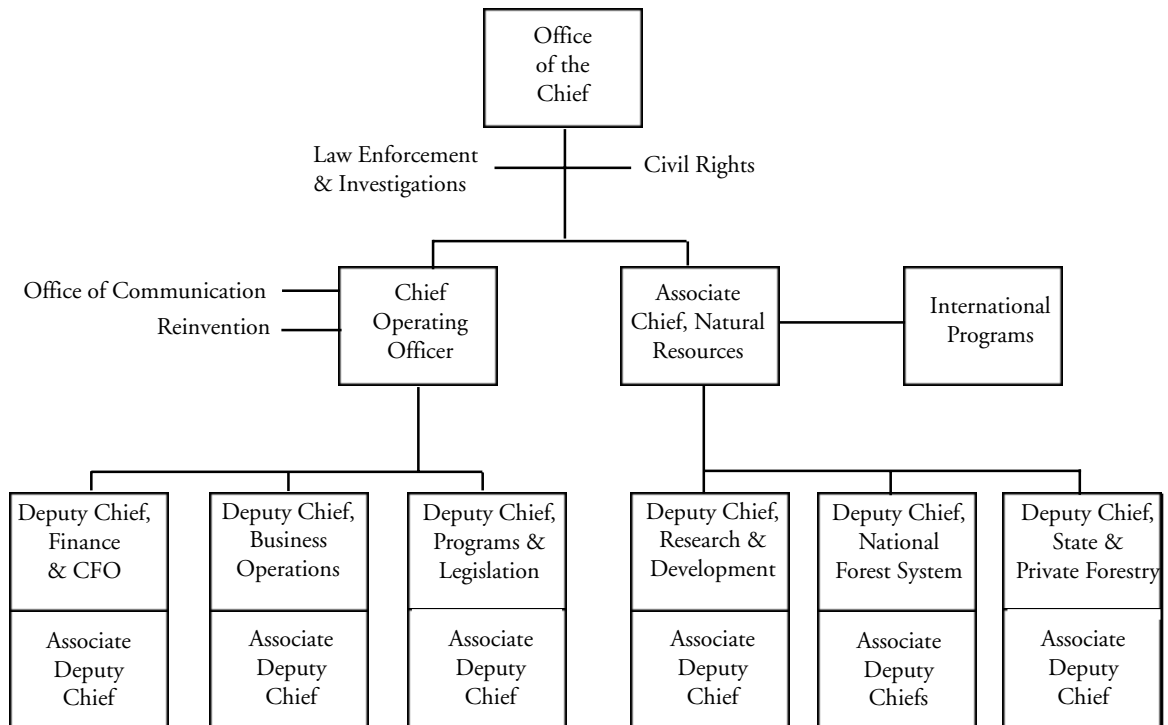
Organizational Structure

The top administrative official of the Forest Service is the Chief, who through the Under Secretary for Natural Resources and the Environment (USNRE) reports to the Secretary of Agriculture. Primary program responsibilities are divided among Deputy Chiefs: National Forest System (NFS), State and Private Forestry (S&PF), Research and Development (R&D), Programs and Legislation (P&L), Business Operations (OPS), and Finance. (See Figure 1 for Organization Chart.)

Each program area plays an integral part in the management and maintenance of the Nation's forest and wilderness.

The NFS is managed for a wide variety of purposes and values. Activities include resource protection, restoration, and use. Management policies provide direction for land use that range from wilderness preservation to intensive wood production and developed recreation.

USDA FOREST SERVICE ORGANIZATION CHART*



(Figure 1)

* Pending approval by USDA-OHRM.

Planning for the Future

Natural Resource Agenda

The Natural Resource Agenda for the 21st century was unveiled by the Forest Service on March 2, 1998. The following summarizes action items for the agenda's four emphasis areas.

Watershed Health and Restoration

- ◆ Make maintenance and restoration of watershed health an overriding priority in future forest plans and provide measures for monitoring progress.
- ◆ Increase stream and riparian area restoration.
- ◆ Increase habitat restoration and conservation of threatened, endangered, and sensitive species.
- ◆ Increase the number of abandoned mine reclamation sites.
- ◆ Improve efforts to prevent nonnative species from entering or spreading in the United States.

Sustainable Forest Management

- ◆ Work with State Foresters and others to increase number of nonindustrial private forest landowners completing long-term forest stewardship plans.
- ◆ Work with other Federal agencies and Congress to develop policies that encourage long-term investments in forests and discourage their conversion to other uses.

National Forest Roads

- ◆ Develop new long-term forest road policy.
- ◆ Develop new scientific tools and analytical procedures for forest road development.

Recreation

- ◆ Increase funding for recreation management.
- ◆ Increase funding to enhance opportunities for fishing, hunting, wildlife viewing, and conservation education.
- ◆ Accelerate the conversion of unneeded roads and trails.

This agenda is linked directly to the goals and objectives in the Draft USDA Forest Service Strategic Plan (2000 Revision). The draft has been released for public viewing and comment.

Strategic Plan

Discussion

The strategic and performance plans prepared under the GPRA (or Results Act) use a common set of goals, long-term outcomes, measures, and objectives that focus on achieving the agency's mission. The Forest Service strategic plan also promotes managerial and fiscal accountability based on performance and reflects the agency's priorities over a 5-year timeframe.

The Forest Service mission and long-term strategic goals and objectives are derived from the laws that define and regulate agency activities. The goals and objectives guide the agency's future actions in achieving its mission through implementation of land and resource management plans. These plans provide guidance for on-the-ground natural resource management in pursuing the strategic goals of ensuring sustainable ecosystems and providing multiple benefits. The following goals form the basis for the plans:

- ◆ Ensure Sustainable Ecosystems
- ◆ Provide Multiple Benefits for People Within the Capability of Ecosystems
- ◆ Ensure Organizational Effectiveness

These goals provided the basis for developing current objectives and performance measures used in the annual performance plans. Within the agency's business model, the annual performance plan is intended to be the basic management tool for directing resources and budgets to specific objectives and activities that support accomplishment of long-term goals and outcome measures.

The Forest Service has identified, developed, and prepared long-term measures to gauge progress in meeting current goals and objectives.

These measures, along with strategies to achieve them, help determine what progress is being made.

Funding

The Forest Service receives funds from Federal appropriations and Trust Funds. The following table reflects the last 3 years of funding. (\$ in Thousands)

Summary of Appropriations	FY 1997	FY 1998	FY 1999
Forest and Rangeland Research	\$ 179,786	\$ 187,797	\$ 197,444
S&PF	155,461	161,177	170,722
Emergency Supplemental-S&PF	-	48,000	-
International Forestry	{3,000}	{3,500}	{3,500}
NFS	1,274,781	1,347,283	1,298,570
Emergency Supplemental-NFS	43,072	10,461	-
GA Transfer to USDI-BIA	-	-	(1,136)
Wildland Fire Management	830,016	586,559	662,176
Fire Repayment to Knutson-Vandenberg Fund	-	-	(100,000)
Reconstruction & Construction (R&C)	174,974	166,015	-
R&C Emergency Supplemental	32,895	-	-
Reconstruction and Maintenance (R&M)	-	-	302,963
R&M Emergency Supplement	-	-	5,611
Land Acquisition	41,987	54,255	119,197
Title VI Acquisition	-	{167,000}	-
Range Betterment Fund	3,453	3,811	3,300
Gifts, Donations, and Bequests	55	92	92
Management for Subsistence Uses-Alaska	-	-	3,000
Subtotal-Discretionary Appropriations	\$2,736,480	\$2,565,450	\$2,661,939
Permanent Appropriations: Working Funds	\$ 245,939	\$ 260,209	\$ 253,566
Permanent Appropriations: Payment Funds	260,458	250,303	249,483
Cooperative Work-Trust Fund	206,703	231,885	220,046
Reforestation Trust Fund	30,400	30,000	30,000
Subtotal-Mandatory Appropriations	\$ 743,500	\$ 772,397	\$ 753,095
Total Appropriations	\$3,479,980	\$3,337,847	\$3,415,034

Source: FY 1997 Explanatory Notes; FY 1998 and 1999 USDA Office of Budget and Program Analysis, U.S. Office of Management and Budget, House and Senate Subcommittees on Appropriations for Interior and Related Agencies.

Funding Accomplishments

The GPRA directs Federal agencies, including the Forest Service, to incorporate performance management into the way business is conducted—first by affirming the agency’s mission and then by establishing definitive goals and quantitatively measuring performance. Agencies must be held accountable for results, must be able to articulate outcomes, and must measure progress against those outcomes.

Immediate priorities focus on maintaining and restoring the health of the land. While active management for a variety of goods and services will remain an important use of the NFS, it must be conducted within the land’s sustainable capacity. The Forest Service is implementing natural resource programs in tandem with its diverse partners, and in a manner that recognizes the diversity of the public served. The Forest Service is committed to having a highly skilled multicultural workforce to deliver these programs.

The Forest Service 1997 Strategic and Performance Plans used a common set of goals and objectives to focus agency priorities during the next 5 years. Annual performance plans constitute the basic management tool for directing resources to implement key strategies and specific efforts that will be used to achieve long-term goals, objectives, and performance measures. The following performance goals and related performance measures demonstrate Natural Resource Agenda commitments and accomplishments.

<i>Goals and Objectives</i>	<i>FY 1998</i>	<i>FY 1999</i>
Goal 1—Ensure Sustainable Ecosystems		
Streams & lakes restored or enhanced		
Stream miles		
Appropriated funds	1,843.0 miles	2,193.5 miles
Knutson-Vanderberg (KV) funds*	344.3 miles	147.4 miles
Lake acres		
Appropriated funds	9,671.5 acres	16,346.0 acres
KV funds*	1,417.8 acres	682.0 acres
Soil & water resource improvements		
Appropriated funds	38,496.5 acres	35,561.9 acres
KV funds*	18,153.4 acres	2,546.9 acres
Reforestation		
Appropriated & KV funds	287,905.0 acres	267,013.0 acres
Timber Stand Improvements		
Appropriated & KV funds	296,951.0 acres	262,786.0 acres
Hazardous fuels reduction		
Appropriated & brush disposal funds	1,604,796.0 acres	1,521,177.0 acres
Noxious weeds treatment		
Appropriated funds	74,443.5 acres	86,999.8 acres
KV funds*	36,501.7 acres	13,895.4 acres
Nonstructural range improvements completed		
Appropriated funds	23,817.0 acres	28,123.0 acres
KV funds*	8,641.0 acres	6,440.0 acres
Terrestrial wildlife habitat restored or enhanced		
Appropriated funds	167,217.0 acres	184,527.0 acres
KV funds*	122,688.8 acres	120,042.0 acres
Goal 2—Provide Multiple Benefits for People within the Capabilities of Ecosystems		
Number of grazing allotments administered to standard		
Appropriated funds	4,113.0 allotments	4,235.0 allotments
Acres of land ownership adjustment excluding exchanges		
Appropriated funds	97,045.5 acres	151,438.2 acres
Miles of Roads Decommissioned		
Appropriated funds	1,412.7 miles	2,762.2 miles
KV funds*	0.0 miles	177.7 miles
Bonded nonenergy operations processed		
Appropriated funds	803 operations	843 operations
Energy operations processed		
Appropriated funds	544 operations	271 operations
Timber Volume Offered—million cubic feet		
New	402.2	298.5
Salvage	243.6	138.1
Goal 3—Ensure Organizational Effectiveness		
Acres of Land Exchange Fee		
Appropriated funds	69,938.0 acres	180,013.0 acres

* KV accomplishments are reported separately for this measure because targets were only established for appropriated funds.

National Forest System

Program Area	Purpose	Strategy	Highlights
Recreation, Heritage, and Wilderness Resources	To meet the Nation's growing need for outdoor recreation in a manner that protects the health, diversity, and productivity of the land.	<ul style="list-style-type: none"> ◆ Provide premier settings and experiences for recreational users. ◆ Improve the quality and quantity of public information about recreational events in the NFS. ◆ Collaborate with State and private landowners that wish to benefit from public use of their lands. ◆ Establish quality standards for recreational services and evaluate more effectively customer satisfaction and feedback. 	<ul style="list-style-type: none"> ◆ In partnership with the the U.S. Army Corps of Engineers, the National Recreation Reservation Service was implemented. This service integrates payment processes as well as a real-time Internet site for on-line reservations for campsites, cabins, group sites, and permits.

Recreation, Heritage, and Wilderness Resources

Forest Service lands offer the single largest source of outdoor recreation opportunities in the United States that include skiing, camping, hiking, fishing, hunting, birding, photography and off-road vehicle opportunities. The Forest Service must meet the Nation's growing need for outdoor recreation in a manner that protects the health, diversity, and productivity of the land, always keeping in mind that facilities and programs should be accessible to persons of all ages and abilities.

Goals

- ◆ Provide spectacular settings
- ◆ Increase visitor satisfaction
- ◆ Provide social opportunities
- ◆ Not jeopardize the long-term health of forests and grasslands

Accomplishments

Implemented a new recreation reservation system. Over \$20 million in total revenue was processed and approximately 500,000 reservations were made.

Recreational opportunities supported by Forest Service funds include:

- ◆ Cross-country skiing
- ◆ Paddling through the Boundary Waters Canoe Area
- ◆ Exploring labyrinth canyons and mesas in inner tubes or floating the Snake River through the deepest gorge in North America
- ◆ Visiting the fascinating Ghost Ranch Living Museum
- ◆ Driving snow-capped Mount Hood
- ◆ Taking photographs at the Mount St. Helens National Volcanic Monument
- ◆ Heading north to Alaska and fishing for salmon or hunting game and seeing icebergs the size of office buildings
- ◆ Watching eagles soar above forests
- ◆ Kayaking a quiet fiord
- ◆ Following the route of the Lewis and Clark expedition
- ◆ Catching trout in Alpine Lake
- ◆ Viewing colorful wildflowers carpeting Alpine meadows
- ◆ Seeing deep red canyons to tall mountains wrapped with pine
- ◆ Taking a refreshing swim or touring a magical Blanchard Springs Caverns
- ◆ Driving an off-road vehicle down a remote trail
- ◆ Hiking through aspen groves in the Rocky Mountain Region or along the Appalachian Trail
- ◆ Picnicking along the Talimena Scenic Drive
- ◆ Viewing coastal redwoods or bristlecone pine
- ◆ Camping along gold-rush trails or at the granite peaks of the Sierra Nevada Mountains or Mount Shasta

Program Area	Purpose	Strategy	Highlights
Wildlife, Fish, and Rare Plants	Conservation of species and plant habitats.	<ul style="list-style-type: none"> ◆ Provide technical expertise and strategic advice on conservation initiatives. ◆ Continue implementation of the 10% Road and Trail fund. ◆ Identify those ecosystems that are most at risk and identify where the greatest opportunities for biodiversity conservation exist through development and implementation of conservation assessments, strategies, and agreements. ◆ Reestablish the Partners in Planning website to better inform and engage partners in agency planning efforts. 	<ul style="list-style-type: none"> ◆ Provided expertise for the lynx conservation strategy in collaboration with other Government agencies, States, and partner groups. ◆ Participated in “Partners in Flight,” an international effort to conserve landbirds and their habitats before they become imperiled. This included completing a strategic plan to guide Forest Service landbird conservation.

Wildlife,
Fish, and
Rare Plants

National forests contain world-class fish and wildlife resources that are closely associated with high quality of life for most Americans. World-class partnerships are developed around these programs, and approximately \$15 million leveraged to provide about \$30 million in fish and wildlife habitat improvements. Examples of these resources follow:

- ◆ Clean water is a precious commodity for society. In national forests when you bring clean water and people together, good things happen. Healthy watersheds that produce clean water for communities also produce an abundance of fish.
- ◆ National forests harbor 80 percent of the Nation’s elk, bighorn sheep, and mountain goats; and contain 28 million acres of wild turkey habitat and 5.4 million acres of wetlands. Carefully managed habitats maintain healthy and huntable populations of game species and hundreds of nongame species in the 44 States containing national forest lands.
- ◆ Over 250 species of migratory songbirds depend on national forest lands. The ecological importance of these species is difficult to overestimate.
- ◆ As our population grows, national forests are increasingly becoming important reservoirs for imperiled species. Over 360 species listed as threatened or endangered depend on national forest habitats, and over 2,500 other rare species depend on national forest lands. In addition, potentially economically important populations of native plant species on national forest lands are managed to serve as genetic reservoirs . . . awaiting future uses.

Species conservation continues to be at the very center of our management!

<i>Initiatives</i>	<ul style="list-style-type: none"> ◆ Bison and elk management ◆ Botany leadership ◆ Sensitive species ◆ Native fish conservation ◆ NatureWatch leadership ◆ Prairie dog conservation ◆ Black-footed ferret conservation 	<ul style="list-style-type: none"> ◆ Quail habitat management ◆ Sage grouse conservation ◆ Ute Ladies-tresses orchid ◆ Sierra Nevada Framework Project ◆ Bighorn sheep conservation ◆ Aspen management 	<ul style="list-style-type: none"> ◆ Forest bat conservation and recovery ◆ Invasive species management ◆ Imperiled ecosystem strategies ◆ Expanding partnership base ◆ Partnerships in Flight (migratory birds) ◆ Wild turkey restorations
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Program Area	Purpose	Strategy	Highlights
Engineering	Develop and maintain Forest Service facilities that are safe, functional, and durable, including Forest Service roadways, trails, and bridges.	<ul style="list-style-type: none"> ◆ Continue site restoration, and the maintenance and development of trails and bridges. ◆ Enhance critical roads. ◆ Perform watershed analysis. ◆ Relocate problem roads and decommission roadways that are no longer in use. ◆ Perform hazardous material cleanup as necessary. 	<ul style="list-style-type: none"> ◆ Developed and published the road analysis process. ◆ Drafted a revised road policy that was published in the Federal Register in November 1999. ◆ Collected deferred maintenance, annual maintenance, and capital improvement data. ◆ From 1990 through 1998, decommissioned 21,200 miles of road.

Engineering

Engineering provides technical and managerial support to all programs within the agency.

Engineering Role

- Maintenance of Infrastructure
- ◆ Better roads & facilities
 - ◆ Fewer roads
 - ◆ Safer roads & facilities
 - ◆ Stable funding
 - ◆ Accountable inventory, accomplishment, and needs

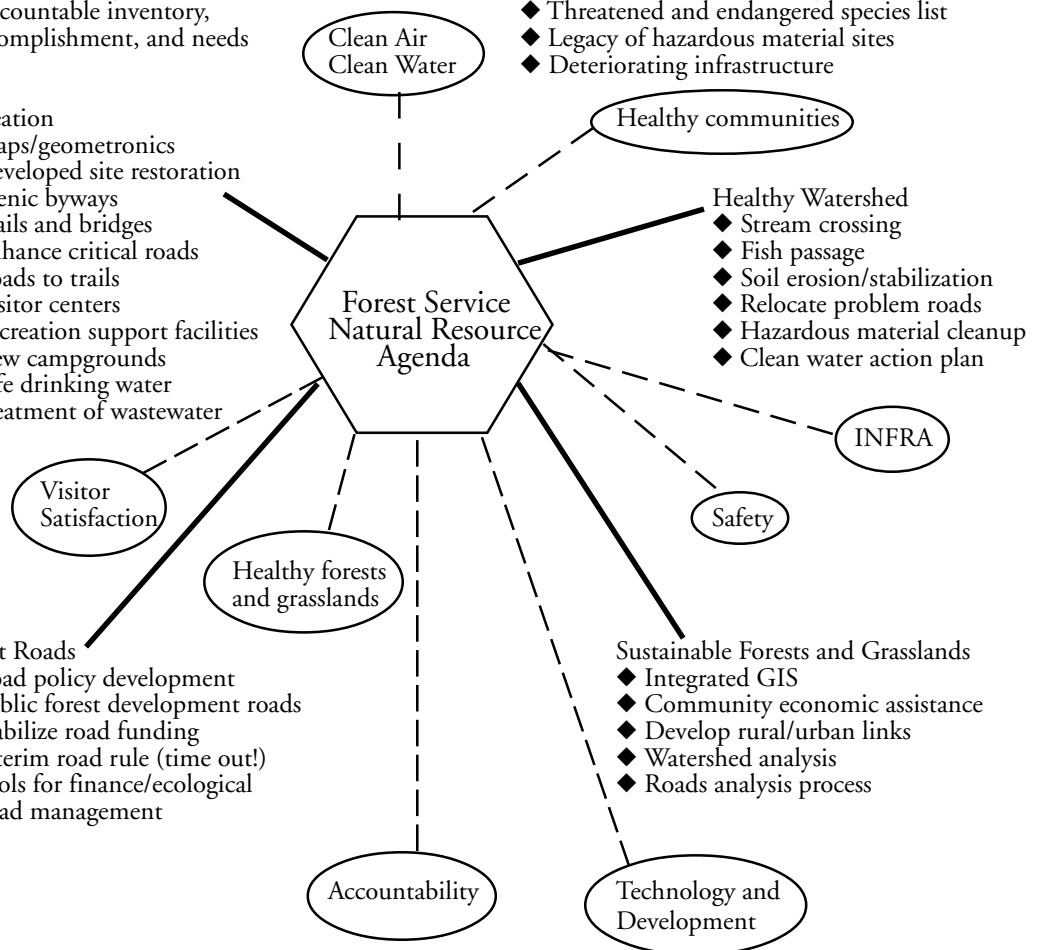
- Background
- ◆ Increased environmental sensitivity
 - ◆ Decreased commodity emphasis
 - ◆ Increased recreation and tourism
 - ◆ Loss of traditional funding
 - ◆ Threatened and endangered species list
 - ◆ Legacy of hazardous material sites
 - ◆ Deteriorating infrastructure

- Recreation
- ◆ Maps/geometrics
 - ◆ Developed site restoration
 - ◆ Scenic byways
 - ◆ Trails and bridges
 - ◆ Enhance critical roads
 - ◆ Roads to trails
 - ◆ Visitor centers
 - ◆ Recreation support facilities
 - ◆ New campgrounds
 - ◆ Safe drinking water
 - ◆ Treatment of wastewater

- Healthy Watershed
- ◆ Stream crossing
 - ◆ Fish passage
 - ◆ Soil erosion/stabilization
 - ◆ Relocate problem roads
 - ◆ Hazardous material cleanup
 - ◆ Clean water action plan

- Forest Roads
- ◆ Road policy development
 - ◆ Public forest development roads
 - ◆ Stabilize road funding
 - ◆ Interim road rule (time out!)
 - ◆ Tools for finance/ecological road management

- Sustainable Forests and Grasslands
- ◆ Integrated GIS
 - ◆ Community economic assistance
 - ◆ Develop rural/urban links
 - ◆ Watershed analysis
 - ◆ Roads analysis process



Program Area	Purpose	Strategy	Highlights
Minerals and Geology Management	Administration of mining activities and mineral development as well as exploration and production of energy products.	<ul style="list-style-type: none"> ◆ Continue to foster and encourage mineral development and production. ◆ Facilitate mineral development on NFS land leading to sustainability of economies of surrounding local communities. ◆ Continue with exploration, development, and production of energy and minerals, which generate increased revenues that are shared by cities and States. ◆ Ensure that all production activities are performed in an environmentally sound manner. ◆ Ensure that ecosystem health and sustainability are guaranteed by requiring appropriate design, mitigation, and reclamation practices are compliant with environmental protection measures. 	<ul style="list-style-type: none"> ◆ Mineral revenues that were added to the general treasury from mineral production and royalties from NFS land ranged from \$125-150 million dollars.* Income from these mining operations contribute to small businesses and various local rural economy tax bases. <p>* All estimated production and dollar figures are applicable for FY 1998. FY 1999 figures will not be available until after the publication of the FY 1999 Financial Statements.</p>

Minerals and Geology Management

The Forest Service administers energy and mineral resource exploration, development, and production from NFS land. The minerals program seeks to foster and encourage energy and nonenergy mineral activities on NFS land in an environmentally acceptable manner. Ecosystem health and sustainability is ensured by requiring appropriate design, mitigation, and reclamation practices and by monitoring operations to ensure compliance with environmental protection measures.

Administration of mining activities is an important part of our Minerals and Geology Program, with the policy to foster and encourage mineral development. Facilitating mineral development on Forest Service lands can be very important to the economies and sustainability of local communities. Exploration, development, and production of energy and minerals also raise revenues that are shared with the States.

Highlights

- ◆ Much of the Nation's phosphate and lead come from productions on NFS land.
- ◆ Annual value of all energy and mineral production exceeded \$2.3 billion.

Performance

- ◆ Participated in the Paleontology Advisory Group.
- ◆ Produced a national paleontology poster for educational outreach.
- ◆ Reviewing local issues dealing with rockhounding and fossil collecting on NFS lands.

Mining, Oil, and Gas Statistics

- There are approximately—
- ◆ 5.8 million acres of land leased for oil, gas, coal, geothermal, and other mineral exploration and production
 - ◆ Over 150,000 mining claims
 - ◆ 7,000 mineral pits and quarries
 - ◆ Over 2,000 new operations proposed
 - ◆ Over 20,000 operations to monitor and inspect

Program Area	Purpose	Strategy	Highlights
Lands	To monitor, manage, and acquire land for the Forest Service.	<ul style="list-style-type: none"> ◆ Monitor and manage all lands that fall under the jurisdiction of the Forest Service. ◆ Continue to locate and acquire land for the Forest Service. ◆ Provide processing and continued oversight. ◆ Increase effectiveness in the processing of new permits. ◆ Continue stewardship and protection of NFS land through quality land records and permanent survey of boundaries. ◆ Acquire highly valuable, sensitive, and scenic land into the NFS. 	<ul style="list-style-type: none"> ◆ Thirty separate items of legislation related to land and land adjustments were handled by the Lands Staff, such as the I-90 Land Exchange Act of 1998.

Lands During FY 1999, the Lands Staff processed 30 separate pieces of legislation related to land and land adjustments. The Lands program has been involved in consultation at the highest levels of the Department and the Administration in coordinating legislation.

Highly Visible Legislative Progress

- ◆ I-90 Land Exchange Act of 1998
- ◆ Dutch John Federal Property Disposition and Assistance Act of 1998
- ◆ Mississippi National Forest Improvement Act of 1999
- ◆ Oregon Land Exchange Act of 1999
- ◆ Arizona National Forest Improvement Act of 1999

Partnership Role

Partnerships played a significant role in several acquisitions, including:

- ◆ Trust for Public Lands
- ◆ The Conservation Fund
- ◆ The Nature Conservancy

Nonrecreation Special Use Program

Program accomplishments include—

- ◆ Expected reduction of permitting costs by at least 30 percent as a result of actions of the National Special Use Re-engineering Team.
- ◆ Use of pending pilot program authorizing cost-recovery funding in the administration of special use authorizations.
- ◆ Final adoption and implementation of revisions for the Special Uses Regulations.
- ◆ Complete revamping of the 5409-120 Handbook on Appraisal Procedures representing current professional practices.

Performance

- ◆ Completion of 151 land acquisition cases adding 323,326.66 acres of highly valued and scenic land to the NFS.
- ◆ A National Lands Oversight Team was established with the Bureau of Land Management resulting in improved consistency and knowledge.

- ◆ In 1999, 100 land exchanges were accomplished, involving 150,000 acres of private land coming into national forest ownership and approximately 40,000 acres leaving public domain and becoming privately owned. These exchanges are valued at over \$200 million.
- ◆ Created the automated Land Information System for the Forest Service. This system will provide basic landnet information for use by Forest Service personnel.
- ◆ Over 150,000 acres of land were acquired through exchange including key portions of the Royal Teton Ranch in Montana.



Program Area	Purpose	Strategy	Highlights
Forest Management	Production of forest products and treatment of vegetation for ecosystem management purposes. Reforestation and Timber Stand Improvement of NFS lands.	<ul style="list-style-type: none"> ◆ To reforest NFS lands, ensuring that NFS lands remain productive and provide for healthy ecosystems. ◆ Sustain the production of desired Forest Service products. ◆ Make Timber Stand Improvements (TSI) consistent with ecosystem management principles. ◆ Proceed with 28 stewardship contracting pilot projects. 	<ul style="list-style-type: none"> ◆ For Fiscal Year 1999, the Forest Service began reporting timber performance measures in hundreds of cubic feet. Hundreds of cubic feet (CCF) provide a more consistent basis for measuring wood volume across tree species and products.

Forest Management

The Forest Service has reforested thousands of acres of NFS lands, primarily using genetically improved seedlings. Aggressive reforestation practices continue to ensure that NFS lands remain productive to provide for healthy ecosystems, sustain the production of desired forest products, and meet other land management objectives. TSI treatments on NFS land activities include timber stand release, precommercial thinning, pruning, and fertilization. Total accomplishments in these reforestation and TSI activities continue a gradual decline because they are responsive to timber harvest reductions and decreasing proportions of regeneration harvest acres to total harvest acres.

The regular and salvage timber sale programs have resulted in the treatment of thousands of acres of NFS lands. This is indicative of the extent of maintenance and restoration of forested ecosystems on NFS land and the implementation of forest plan goals and objectives. Timber sales are usually designed to incorporate multiple objectives, which may include insect and disease control, fuels treatment, and habitat restoration, in addition to the production of wood.

Stewardship Pilot Accomplishments

Section 347 of the FY 1999 Omnibus Appropriations Act gave the Forest Service the authority to undertake up to 28 stewardship contraction pilot projects. The legislation also set forth several new procedures that the agency may test in connection with these pilots. The purpose is to test whether any of the new procedures will enhance the agency's ability to 1) efficiently manage small diameter, low-value material and 2) better meet the needs of local resource dependent communities. Working in cooperation with various local community groups, detailed business plans have been prepared. A framework for ensuring multiparty monitoring and evaluation of the stewardship pilots has also been created.

FY 1999 Forest Service Timber Sales

Total volume offered: 4,365,903 CCF
Total volume sold: 4,400,814 CCF
Salvage volume offered: 1,381,345 CCF



Salvage was 32% of total volume offered

FY 1998 Forest Service Timber Sales

Total volume offered: 6,457,943 CCF
Total volume sold: 5,910,584 CCF
Salvage volume offered: 2,436,025 CCF

Salvage was 38% of total volume offered



Program Area	Purpose	Strategy	Highlights
Range Management	Sustainability of rangelands, healthy habitats, water quality, and conservation of species.	<ul style="list-style-type: none"> ◆ Restore and maintain rangeland ecosystems. ◆ Sustain rangeland ecosystem health. ◆ Prevent introductions and spread of nonnative invasive plants. ◆ Restore riparian areas and watersheds. 	<ul style="list-style-type: none"> ◆ Used the National Environmental Policy Act (NEPA) to assist in the analysis and decisions for grazing allotments and management. ◆ Participated in the Federal Interagency Committee for Management of Noxious and Exotic Weeds (FICMNEW), which was established by a Presidential Executive Order.

Range Management

The Range Management program emphasis has shifted in recent years as society's needs and values have changed. Sustainability of range, healthy habitats, water quality, and conservation of species have become more important than simply providing forage for livestock. At the same time, the Forest Service remains very interested in the well-being of range dependent communities. Agency employees are actively working with permittees, other agencies, and a variety of external organizations to make the transition to range sustainability a success.

Key Components

- ◆ Range vegetation management
- ◆ Grazing management

Performance

- ◆ Improve structural and nonstructural items
- ◆ Sustain forage for livestock and wildlife
- ◆ Improve soil stability
- ◆ Improve water quality
- ◆ Protect watersheds
- ◆ Protect and manage over 1,500 wild horses and burros
- ◆ Manage noxious weeds

Affiliations and Partnerships

The Range Management Staff interacts with a wide array of private individuals, groups, and organizations representing a broad spectrum of interests, values, and expectations for public land management. These groups range from the American Farm Bureau to the Wilderness Society, and from the Audobon Society to the Western Governors Association. These affiliations and partnerships span all levels of the Forest Service, and the focus varies with the details of each program or project.



Key Statistics

- ◆ Rangelands cover over 105 million acres
- ◆ 8,019 active grazing allotments
- ◆ 8,498 permits issued
- ◆ 36 wild horse and burro territories covering over 2,095,000 acres

Program Area	Purpose	Strategy	Highlights
Watershed, Soils, and Air Management	Protect and improve watershed conditions of the Nation's forests and grasslands.	<ul style="list-style-type: none"> ◆ Accelerate use of a priority watershed approach to protect and improve watershed conditions. ◆ Continue monitoring of air quality and soils. ◆ Increase expansion of Interdepartmental Abandoned Mine Lands Watershed Clean-up Initiatives. ◆ Proceed with advances in Burned Area Emergency Rehabilitation program. ◆ Accelerate cooperation on riparian and wetland management. ◆ Continue to enhance the Weather Information Management System. 	<ul style="list-style-type: none"> ◆ Focused \$42.3 million of Clean Water Action Plan funding to protect watershed on national forests and grasslands and to initiate 12 large-scale watershed restoration projects. ◆ Formed a cooperative with EPA to develop a final rule on Regional Haze, which will protect Class I wilderness areas from air pollution effects. ◆ Developed a national plan for soil quality monitoring and assessment.

Watershed, Soils, and Air Management

Prevention of Significant Deterioration (PSD) permits are required to protect wilderness areas from air pollution effects. Watershed protection and restoration is vital to ecosystem health. Watersheds absorb rain and recharge underground aquifers. They serve as the habitat for thousands of species of fish, wildlife, and rare plants. Properly functioning watersheds can minimize damage to lives, property, and streams from severe storms by absorbing runoff.

Involvement

Participated in or supported the following efforts:

Watershed

- ◆ Southwest Strategy
- ◆ Upper Columbia River Basin
- ◆ Abandoned Mine Lands
- ◆ Watershed Cleanup
- ◆ Gila River and White River

Air Management

- ◆ Reviewed 40 PSD permits
- ◆ Developed Regional Haze Rule

Performance

- ◆ **Water Rights/Drinking Water:** Adjudicated 39 water rights
- ◆ **Water Quality/Best Management Practices:** Prioritized watersheds
- ◆ **Abandoned Mine Lands:** Initiated cleanup
- ◆ **Burned Area Emergency Rehab:** trained 70 participants nationwide
- ◆ **Riparian and Wetland Management:** Sponsored national workshop, RIPCORN program for cross-staffing
- ◆ **Watershed Improvements:** Incorporated Wyden Amendment into standard management
- ◆ **Air:** Participated on the Clean Air Act Advisory Committee
- ◆ **Soils:** Sponsored National Soils Program Managers Workshop and started the Geomorphic Description Framework
- ◆ **Partnership Development:** Supported national hydropower relicensing
- ◆ **Weather:** Supported enhancements to fire weather data and information network

Program Area	Purpose	Strategy	Highlights
Ecosystem Management	Apply ecological approaches to manage the Nation's forests and grasslands.	<ul style="list-style-type: none"> ◆ Increase management of national forests and grasslands through the use of NEPA and the National Forest Management Act (NFMA). ◆ Track and coordinate all agency appeals and litigation concerning ecosystem management. ◆ Develop and implement ecosystem management initiatives. ◆ Develop and manage corporate data standards and supporting data bases for Forest Service resource information. 	<ul style="list-style-type: none"> ◆ Completed 10,000 categorical exclusions, 5,000 environmental assessments, and over 200 environmental impact statements. ◆ Developed an Interim Roads Rule and supported environmental analysis for the proposed Forest Service new roads policy. ◆ Implemented the Natural Resource Information System (NRIS), which links required resource data to the agency's mission/business needs. ◆ Produced four professional papers for the North American Symposium on Forest Ecosystem Monitoring and Evaluation.

Ecosystem Management

The Forest Service applies an ecological approach to achieve the management of national forest and grasslands through six very complex and demanding processes:

1. NEPA (over 15,000 documents processed per year)
2. NFMA (125 existing Forest Service plans)
3. Tracking and coordinating all of the agency's appeals and litigation
4. Developing and field implementing ecosystem management
5. Developing and managing corporate data standards
6. Supporting data bases for Forest Service resource management

Ecosystem management is an interdisciplinary process that is:

- ◆ Environmentally sound
- ◆ Socially responsive
- ◆ Scientifically based
- ◆ Collaboratively informed

It requires annual monitoring, annual evaluation and reporting, and synthesizing of the national criteria and indicators. It supports the vegetation, terrestrial, and air quality data bases.

Accomplishments

- ◆ Delivered four professional papers to the North American Symposium on Forest Ecosystem Monitoring and Evaluation in Guadalajara, Mexico
- ◆ Provided sustainable development and supporting criteria and indicators to mainland China
- ◆ Developed and distributed a practical and science-based reference for managers on ecosystem management
- ◆ Completed over 40 percent of all NEPA documents
- ◆ Implemented Interim Roads Rule

State and Private Forestry

Program Area	Purpose	Strategy	Highlights
State and Private Forestry	Seek active ways to connect people to resources, ideas, and one another.	<ul style="list-style-type: none"> ◆ Deliver programs to under-represented and socially disadvantaged groups. ◆ Implement USDA Environmental Justice Strategy. ◆ Build partnership with Federal, State, and local agencies, nonprofit and for-profit organizations, and other interested parties. 	<ul style="list-style-type: none"> ◆ Partners Outdoors VII: Seventh Annual Conference coordinated with seven other Federal agencies, a Recreation Roundtable, private organizations, and for-profit organizations. Explored joint opportunities to meet outdoor recreation needs of the public. Program initiated to reinforce awareness of shared customers and interdependence of public and private sectors; also, to catalyze partnership-based actions to better serve visitors to public lands.

State and Private Forestry programs enhance the health and sustainable management of the Nation’s urban and rural forests and related economies, in partnership with Federal, State, and local organizations. As a result, quality of life for people in rural and urban communities is increased, Federal and non-Federal investment to protect and maintain healthy and productive forest ecosystems is reduced, and private landowner objectives are enhanced through nonregulatory approaches and voluntary participation. State and Private Forestry programs are critical to the sustainability of America’s forest lands.

Over two-thirds of the Nation’s forest lands are non-Federally owned. Over 75 percent of the wildland fires in the country occur on these lands. Innumerable animal species listed as threatened or endangered live in non-Federal forest lands. Management practices in these lands directly impact water quality, as well as insect and disease conditions. Equally essential is the stewardship of the 69 million acres of forests in urban areas, where 80 percent of the American people reside.

Program outcomes serve to:

- ◆ Protect and restore forest health
- ◆ Manage the role of fire in healthy ecosystems while protecting resource values
- ◆ Protect riparian areas while assuring forest productivity
- ◆ Enable communities to strengthen their economic and social vitality through resource-based ventures
- ◆ Extend information to diverse publics to promote sustainable resource management

Program Highlights

- ◆ Completed the initial planning necessary to begin delivery of nine national workshops on “FIREWISE COMMUNITIES.” FIREWISE is a successful partnership with States, insurance companies, and communities, helping to create long-term change in community planning, cooperation, and enhanced insurance standards. Proactive aviation accident prevention strategies resulted in a remarkable accident-free period. Exchanged resources with Canada to support wildland fire activity.

- ◆ Developed, refined, and integrated the Sustainable Forest Management Criteria and Indicators into agency planning, inventory, and monitoring activities.
- ◆ Improved Federal Government to tribal government relations and pursued partnerships and exchanged information with various tribal governments.
- ◆ Provided leadership and timely action in emphasizing the integration of small farms into program efforts.
- ◆ Clearly defined the role of conservation education through education partnerships (over 1 million educators trained).
- ◆ Contributed to the restoration and conservation of forested ecosystems and biological diversity by developing an insect and pathogen risk map, invasive species prevention and management, forest health monitoring, forest pest suppression, and communication efforts.
- ◆ Implemented the USDA regulations on Environmental Justice through organizational changes and coordination with the natural resource environment strategy.
- ◆ Developed a strong outreach program to under-served communities in partnership with the National Association of Counties and National Organization of Black County Officials.
- ◆ Cooperative Forestry delivered broad suite of programs: Forest Stewardship, Forest Incentives, Urban and Community Forestry, Economic Action Programs, and Forest Legacy.
- ◆ Cooperative fire program increased safety and efficiency of local firefighting organizations.
- ◆ Provided fire suppression action on 9,485 fires on NFS lands; 605,000 acres were burned.
- ◆ Provided interagency fire suppression support to Bureau of Indian Affairs, Bureau of Land Management, Fish and Wildlife Service, National Park Service, States, and others for suppression of 67,745 fires that burned 4,430,626 acres of forested land, range land, urban interface land, and other lands.
- ◆ Accomplished an unprecedented 1.28 million acres of hazardous fuels reduction through mechanical and prescribed fire treatments. Treatment of fuels reduces the risk of catastrophic fire.

Research and Development

Program Area	Purpose	Strategy	Highlights
Research and Development	Provide relevant information about relationships of natural resources and natural and human-caused changes.	<ul style="list-style-type: none"> ◆ Provide reliable science-based information and knowledge to program areas. ◆ Develop new technology. ◆ Adapt and/or transfer new technology for effective resource management. ◆ Seek patents and rights to inventions. ◆ Monitor ecosystem changes. 	<ul style="list-style-type: none"> ◆ Knowledge and tools to fight invasive species: non-native invasive insects and pathogens and plants, such as the Asian Longhorn Beetle (ALB) cause an estimated \$120 billion in damages per year in the United States. New information was developed in FY 1999 about ALB dispersal behavior, life history, and efficacy of biological and chemical controls. ◆ Forest Service research patented an improved, more potent virus that can control the gypsy moth without adverse environmental impact.

Through research and development of forestry and range management practices, the Forest Service provides scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the Nation's 1.6 billion acres of forests and associated ranges.

A measure of the utility of research is the number of research findings in articles and the numbers of patents issued. There were nine patents and eight rights to inventions awarded to the Forest Service. There were an estimated 2,505 articles and publications printed in both Spanish and English for public use.

Also, the Federal Laboratory Consortium chose biopulping research, conducted by the Forest Products Laboratory, as one of six innovations to be highlighted in a special magazine. Biopulping's technical and economic feasibility was established through collaborative research and development. Several patents and a license have already been issued based on the consortium's research and more patents are pending.

The Forest Service sponsored a science education project that used research as a teaching/learning resource for middle school science students.

Four Areas of Research

Vegetation Management and Protection Research. Vegetation is the foundation of complex forest and range land ecosystems. Research improves the science base to manage and protect.

Wildlife, Fish, Watershed, and Air Research. This expands our understanding of organisms, ecosystems, and ecological processes. Research in close harmony with resource managers synthesizes results, transfers technology, and adapts management approaches.

Resource Valuation and Use Research. Increases in the size and diversity of the Nation's population require better understanding of social and economic tradeoffs of various resource management and policy options.

Forest Resources Inventory and Monitoring. Providing long-term baseline resource data and a scientific basis to assess current conditions and trends in the Nation's forest resources.

Accomplishments

- ◆ **Management guidelines for increased productivity.** Silviculture, physiology, and harvesting research in the Pacific Northwest and the South have produced improved guidelines for thinning, prescribed fire, fertilization, and harvest systems to enhance forest and soil productivity and to maintain health, vigor, and insect-resistance of pine and hardwood forests.
- ◆ **Implementation of annual inventory.** Initiated annual Forest Inventory and Analysis (FIA) programs in 8 new States, increasing the total implemented area from 3 States at the start of FY 1999 to 11 States (21 percent of the country) by the end of FY 1999. Implemented forest health monitoring in five States bringing the total up to 70 percent of the country.
- ◆ **Hydrocarbon emissions reduction.** Forest Service scientists in the Pacific Southwest have measured the impacts of tree shade on parking lot microclimates and found that cooler temperatures associated with shading of paved areas can substantially reduce regional hydrocarbons evaporated from parked cars.
- ◆ **Biological integrity recovery.** Development of baseline information and rapid assessment techniques for freshwater mussel and warmwater fish populations will permit managers to manage for biological diversity.
- ◆ **Watershed evaluation.** Analytical protocols were developed for forest roads to evaluate watershed resources and assist managers in protecting water quality.
- ◆ **Increased partnerships.** Revised the FIA management structure to include direct participation by State partners at all levels. Developed FIA User Groups in all regions of the country to increase communication between program leaders and customers. Resulted in increased partner contributions of approximately \$4 million towards implementing and enhancing the base Federal FIA program.
- ◆ **Data for analysis of national fuel management priorities.** Data on fire regimes, fuel types, fuel condition, and fire hazard have been refined and incorporated into a national interagency data base that will be used by the Forest Service to help illustrate and determine strategic fuel treatment and fire management priorities across the country.

International Programs

Program Area	Purpose	Strategy	Highlights
International Programs	Through the Office of International Forestry, the Forest Service strives towards global conservation leadership by advancing U.S. interests at international forums where policy regarding forests is discussed; coordinates collaborative research and technical exchange and fosters improved practices in countries with significant forest resources and forest products who trade with the United States.	<ul style="list-style-type: none"> ◆ Advocate U.S. environmental and economic interests in negotiations of forest-related policies at international forums. ◆ Cooperate with other countries and international organizations, such as the United Nations Food and Agriculture Organization (FAO) and the Center for International Forestry Research (CIFOR), to provide training technology transfer, policy advice, or research assistance to nationals of other countries. 	<ul style="list-style-type: none"> ◆ The Forest Service has worked cooperatively with the Federal Forest Service of Russia in the training of personnel in forest fire-fighting employing the incident command system. In addition, researchers from both countries work together on a project that mitigates global climate change through improved forest management and cooperation. ◆ In Brazil, the agency provides remote sensing data and field information on widespread burning in the cerrado and Amazon ecosystems to measure the impacts of the fires on air quality and atmosphere and assist in fire prevention, management, and research. Additionally, the Forest Service has provided technical assistance and training in fire prevention and suppression.

Through the Office of International Programs, the Forest Service seeks to advance global conservation efforts and cooperation with other countries ultimately leading to economic, environmental, political, social, and cultural benefits for the United States and other countries.

International Programs promotes the mutual exchange of research, scientific, and technical data that will lead to improved methods of global conservation and practices in countries with significant forest resources and products trade with the United States.

Program Direction

- ◆ Conservation leadership
- ◆ Research assistance
- ◆ Scientific and technical data exchange
- ◆ Training
- ◆ Policy advice

International Cooperation and Assistance

- ◆ The International Institute of Tropical Forestry (IITF) and the Institute of Pacific Island Forestry (IPIF) were created to plan and implement international programs in Latin America, the Caribbean, the Pacific Islands, and the Pacific Rim.
- ◆ The International Forestry Program has lent assistance in the areas of training, policy, research, and technology to international organizations such as the U.N. FAO, the CIFOR, and the International Tropical Timber Organization (ITTO).

Highlights

- ◆ Since 1988, the Forest Service has been providing training to personnel from the Ministry of Forestry and Estate Crops of Indonesia in forest fire prevention, control, and mitigation primarily focusing on control and suppression. Current emphasis is on helping Indonesia build on coordinated response capacity, addressing underlying causes of uncontrolled fire, and exploring practices that could reduce risk to catastrophic fire.
- ◆ Fusarium (root rot) is a common nursery and seedling problem in both the United States and South Africa. Forest Service scientists worked with the University of Orange Free State to undertake research on microbial application for biocontrol of Fusarium on *Pinus patula*. Funding for this research was provided by the USDA Scientific Cooperation Program.

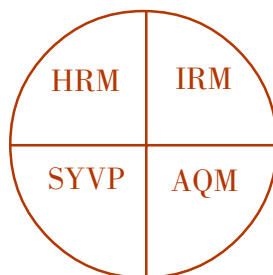


Business Operations

Program Area	Purpose	Strategy	Highlights
Business Operations	To support all programs through effective and efficient business resources support.	<ul style="list-style-type: none"> ◆ Ensure information systems are Y2K compliant. ◆ Hire, train, and keep the best and brightest staff. ◆ Manage Senior Volunteer program. ◆ Provide Job Corps educational program. ◆ Manage an efficient and effective acquisition process. 	Y2K Accomplishments: <ul style="list-style-type: none"> ◆ Completed assessment, repairs/replacement, and testing of all critical vulnerable systems. ◆ Developed contingency plans and day-one strategies. ◆ Validated all external data exchanges. ◆ Coordinated with key business partners. Set up Business Resumption Teams, and Y2K Command Center.

Business Operations is responsible for keeping information technology running and up-to-date; providing acquisition support; hiring, training, and keeping the best workforce; and attracting participants in numerous outreach programs ancillary to Forest Service programs.

Business Operations



Human Resource Management

Key components of Human Resource Management include—

- ◆ Ongoing human resource reengineering efforts.
- ◆ Planning for future recruiting, training, and development activities to bring needed skills and diversity for the new millennium.
- ◆ A 5-year corporate training plan.

Acquisition Management

Performance goals of Acquisition Management include—

- ◆ Provide an internal control plan for acquisition to reduce vulnerability to fraud, waste, and abuse; provide reasonable assurance that resources are adequately safeguarded and efficiently used; produce reliable reporting data and reports; and provide techniques for ensuring compliance.
- ◆ Fifty-seven percent of total procurement dollars awarded to small businesses.

*Senior, Youth,
and Volunteer
Programs*

The goal is to provide human and natural resource benefits by administering and hosting programs in work, training, and education for the unemployed, underemployed, elderly, young, and others with special needs. Programs include—

- ◆ Job Corps
- ◆ Youth Conservation Corps
- ◆ Senior Community Service Employment Program
- ◆ Volunteers in the National Forests
- ◆ Hosted Programs
- ◆ Keep America Beautiful
- ◆ Youth Forest Camps
- ◆ Historically Black Colleges and Universities
- ◆ Hispanic Serving Institutions
- ◆ Summer Intern Program



Office of Finance

Program Area	Purpose	Strategy	Highlights
Office of Finance	Achieve financial accountability and link to performance accountability.	<ul style="list-style-type: none"> ◆ Provide financial management leadership. ◆ Deliver quality, cost-effective customer service. ◆ Cultivate a skilled, financial management-oriented, diverse workforce. ◆ Deliver state-of-the-art financial systems. 	<ul style="list-style-type: none"> ◆ Completed major work for implementation of the FFIS on October 1, 1999. Tasks included preparing a comprehensive project plan that tracked key costs, developing a primary purpose funding principle, developing a new budget process, publishing a national job code structure, and eliminating retroactive redistribution. ◆ Developed land-based long-term performance measures that evaluate the health and diversity of the resources entrusted to our care.

Background

The Forest Service has seen tremendous change during FY 1998 and FY 1999 in the area of financial management. To oversee all financial management activities relating to the programs and operations of the agency, a new Office of Finance Deputy Chief position and program area was created. The position was given the title of Chief Financial Officer (CFO) under the supervision of the Chief Operating Officer (COO). The new CFO immediately began addressing outstanding problems and recommendations of various studies to fully respond to financial accountability issues. The new deputy area is composed of four staffs. The staffs and key functions are outlined as follows:

- ◆ **Program and Budget Analysis:** To develop and present the agency’s budget with a focus on the Results Act and to manage the allocation and use of funds.
- ◆ **Financial Management:** To develop national policies and procedures, oversee national and resource accounting operations, and provide financial and accounting services for the Washington Office.
- ◆ **Financial Reports and Analysis:** To prepare financial statements, conduct financial analysis, and manage a nationwide Quality Assurance Program.
- ◆ **Financial Systems:** To implement and maintain the operation of the FFIS and oversee financial systems development and operations.

The Deputy Chief, Office of Finance, is responsible for providing leadership to all financial management and budget activities related to the programs and operations of the agency. The CFO also has responsibility for establishing and implementing a financial management system that contributes to the achievement of agency missions. In FY 1999, the CFO began filling vacant positions; FY 1999 was the first full year of operations.

The CFO's vision is for the Forest Service to be the Government leader and model for excellence in financial management. The four goals that address resolving the Forest Service's longstanding problem in achieving financial accountability follow.

*Provide
Financial
Management
Leadership*

From the beginning, the goal has been to rebuild an organization that promotes accountability and recreates an environment of trust between the Forest Service and its stakeholders. This includes managing for progress towards a clean audit opinion, establishing consistent national financial management policies and standards, implementing a new budget and performance measurement structure, developing a means to monitor and review our new performance measurement structure, establishing a compliance program, and reviewing and proposing a streamlined financial management field structure.

*Deliver
Quality,
Cost-Effective
Customer
Service*

The CFO's plan calls for conducting quarterly financial resource reviews; centralizing some accounting operations; establishing financial management performance measures for quality, cost-effective customer service; providing user support for FFIS implementation; and communicating Office of Finance initiatives to both internal and external customers.

*Cultivate a
Skilled,
Diverse
Workforce*

The CFO intends to meet this goal by completing core competencies for financial management personnel, working with the USDA-Office of the Chief Financial Officer and Forest Service Corporate Training office to fully develop a comprehensive training strategy for the CFO staff, and working with Human Resources and Office of Civil Rights to refine a recruitment strategy and improve diversity in hiring efforts and implement the Civil Rights agenda.

*Deliver
State-of-the-Art
Financial
Systems*

In addition to implementing FFIS agencywide on October 1, 1999, the Office of Finance continues to deliver improved financial system plans and strategies, including developing a data warehouse that will incorporate both financial and programmatic data, developing requirements for an activity-based costing system, and assessing all financial systems agencywide against Federal accounting standards. An additional goal was to renovate the existing financial systems to ensure they are Y2K compliant.

*Accomplish-
ments*

Under the CFO's leadership, major work was completed in the implementation of FFIS on October 1, 1999. The CFO established an FFIS project team and an integrated project plan that was used to track key components and critical tasks. Nearly 300 employees worked on over 30 teams to reengineer processes, develop policies and procedures, design training courses (over 1,300 employees were given Just-in-Time training), develop and implement a data validation and conversion strategy, and define requirements essential for the successful implementation of FFIS.

Two Memoranda of Understanding outlining clear roles, responsibilities, service levels, and performance measures were established. The first one was with the USDA Project Office regarding implementation and post-implementation efforts for FFIS. The second one was with the USDA National Finance Center, with a primary focus on activities to implement FFIS and for achieving a clean audit opinion.

As part of the dynamic change within the agency, the CFO reengineered budget and financial processes that resulted in a streamlined accounting structure, enabled cost allocation of indirect costs, and introduced budget object class planning by developing a policy known as Primary Purpose. This policy more accurately reflects how to plan and spend the agency's budget. The particular change allows for a realignment of funding around the central purpose for an activity instead of multiple activities that might benefit from the work. A self-guided training video was completed and distributed to all Forest Service units to ensure a clear understanding of the primary purpose concept and intent.

Coordinated efforts were taken under the leadership of the CFO with Congressional staff, OMB, NAPA, and Forest Service personnel to simplify the Forest Service's budget structure. These efforts resulted in a new budget structure and a presentation format that aligns annual performance results with budget line items for the FY 2001 budget. The land health performance measures were included in the Draft USDA Forest Service Strategic Plan (2000 Revision), which was distributed for public review in November 1999.

To improve the quality of financial statements, the CFO conducted an unprecedented Risk Assessment with the assistance of a private contractor to prioritize financial statement line items needing corrective actions to improve the quality of financial statements. Additionally, the Forest Service completed its first and most thorough real and personal property inventory and valuation in its history; however, more work needs to be done to ensure we report reliable data. The Real Property Desk Guide was updated and used by field units to conduct physical inventories and validate the accuracy of the support documentation for the valuation of the assets. A methodology was formed in partnership with the USDA-OIG for developing historical costs for pre-1995 pooled assets for roads that will reduce the required work in the field and enable the establishment of acceptable values. Additionally, consulting services from the OIG are being continued in order to more specifically identify and resolve problem areas.

The investment in this organization's mission and goals will reap many benefits for all of the Forest Service. These benefits include allowing the Forest Service and its managers to have financial information with which they can intelligently make choices between options and set priorities for their programs, turning financial data into management information will allow the Forest Service to better its business, and ultimately enabling the Forest Service to achieve an unqualified opinion on its financial statements each and every year.

Financial Performance

Background

The Forest Service is appropriated in excess of \$3 billion each year and uses over 50 separate appropriation accounts. The Forest Service receives revenue from timber and mineral sales, recreational fees, and other activities. The Forest Service is authorized to use a portion of these revenues (e.g., reforestation of timber sale areas to cover operating expenses).

Although the Forest Service received a disclaimer of opinion in FY 1998, progress was made in improving financial data quality. The Forest Service had previously received adverse audit opinions from the USDA OIG in FY's 1991 and 1992. Major improvements were made in FY 1993 and FY 1994 and the Forest Service received a qualified opinion both years. However, the Forest Service received an adverse audit opinion again in 1995. As a result of the FY 1995 adverse opinion, no financial statements were prepared in FY 1996.

The Forest Service implemented FFIS on October 1, 1997, in three pilot areas (Regions 6 and 10, and the Pacific Northwest Research Station). The remaining regions, research stations, and areas implemented FFIS on October 1, 1999 (FY 2000). This system replaced the Central Accounting System. The Forest Service's implementation of FFIS will dramatically improve the integrity of accounting information and internal controls.

Major financial management reorganization has been achieved within the Forest Service. COO and CFO positions were filled in FY 1998. These new managerial positions will ensure clear lines of responsibility and accountability. Further, the Forest Service has consolidated the budgeting, financial management, financial system development and operation, and quality assurance areas under the control of the CFO.

In January 1999, the Forest Service was named on the GAO High-Risk list because of the severe weaknesses in accounting and financial reporting. To be removed from the list the Forest Service needs to demonstrate sustained financial accountability. The Forest Service must implement an internal system of controls that are in line with the CFO Act and include field level actions where the financial transactions start. They must at a minimum receive an unqualified audit opinion on Financial Statements for 2 consecutive years. The inclusion on the GAO List has intensified the Forest Service's actions to correct its financial weaknesses. A Forest Service risk assessment prioritized the line items needing corrective actions, so the agency can make strides toward obtaining a favorable audit opinion.

Financial Highlights

Financial Reporting Systems The Forest Service has a number of financial reporting systems. The following have experienced the most significant changes in FY 1999.

Foundation Financial Information System FFIS provides an integrated accounting system that is in compliance with the Standard General Ledger (SGL). The integration of the financial and budget accounting in FFIS will provide strong system controls and greatly enhance the agency's ability to provide useful, reliable, and timely financial information for Forest Service managers and for external reporting purposes.

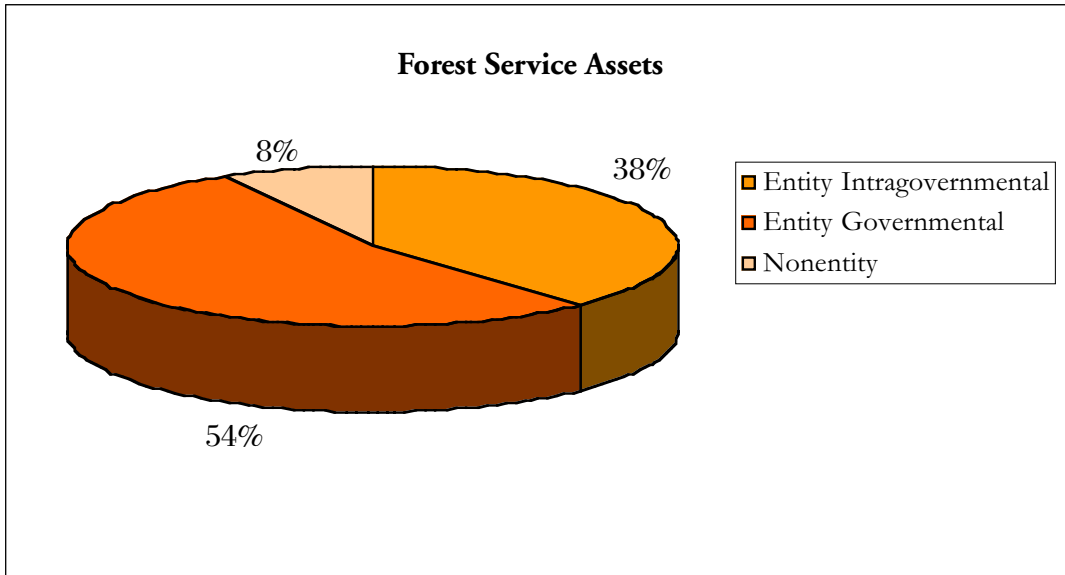
Budget Structure The Forest Service recently proposed a new budget structure. The new budget structure will allow for better tracking of expenditures and performance measurement. Additionally, this new structure will decrease the number of budget lines in the NFS appropriations and simplify the tracking of expenditures and standardized costs.

Infrastructure Data Base The Forest Service must deliver sound and credible information to various stakeholders about its assets. To address this need, the Forest Service has developed the Infrastructure Data Base (Infra). This nationally deployed data base application is helping the agency meet this goal by providing an integrated inventory of its constructed features and land units. Infra includes automating several related business functions in financial and acquisition management and permits. The application will deliver reports on asset inventories, real property values, and deferred maintenance needs and will produce bills for collection for range and special use permits.

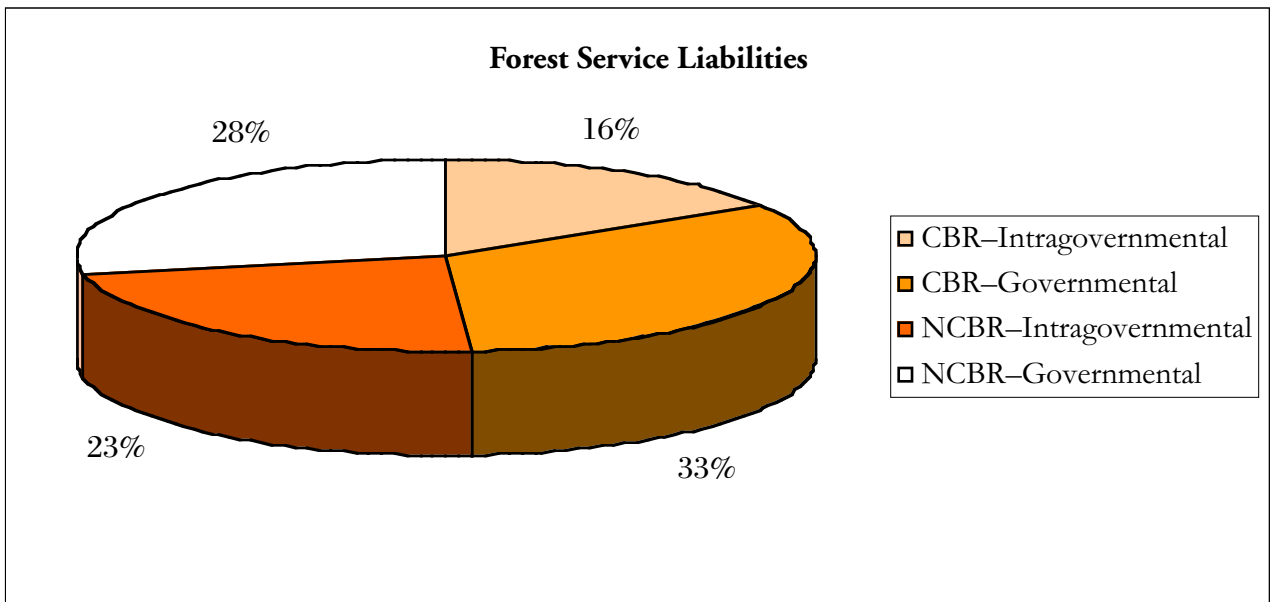
Infra follows Forest Service guidelines for integrating information and provides tools for managing and sharing data. Information collected in Infra will also be able to interface with other Forest Service systems, such as the agency's new accounting system FFIS and the Natural Resource Information System (NRIS).

Principal Financial Statements The following discusses the Balance Sheet and the Statement of Net Cost.

Balance Sheet Forest Service assets are categorized into two major categories, entity and nonentity. The following assets chart further breaks down entity into intragovernmental and governmental. Entity assets are assets that the Forest Service has authority to use in operations. The Forest Service holds nonentity assets for others. Entity intragovernmental assets consist primarily of fund balance with Treasury. Entity governmental assets consist primarily of general property, plant, and equipment. Nonentity assets are primarily funds at the Treasury awaiting transfer to the general fund and are not available for Forest Service use.



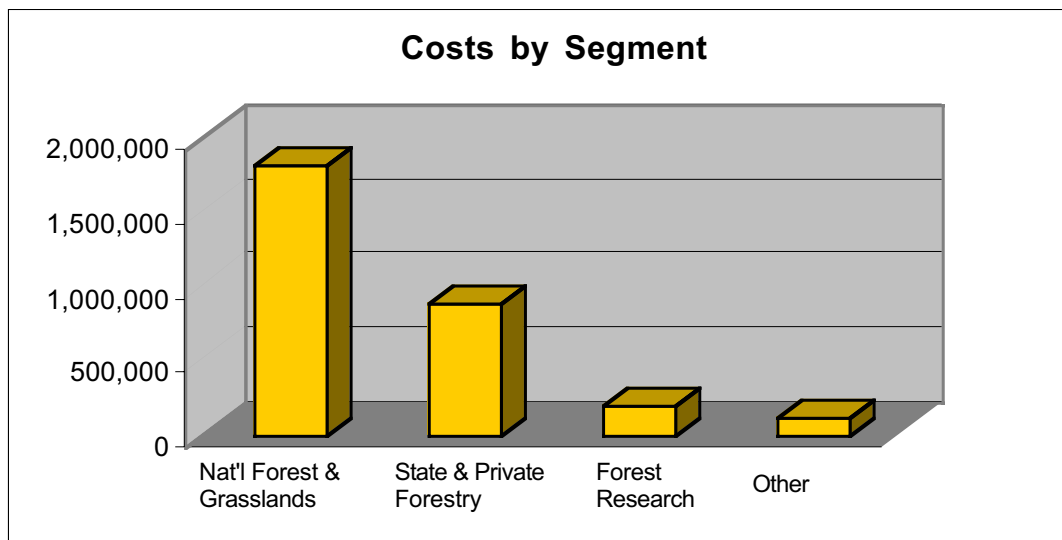
Similarly, liabilities are broken into two major categories: liabilities covered by budgetary resources (CBR) and liabilities not covered by budgetary resources (NCBR). The following liabilities chart further breaks down these two categories. Intragovernmental liabilities CBR are accounts payable to other Federal agencies or the U.S. Treasury, the governmental are accounts payable to public suppliers. Intragovernmental liabilities NCBR are accrued program liabilities related to firefighting activities for which special requests must be made for supplemental appropriations, or the cost for firefighting activities may be covered by other types of funds such as trust funds and cost-sharing arrangements. The last category is governmental accrued liabilities NCBR. This consists of annual leave accruals and Federal Employees Compensation Act (FECA) liabilities.



Statement of Net Cost

The Statement of Net Cost reflects the net of operating expenses on an accrual basis offset by any exchange revenues. The resulting net cost is covered by appropriations. As is shown on the Statement of Net Cost, the Forest Service received over \$562 million in exchange receipts. Of the revenue over \$470 million was earned by the national forests and grassland programs. Over \$73 million was earned by the State and Private Forestry programs. Included in the national forests' net cost was over \$122 million of stewardship assets acquired.

The following chart shows how costs were incurred across program segments. As expected 60 percent of operating expenses were for national forests and grasslands programs.



Management Controls

Within the new Office of Finance organization, the Financial Reports and Analysis Staff is responsible for the preparation of the agency's annual financial statements and the development, coordination, and implementation of quality assurance and financial analysis programs. The Forest Service is developing a Quality Assurance Program to be operated out of the Office of Finance, with field level staff serving on ad hoc committees. These committees will perform routine and special reviews and recommend improvements. This work will be coordinated with the USDA-OIG with the intention of reducing overlapping efforts. The quality assurance program will significantly improve the Forest Service's ability to correct identified control system weaknesses, while the financial analysis program will significantly improve monitoring of performance of Forest Service programs and activities.

The integration of the financial and budget accounting within FFIS will provide strong controls. The SGL within FFIS will significantly enhance Forest Service's ability to provide useful, reliable, and timely financial information for Forest Service managers and for external reporting purposes.

The Forest Service reported six open material weaknesses under Section 2 of Federal Managers Financial Integrity Act (FMFIA) and three system nonconformances under Section 4 of FMFIA. As shown in the following table, significant progress has been made to resolve these problems.

MANAGEMENT CONTROLS: FEDERAL MANAGER'S FINANCIAL INTEGRITY ACT	
Section 2 Material Weaknesses	Anticipated Correction Date
Timber Sale Administration	System implementation FY 2000; Completion FY 2001
Financial System	FFIS implemented FY 2000; Completion FY 2002
Special Use Permits	New Regulations and INFRA Sys. FY 1999; Completion FY 2000
Encroachments	Policy developed FY 1999; Completion FY 2002
Personal Property	Total physical inventory FY 1999; Completion FY 2000
Contracting	Controls implemented FY 1999; Completion FY 2000
Section 4 Systems Nonconformance	
Real Property Management Information System	INFRA enhanced FY 1999; FFIS-INFRA interface completed FY 2000
Central Accounting Subsystem: Credit and Cash Management	FFIS-pilot successful FY 1999; Completion FY 2000
Unpaid Obligations Subsystem	FFIS-pilot successful FY 1999; Completion FY 2000

Limitations of Financial Statements

Pursuant to the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, the financial statements that follow have been prepared to report the financial position and results of operations of the Forest Service. The FY 1999 financial statements consist of the Balance Sheet, the Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing, Required Supplementary Stewardship Information, and Required Supplementary Information. The following limitations apply to the preparation of the FY 1999 financial statements:

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

**U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
BALANCE SHEET
As of September 30, 1999**

(In Thousands)

ASSETS	
ENTITY ASSETS:	
Intragovernmental	
Fund Balance with U.S. Treasury (<i>Note 2</i>)	\$ 2,295,931
Accounts Receivable, Net (<i>Note 3</i>)	46,453
Advances and Prepayments	1,001
Total Intragovernmental	\$ 2,343,385
Accounts Receivable, Net (<i>Note 3</i>)	133,301
Advances and Prepayments	431
Cash and Other Monetary Assets (<i>Note 2</i>)	23,211
Inventory and Related Property, Net (<i>Note 4</i>)	87,497
General Property, Plant, and Equipment, Net (<i>Note 5</i>)	3,101,711
TOTAL ENTITY ASSETS	\$ 5,689,536
NON-ENTITY ASSETS:	
Intragovernmental	
Fund Balance with U.S. Treasury (<i>Note 2</i>)	\$ 326,513
Accounts Receivable, Net (<i>Note 3</i>)	1
Total Intragovernmental	\$ 326,514
Accounts Receivable, Net (<i>Note 3</i>)	15,596
Other Assets (<i>Note 6</i>)	6,276
TOTAL NON-ENTITY ASSETS	\$ 348,386
TOTAL ASSETS	\$ 6,037,922

The accompanying notes are an integral part of these statements

**U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
BALANCE SHEET
As of September 30, 1999**

(In Thousands)

LIABILITIES COVERED BY BUDGETARY RESOURCES:

Intragovernmental

Accounts Payable	\$ 102,074
Unearned Revenue	9
Trust and Deposit Liabilities (<i>Note 8</i>)	66,514
Resources Payable to Treasury	104,951

Total Intragovernmental	\$ 273,548
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Accounts Payable	13,844
Accrued Program Liabilities (<i>Note 9</i>)	273,561
Unearned Revenue (<i>Note 7</i>)	58,416
Trust and Deposit Liabilities (<i>Note 8</i>)	240,013
Other Liabilities (<i>Note 10</i>)	3,254

TOTAL LIABILITIES COVERED BY BUDGETARY RESOURCES	\$ 862,636
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LIABILITIES NOT COVERED BY BUDGETARY RESOURCES:

Annual Leave (<i>Note 11</i>)	149,591
Federal Employees Compensation Act Liability (<i>Note 11</i>)	327,658
Liability for Environmental Cleanup Costs (<i>Note 12</i>)	-
Commitments and Contingencies (<i>Note 13</i>)	-
Other Liabilities (<i>Notes 10</i>)	6,850

TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES	\$ 484,099
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TOTAL LIABILITIES	\$ 1,346,735
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NET POSITION (*Note 14*)

Unexpended Appropriations	\$ 1,879,069
Cumulative Results of Operations	2,812,118

TOTAL NET POSITION	\$ 4,691,187
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TOTAL LIABILITIES AND NET POSITION	\$ 6,037,922
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The accompanying notes are an integral part of these statements

**U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
STATEMENT OF NET COST
For the Year Ended September 30, 1999**

(In Thousands)

	National Forest and Grasslands	State and Private Forestry	Forest Research	Other	Total	WCF Elimination	Total
PROGRAM COSTS							
Intragovernmental	\$ 185,949	\$ 44,116	\$ 10,677	\$ 103,536	\$ 344,278	\$ (33,363)	\$ 310,915
Governmental	<u>1,936,187</u>	<u>906,984</u>	<u>196,532</u>	<u>296,091</u>	<u>3,335,794</u>	<u>(135,414)</u>	<u>3,200,380</u>
Total Program Costs	\$ 2,122,136	\$ 951,100	\$ 207,209	\$ 399,627	\$ 3,680,072	\$ (168,777)	\$ 3,511,295
Less: Earned Revenues	<u>(509,182)</u>	<u>(74,051)</u>	<u>(12,704)</u>	<u>(174,168)</u>	<u>(770,105)</u>	<u>168,777</u>	<u>(601,328)</u>
Excess Production Costs Over Revenues	\$ 1,612,954	\$ 877,049	\$ 194,505	\$ 225,459	\$ 2,909,967	-	\$ 2,909,967
NON-PRODUCTION COSTS							
Acquisition Costs of Stewardship Assets	122,055	-	-	-	122,055	-	122,055
Net Program Costs	\$ 1,735,009	\$ 877,049	\$ 194,505	\$ 225,459	\$ 3,032,022	\$ -	\$ 3,032,022
NET COST OF OPERATIONS (Note 15)	<u>\$ 1,735,009</u>	<u>\$ 877,049</u>	<u>\$ 194,505</u>	<u>\$ 225,459</u>	<u>\$ 3,032,022</u>	<u>\$ -</u>	<u>\$ 3,032,022</u>

The accompanying notes are an integral part of these statements

**U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 1999**

(In Thousands)

	State and Private			Forest Research	Other	Total
	National Forests and Grasslands	Forestry	Research			
NET COST OF OPERATIONS	\$ 1,735,009	\$ 877,049	\$ 194,505	\$ 225,459	\$ 3,032,022	
FINANCING SOURCES:						
Appropriations Used	1,713,189	173,357	200,078	1,253,577	3,340,201	
Donations	1,124	114	131	822	2,191	
Imputed Financing	6,740	682	787	57,828	57,828	
Transfers In	(81,933)	(8,291)	(9,569)	4,932	13,141	
Transfers Out	1,639,120	165,862	191,427	(59,952)	(159,745)	
Net Results of Operations	\$ (95,889)	\$ (711,187)	\$ (3,078)	\$ 1,031,748	\$ 221,594	
Prior Period Adjustments (Note 16)	310,324	31,401	36,242	227,071	605,038	
Net Change in Cumulative Results of Operations	\$ 214,435	\$ (679,786)	\$ 33,164	\$ 1,258,819	\$ 826,632	
Increase (Decrease) in Unexpended Appropriations	41,767	4,226	4,878	30,561	81,432	
CHANGE IN NET POSITION	\$ 256,202	\$ (675,560)	\$ 38,042	\$ 1,289,380	\$ 908,064	
NET POSITION - BEGINNING OF PERIOD	\$ 3,737,744	\$ (35,565)	\$ 104,425	\$ (23,481)	\$ 3,783,123	
NET POSITION - END OF PERIOD	\$ 3,993,946	\$ (711,125)	\$ 142,467	\$ 1,265,899	\$ 4,691,187	

(See Note 16 for Additional Disclosures)

The accompanying notes are an integral part of these statements

**U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 1999**

(In Thousands)

BUDGETARY RESOURCES

Budget Authority	\$ 3,470,419
Unobligated Balances - Beginning of Period	1,336,516
Spending Authority from Offsetting Collections	313,504
Adjustments	73,152

TOTAL BUDGETARY RESOURCES

\$ 5,193,591

STATUS OF BUDGETARY RESOURCES

Obligations Incurred	\$ 3,874,395
Unobligated Balances - Available	1,148,585
Unobligated Balances - Not Available	170,611

TOTAL STATUS OF BUDGETARY RESOURCES

\$ 5,193,591

OUTLAYS

Obligations Incurred	\$ 3,874,395
Less: Spending Authority from Offsetting Collections and Adjustments	(310,399)
Obligated Balance, Net - Beginning of Period	789,685
Obligated Balance Transferred, Net	-
Less: Obligated Balance, Net - End of Period	(994,181)

TOTAL OUTLAYS

\$ 3,359,500

(See Note 17 for Additional Disclosures)

**U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
STATEMENT OF FINANCING
For the Year Ended September 30, 1999**

(In Thousands)

OBLIGATIONS AND NON-BUDGETARY RESOURCES

Obligations Incurred	\$ 3,874,395
Less: Spending Authority for Offsetting Collections and Adjustments	(310,399)
Donations Not in the Budget	2,191
Financing Imputed for Cost Subsidies	57,828
Transfers-In (Out)	(146,604)
Exchange Revenue not in the Budget	53,766
Other	104,934

Total Obligations as Adjusted and Non-Budgetary Resources	\$ 3,636,111
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RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS

Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided	\$ (165,176)
Costs Capitalized on the Balance Sheet	(138,541)
Financing Sources that Fund Cost of Prior Periods	(6,187)
Other	(507,426)

Total Resources that Do Not Fund Net Cost of Operations	\$ (817,330)
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COSTS THAT DO NOT REQUIRE RESOURCES

Depreciation and Amortization	\$ 192,756
Revaluation of Assets and Liabilities	1,535
(Gain) Loss on Disposition of Assets	12,790
Other	-

Total Costs that Do Not Require Resources	\$ 207,081
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FINANCING SOURCES YET TO BE PROVIDED	\$ 6,160
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NET COST OF OPERATIONS	\$ 3,032,022
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The accompanying notes are an integral part of these statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Forest Service was established on February 1, 1905, as an agency of the United States within the USDA, for the purpose of maintaining and managing the nation's forest reserves. It operates under the guidance of the Under Secretary for Natural Resources and Environment. Forest Service policy is implemented through nine regional offices, six research offices, and one state and private forestry area office, with administrative units functioning in 44 states and the territories of Puerto Rico and the Virgin Islands.

The Forest Service's mission includes the following activities:

- Protection and management of 192 million acres of National Forest System land which includes 34.7 million acres of designated wilderness areas.
- Research and development of forestry and rangelands management practices to provide scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the nation's 1.6 billion acres of forests and associated rangelands.
- Utilization of cooperative agreements with state and local governments, forest industries and private landowners to help protect and manage Non-Federal forests and associated range land and watershed areas.
- Partnerships with other nations and organizations in order to foster global natural resource conservation and sustainable development of the world's forest resources.
- Human resource programs that employ, train, or educate the young, unemployed, underemployed, economically disadvantaged, disabled, and elderly.

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

B. BASIS OF ACCOUNTING

These financial statements have been prepared to report the financial position and results of operations of the Forest Service, as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the Forest Service in accordance with generally accepted accounting principles under the hierarchy prescribed in Office of Management and Budget (OMB) Bulletin 97-01, *"Formats and Instructions for the Form and Content of Agency Financial statements"* as follows:

1. Individual standards agreed to by the Director of OMB, the Comptroller General, and the Secretary of the Treasury and published by the General Accounting Office.
2. Interpretations related to the Statements of Federal Financial Accounting Standards

issued by OMB in accordance with the procedures outlined in OMB Circular A-134, *“Financial Accounting Principles and Standards.”*

3. Requirements contained in OMB’s Form and Content Bulletin in effect for the period covered by the financial statements.
4. Accounting principles published by other authoritative standard-setting bodies and other authoritative sources (a) in the absence of other guidance in the first three parts of this hierarchy, and (b) if the use of such accounting principles improves the meaningfulness of the financial statements.

Transactions are recorded on both an accrual accounting and budgetary basis. Under the accrual basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

On the Statement of Net Cost and Balance Sheet, all significant intra-entity balances and transactions have been eliminated. No such eliminations have been made on the Statement of Budgetary Resources. The Statement of Financing contains eliminations of proprietary intra-entity amounts, however, budgetary intra-entity amounts have not been eliminated.

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

C. REVENUES AND OTHER FINANCING SOURCES

The Forest Service is funded principally through Congressional appropriations and other authorizations from the Budget of the United States. The Forest Service receives numerous annual and multi-year appropriations that are used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained through reimbursements for services performed for other Federal agencies, gifts from donors, and interest on invested funds.

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

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

The U.S. Treasury processes cash receipts and disbursements. Funds with the U.S. Treasury are primarily trust and appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. Cash and Other Monetary Assets consists of cash held in a commercial bank, and imprest funds.

E. GENERAL PROPERTY, PLANT, AND EQUIPMENT

General Property, Plant, and Equipment purchases of \$5,000 or more and having a useful life of 2 or more years are capitalized. Expenditures for major additions, replacements, and alterations are also capitalized. Normal repairs and maintenance costs are expensed as incurred. Roads are separated into four components: road prisms, surfaces, culverts, and bridges. Road prisms (road beds) are capitalized. General property and equipment are depreciated over net service life on a straight-line basis.

F. ADVANCES AND DEFERRED CHARGES

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenditures/expenses when the related goods and services are received.

G. LIABILITIES

Liabilities represent the amount of monies or other resources that are likely to be paid by Forest Service as the result of a transaction or event that has already occurred. However, Forest Service cannot pay 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. Liabilities of the Forest Service can be abrogated by the government, acting in its sovereign capacity.

H. LITIGATION CONTINGENCIES AND SETTLEMENTS

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

I. ANNUAL, SICK, AND OTHER LEAVE

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

J. RETIREMENT PLANS

The majority of Forest Service employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). For employees covered under the CSRS, the Forest Service withholds seven percent of their gross earnings. The Forest Service matches the employee's contribution and the sum is transferred to the CSRS. The Forest Service does not report CSRS assets, accumulated plan benefits, or unfunded liabilities (if any) applicable to its employees. Reporting these amounts is the responsibility of the Office of Personnel Management.

On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. For employees covered by FERS, the Forest Service withholds, in addition to Social Security, one percent of gross earnings.

On April 1, 1987, the Federal government initiated the Thrift Savings Plan (TSP), which is a retirement savings and investment plan for Federal employees covered by both FERS and CSRS. FERS employees may contribute up to 10% of their gross pay to the plan. The Forest Service automatically contributes one percent of a FERS employee's gross salary to the TSP. For the first 3% of gross pay contributed by a FERS employee, the agency will match the contribution dollar for dollar. For the next two percent contributed, the agency will match fifty cents per dollar contributed. CSRS employees may contribute up to five percent of their gross pay, but there is no matching contribution.

The maximum amount that FERS employees could contribute to the TSP in fiscal year 1999 was an amount not exceeding \$ 10,000 or 10% of gross payroll. The maximum amount that CSRS employees could contribute to the plan in fiscal year 1999 was an amount not exceeding \$ 10,000 or 5% of gross payroll. The sum of employee and agency contributions is transferred to the TSP, which is administered by the Federal Retirement Thrift Investment Board.

K. SYSTEMS CONVERSION

Some material weaknesses in the Central Accounting System (CAS) prevent the presentation of reliable balances in the financial statements on September 30, 1999. These balances include Fund Balance with Treasury, Property, Accounts Payable, Accounts Receivable, and Obligations. CAS weaknesses include (1) a non-SGL compliant general ledger; (2) an absence of subsidiary ledgers to support CAS general ledger balances, (3) incomplete reconciliations of general ledger data to Treasury records, and (4) insufficient audit trails. These weaknesses could have a material effect on all of the financial statements.

In FY 1999, the Forest Service implemented the Foundation Financial Information System (FFIS) in the Pacific Northwest Region, Alaska Region, and the Pacific Northwest Research Station. For these regions, all documented and supported CAS accounting information was moved to the FFIS ledger. However, some of the CAS balances that were converted to FFIS did not have supporting documentation and these balances were not included in the financial statements. If further review of these balances reveals that they are not supportable, we will make prior period adjustments to the FFIS ledger to ensure the accounts are reflected properly.

NOTE 2. FUND BALANCE WITH U.S. TREASURY AND CASH AND OTHER MONETARY ASSETS

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

Differences exist between the Fund Balance with the Treasury as reported on the Treasury Year-End Closing Statement (TFS Form 2108) and the Fund Balance with U.S. Treasury and Cash and Other Monetary Assets as reported in these financial statements. Cash receipt and disbursement transactions reported on the TFS 2108 agree with the monthly Statement of Transactions (SF 224) required by Treasury. The reporting cut off for the SF 224 is on the 29th day of each month. The Forest Service

posts cash transactions occurring after the 29th as in transit transactions in the general ledger. Fund Balance with U.S. Treasury and Cash and Other Monetary Assets reported in these financial statements have been adjusted to include cash receipt and disbursement transactions through September 30, 1999. Fund balances as of September 30, 1999 consist of the following:

Fund Type	Entity	Non-Entity	Total
(1) Trust Funds	\$ 403,631		\$ 403,631
(2) Revolving Funds	232,493		232,493
(3) Appropriated Funds	1,388,593		1,388,593
(4) Other Fund Types	271,215	\$ 326,512	597,727
Total	<u>\$ 2,295,932</u>	<u>\$ 326,512</u>	<u>\$ 2,622,444</u>

Cash and Other Monetary Assets consists of cash held in a commercial bank for New World Mine environmental cleanup costs, as well as imprest funds. Cash and Other Monetary Assets consists of entity fund balances only.

In some cases, differences also exist between the records maintained by the U.S. Department of the Treasury and Fund Balance with the Treasury as reported. Some of these differences are material and need to be adjusted to reflect the results of an ongoing reconciliation effort.

NOTE 3. ACCOUNTS RECEIVABLE, NET

In accordance with the requirements of OMB Bulletin 97-01, the Forest Service reports receivables in four categories.

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

Entity Accounts Receivable, Governmental: Receivables in this line item are comprised mainly of reimbursements and refunds in fire prevention and suppression funds. Monies are expected from the states for firefighting-related services performed by the Forest Service. Forest Service bills for the services rendered under joint agreements with the states.

Non-Entity Accounts Receivable, Intragovernmental: These are comprised mainly of amounts due from other Federal agencies which have been recorded in general and special fund receipt accounts, or temporarily recorded in budget clearing and suspense accounts. These receivables, when collected, will not be available to the Forest Service. The proceeds of receivables recorded in general and special fund receipt accounts will be deposited into the U.S. Treasury when collected.

Non-Entity Accounts Receivable, Governmental: These are comprised mainly of amounts due from the public and from timber sales which have been recorded in general and special fund receipt accounts, or temporarily recorded in budget clearing and suspense accounts. These receivables, when collected, will not be available to the Forest Service. Receivables recorded in general and special fund receipt accounts will be deposited into the U.S. Treasury when collected, if not used to make payments to states and counties.

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

Non-entity, governmental accounts receivable also include accrued interest, mainly for defaulted timber sales deemed to be collectible. Interest accrued, but not reported, on uncollectible defaulted timber sale receivables was \$30 million as of September 30, 1999.

Accounts Receivable, Net as of September 30, 1999, consists of the following:

	Gross Accounts Receivable	Allowance	Net Accounts Receivable
ENTITY:			
Intragovernmental	\$ 46,453	\$ -	\$ 46,453
Governmental	168,369	(35,068)	133,301
	<u>\$ 214,822</u>	<u>\$ (35,068)</u>	<u>\$ 179,754</u>
NON-ENTITY:			
Intragovernmental	\$ 1	\$ -	\$ 1
Governmental	38,565	(22,969)	15,596
	<u>\$ 38,566</u>	<u>\$ (22,969)</u>	<u>\$ 15,597</u>
TOTAL	<u>\$ 253,388</u>	<u>\$ (58,037)</u>	<u>\$ 195,351</u>

NOTE 4. INVENTORY AND RELATED PROPERTY, NET

As of September 30, 1999, Inventory and Related Property, Net consists of the following:

Description	Amount
Working Capital Fund	\$ 24,501
Materials for Agency Use	23,489
Fire Caches	<u>39,507</u>
Total	\$ 87,497

Working Capital Fund (WCF) materials and supplies (raw materials, stock and tree seedlings) are maintained to facilitate distribution of certain stock items to users who are subsequently billed commensurate with items used. Thus, costs of providing these items are recovered.

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

Fire Caches are emergency fire fighting supplies that are maintained at nine strategic sites. Fire caches include items such as gloves, ready-to-eat meals, pumps, generators, chain saws, and shovels. Fire cache stock is issued to the field, as emergency needs dictate, with the understanding that reusable items will be returned and consumed items will be replaced as determined by the current General Services Administration price.

Valuation Method: Inventories in the WCF and materials for agency use are valued based on the cost-basis method. In February of 1999 Forest Service changed from a weighted average method to a standard pricing system for Fire Cache based on GSA pricing. As such, Fire Cache inventory units are valued at GSA catalog prices as of February 1, 1999. This valuation method may approximate historical costs, depending on the extent that the fire cache inventory stock is depleted each year because of the severity of the fire season.

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

NOTE 5. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

General Property, Plant and Equipment (PP&E), Net, consists of the following at September 30, 1999:

Asset Class	Net Service Life	Acquisition Value	Accumulated Depreciation	Book Value
Land	-	\$ 118,383	\$ -	\$ 118,383
Improvements to Land	10	2,477,614	(1,988,330)	489,284
Buildings	30	812,754	(343,464)	469,290
Other Structures, Facilities, and Leasehold Improvements	10 - 50	2,987,225	(1,479,823)	1,507,402
ADP Software	8	225,528	(70,740)	154,788
Equipment	5 - 15	849,700	(489,755)	359,945
Other	-	2,619	-	2,619
Total		\$ 7,473,823	\$ (4,372,112)	\$ 3,101,711

General PP&E consists of all general-purpose real property; road surface improvement to land; buildings; other structures and improvements, including culverts and bridges; and equipment. All property is recorded at acquisition cost, and all depreciable property is reported net of accumulated depreciation. However, there may be some documentation deficiencies, especially in pooled assets, that could result in incorrect valuations of assets on several of the financial statements. If analysis reveals that these balances are not adequately supported, we will conduct additional work to establish proper valuations. The Forest Service, in conjunction with the Office of Inspector General, is finalizing an approach for estimating the value of pooled assets.

Road Prisms A road prism represents land that has been leveled or filled to fit the contour of the earth to prepare for construction of a road. Its useful life is the longest of any component of a road. During FY 1998, road prisms were expensed instead of capitalized because they were considered a permanent improvement to stewardship land. The Federal Accounting Standards Advisory Board's Interpretation No. 6, *Accounting for the Cost of Roadbeds by the US Department of Agriculture's Forest Service: An Interpretation of SFASs 4 and 6*, concluded road prisms should be capitalized if they are used in timber operations. This represents a change in accounting principle. As a result of this interpretation, the Forest Service has reincorporated previously expensed road prism costs, totaling approximately \$52 million, and included current year activity related to road prisms in the financial statements. The valuation of the road prisms is an estimate at best. During FY 2000, the Forest Service expects to develop a methodology to properly value existing and future road prisms.

NOTE 6. OTHER ASSETS

As of September 30, 1999, Forest Service retained \$6,276,000 in Other Non-Entity Governmental assets. These assets include other investments that consist of securities deposited in the Federal Reserve System by timber purchasers on behalf of the Forest Service in lieu of furnishing sureties on bid, performance, and payment bonds.

NOTE 7. UNEARNED REVENUE

The components of Unearned Revenue, Governmental, as of September 30, 1999, consist of the following:

Description	Amount
Purchaser Road Credits	\$ 57,005
Advances From Others, Public	1,411
Total	\$ 58,416

Unearned Revenue, Governmental consists primarily of liabilities arising under timber sales contracts. Under the terms of certain timber sales contracts, timber purchasers are allowed to construct roads to gain access to timber. To the extent the Forest Service has a use for the roads upon contract completion, the timber purchaser is given a credit (purchaser road credit) for the value of the roads to the extent their service lives exceed the contract's duration.

The amount of the purchaser road credit (PRC) granted to contractors is based on a Forest Service engineering estimate made at the time of the timber sale. A PRC is established when the Forest Service accepts the road. At that time, an asset (a component of the Plant, Property, and Equipment account) and a liability (Unearned Revenue, Governmental account) are recorded for the amount of the PRC established.

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

Per 16-USC Sec. 535a, the prohibition on timber PRCs, the Secretary of Agriculture may not provide effective credit for road construction to any purchaser of national forest timber or other forest products. The method of accounting for these costs changed from recording PRCs to recording Specific Road Construction (SRC) as revenue. This change occurred in April 1999.

Advances from Others, Public consists of monies on deposit for Cooperative Work Project Agreements with the public.

NOTE 8. TRUST AND DEPOSIT LIABILITIES

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

NOTE 9. ACCRUED PROGRAM LIABILITIES

Accrued Program Liabilities, Covered by Budgetary Resources: Accrued Program Liabilities, Covered by Budgetary Resources, Governmental, consists of the following amounts as of September 30, 1999:

Description	Amount
Accrued Payroll and Benefits	\$ 192,563
Payments to States and Counties	80,998
Total	\$ 273,561

Payments to States and Counties are made in accordance with Public Law 60-136 et. seq., which requires the Forest Service to pay a portion of receipts from timber and other forest product sales to the states and counties where national forests and grasslands are located.

Fire Fighting Liability: The Forest Service is permitted by Federal law (16 U.S.C. Section 556d) to advance money from any Forest Service appropriation to the fire fighting appropriation for the purpose of fighting fires. Upon requesting and receiving a supplemental appropriation for these expenses, the Forest Service must repay the appropriation from which the funds were obtained.

During fiscal years 1988 through 1997, the Forest Service incurred obligations to fight fires that were not funded in advance by appropriations. The Forest Service used unobligated balances in the Knutson-Vandenburg (K-V) Trust Fund to pay these expenses. No additional advances were taken in the current fiscal year. As of September 30, 1999, the trust fund has not been reimbursed \$393 million. This amount will not be recognized until such time as Congress authorizes additional funding to repay the trust fund loan.

NOTE 10. OTHER LIABILITIES

The components of Other Liabilities as of September 30, 1999 consist of the following:

Description	Amount
Covered by Budgetary Resources, Governmental	
Performance Security Deposits	\$ 376
Advances - Other	104
Field Party Advance	8
Other	2,766
Total	\$ 3,254
Not Covered by Budgetary Resources, Governmental	
Accounts Payable Canceled	\$ 6,851

Forest Service lease agreements as of September 30, 1999 are as follows:

A. Forest Service as Lessee:

Capital Leases: The Forest Service has no capital leases.

Operating Leases: The Forest Service leases buildings and office space for terms that range from one to fifteen years.

Future Payments Due

<u>Fiscal Year</u>	<u>Land and Buildings</u>
2000	\$ 72,275
2001	73,950
2002	75,650
2003	77,400
2004	79,175
After 5 years	<u>899,150</u>
Total Future Lease Payments	<u>\$ 1,277,600</u>

B. Forest Service as Lessor:

The Forest Service has no capital or operating leases.

**NOTE 11. ANNUAL LEAVE AND FEDERAL EMPLOYEES COMPENSATION
ACT LIABILITY**

Federal Employees Compensation Act (FECA) Liability is incurred as a result of workers' compensation benefits that are expected to accrue in the future. 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 current and 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. Payment to the DOL is deferred for two years so that the bills may be funded through the budget process. These payments are recognized as an expense in the Statement of Net Cost. The amounts of unpaid FECA billings constitute the accrued FECA payable.

Public Law 104-180, dated August 6, 1996, authorized USDA to provide voluntary separation incentive payments (VSIP) to any employee to the extent necessary to eliminate position and functions identified in the agency's strategic plan. The authority is effective until September 30, 2000. Forest Service did not request buyout authority from the Department for fiscal year 1999, and forecasts the same for the remaining life of the authority. Therefore, no liability is recognized in fiscal year 1999 for future VSIPs.

The total annual leave and components of accrued FECA payable as of September 30, 1999 are as follows:

Description	Amount
Current Liability for FECA	\$ 62,479
Expected Future Liability for FECA	265,179
Total	\$ 327,658
Annual Leave	\$ 149,591

NOTE 12. LIABILITIES FOR ENVIRONMENTAL CLEANUP COSTS

Under the provisions of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the Clean Water Act (CWA), and the Resource Conservation and Recovery Act (RCRA), the Forest Service anticipates cleaning up hazardous materials on Forest Service lands. The Forest Service estimates that clean-up costs for sites on National Forest System lands are \$2 billion. Of this amount approximately \$1.5 billion relates to abandoned mine lands and \$100 million relates to landfills and miscellaneous sites. The remaining \$400 million is attributed to costs relating to RCRA.

These estimates are very tentative, also sensitive to changes in remedy standards and new technology. The site discovery and assessment process will continue for several more years. The actual number of sites discovered and clean-up costs will continually change as the process continues. This estimate also does not reflect anticipated cost recovery from or contribution to clean-up costs by responsible parties because the amounts are highly speculative. There is a reasonable possibility, however parties other than the Forest Service will pay that some of the clean-up costs.

NOTE 13. COMMITMENTS AND CONTINGENCIES

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

Treasury Judgment Fund: The Forest Service pays small tort claims out of its own funds. However, other legal actions exceeding \$2,500 fall under the Federal Tort Claims Act. These are paid from the Claims, Judgments, and Relief Acts Fund (Judgment Fund) maintained by the Department of Treasury. The Forest Service is not required to record a liability or reimburse the Judgment Fund for payments for claims made on its behalf. However, these payments are recognized as an expense and an imputed

financing source in the Statements of Net Cost and Changes in Net Position. Payments reported as of September 30, 1999 amount to \$17,754,835.

Pending Litigation and Unasserted Claims: As of September 30, 1999, the Forest Service has one legal action pending, which management believes, based on information provided by legal counsel, may produce a probable adverse decision. The potential loss is estimated at \$28.4 million, excluding interest. In light of the adverse decision, the Forest Service will seek appellate action.

NOTE 14. NET POSITION

Unexpended Appropriations: Unexpended appropriations represent the amount of spending authorized as of year-end that is unliquidated or unobligated and has not lapsed, been rescinded, or withdrawn.

Description	Amount
Unobligated:	
Available	\$ 1,148,585
Unavailable	170,611
Undelivered Orders	559,873
Total	\$ 1,879,069

Cumulative Results of Operations: Cumulative results of operations are the net results of operations since inception, plus the cumulative amount of prior period adjustments. For fiscal year 1999, this includes the cumulative amount of donations and transfers of assets in and out without reimbursement.

NOTE 15. SUPPORTING SCHEDULES FOR THE STATEMENT OF NET COST

The following pages contain supporting schedules for the statement of net cost by the responsibility segments and associated programs as outlined below:

<u>Responsibility Segment</u>	<u>Associated Program(s)</u>
Management of National Forests and Grasslands	Recreation Wildlife and Fish Range Forest Management Soil, Water, & Air Minerals Land Ownership & Protection
Research	Research
State and Private Forestry	Forest Health Protection Fire and Aviation Management Cooperative Forestry Management
Other	Working Capital Fund USDA Agencies Other

Some revenues and costs were allocated, on a pro rata basis, using amounts and categories designated in the Forest Service budget at the beginning of the year. The Central Accounting System did not capture these revenues and costs using accrual-based means. These costs could total \$1.3 billion.

U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
SUPPORTING SCHEDULE FOR THE STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 1999

(In Thousands)

	National Forest System	State and Private Forestry	Forest Research	Wildland Fire Management	Construction and Reconstruction	Land Acquisition	Other	Total
BUDGETARY RESOURCES								
Budget Authority	\$ 1,779,978	\$ 180,115	\$ 207,878	\$ 590,318	\$ 313,379	\$ 259,934	\$ 138,817	\$ 3,470,419
Unobligated Balances - Beginning of Period	685,499	69,366	80,057	227,342	120,687	100,105	53,460	1,336,516
Spending Authority from Offsetting Collections	160,796	16,271	18,779	53,327	28,309	23,482	12,540	313,504
Adjustments	37,519	3,796	4,382	12,443	6,606	5,479	2,927	73,152
TOTAL BUDGETARY RESOURCES	\$ 2,663,792	\$ 269,548	\$ 311,096	\$ 883,430	\$ 468,981	\$ 389,000	\$ 207,744	\$ 5,193,591
STATUS OF BUDGETARY RESOURCES								
Obligations Incurred	\$ 1,987,177	\$ 201,081	\$ 232,076	\$ 659,035	\$ 349,858	\$ 290,192	\$ 154,976	\$ 3,874,395
Unobligated Balances - Available	589,109	59,612	68,800	195,374	103,717	86,029	45,944	1,148,585
Unobligated Balances - Not Available	87,506	8,855	10,220	29,021	15,406	12,779	6,824	170,611
TOTAL STATUS OF BUDGETARY RESOURCES	\$ 2,663,792	\$ 269,548	\$ 311,096	\$ 883,430	\$ 468,981	\$ 389,000	\$ 207,744	\$ 5,193,591
OUTLAYS								
Obligations Incurred	\$ 1,987,177	\$ 201,081	\$ 232,076	\$ 659,035	\$ 349,858	\$ 290,192	\$ 154,976	\$ 3,874,395
Less: Spending Authority from Offsetting Collections and Adjustments	(159,204)	(16,109)	(18,593)	(52,799)	(28,029)	(23,249)	(12,416)	(310,399)
Obligated Balance, Net - Beginning of Period	405,030	40,985	47,302	134,325	71,309	59,147	31,587	789,685
Obligated Balance Transferred, Net	-	-	-	-	-	-	-	-
Less: Obligated Balance, Net - End of Period	(509,915)	(51,598)	(59,552)	(169,110)	(89,775)	(74,464)	(39,767)	(994,181)
TOTAL OUTLAYS	\$ 1,723,088	\$ 174,359	\$ 201,233	\$ 571,451	\$ 303,363	\$ 251,626	\$ 134,380	\$ 3,359,500

U.S. DEPARTMENT OF AGRICULTURE
 FOREST SERVICE
 SUPPORTING SCHEDULE BY PROGRAM
 NATIONAL FOREST AND GRASSLANDS RESPONSIBILITY SEGMENT
 For the Year Ended September 30, 1999
 (In Thousands)

	Recreation	Wildlife and Fish	Range	Forest Management	Soil, Water, and Air	Minerals	Land Ownership and Protection	Total
PROGRAM COSTS								
Intragovernmental Governmental	\$ 30,775	\$ 13,012	\$ 6,187	\$ 102,453	\$ 6,048	\$ 3,967	\$ 23,507	\$ 185,949
	<u>404,705</u>	<u>124,462</u>	<u>59,232</u>	<u>1,055,071</u>	<u>55,692</u>	<u>36,451</u>	<u>200,574</u>	<u>1,936,187</u>
Total Program Costs	\$ 435,480	\$ 137,474	\$ 65,419	\$ 1,157,524	\$ 61,740	\$ 40,418	\$ 224,081	\$ 2,122,136
Less: Earned Revenues	<u>(86,689)</u>	<u>(22,775)</u>	<u>(10,717)</u>	<u>(330,490)</u>	<u>(10,878)</u>	<u>7,143</u>	<u>(40,490)</u>	<u>(509,182)</u>
Excess Production Costs over Revenues	\$ 348,791	\$ 114,699	\$ 54,702	\$ 827,034	\$ 50,862	\$ 33,275	\$ 183,591	\$ 1,612,954
NON-PRODUCTION COSTS								
Acquisition Costs of Stewardship Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,055</u>	<u>122,055</u>
Net Program Costs	\$ 348,791	\$ 114,699	\$ 54,702	\$ 827,034	\$ 50,862	\$ 33,275	\$ 305,646	\$ 1,735,009
NET COST OF OPERATIONS	<u>\$ 348,791</u>	<u>\$ 114,699</u>	<u>\$ 54,702</u>	<u>\$ 827,034</u>	<u>\$ 50,862</u>	<u>\$ 33,275</u>	<u>\$ 305,646</u>	<u>\$ 1,735,009</u>

U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
SUPPORTING SCHEDULE BY PROGRAM
STATE AND PRIVATE FORESTRY RESPONSIBILITY SEGMENT
For the Year Ended September 30, 1999
(In Thousands)

	Forest Health Protection	Fire and Aviation Management	Cooperative Forestry Management	Total
PROGRAM COSTS				
Intragovernmental	\$ 2,802	\$ 38,670	\$ 2,644	\$ 44,116
Governmental	<u>40,419</u>	<u>810,453</u>	<u>56,112</u>	<u>906,984</u>
Total Program Costs	\$ 43,221	\$ 849,123	\$ 58,756	\$ 951,100
Less: Earned Revenues	<u>-</u>	<u>(74,051)</u>	<u>-</u>	<u>(74,051)</u>
Excess Production Costs over Revenues	\$ 43,221	\$ 775,072	\$ 58,756	\$ 877,049
NON-PRODUCTION COSTS				
Acquisition Costs of Stewardship Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Program Costs	\$ 43,221	\$ 775,072	\$ 58,756	\$ 877,049
NET COST OF OPERATIONS	<u><u>\$ 43,221</u></u>	<u><u>\$ 775,072</u></u>	<u><u>\$ 58,756</u></u>	<u><u>\$ 877,049</u></u>

U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
SUPPORTING SCHEDULE BY PROGRAM
FOREST RESEARCH RESPONSIBILITY SEGMENT
For the Year Ended September 30, 1999
(In Thousands)

Forest Research

PROGRAM COSTS

Intragovernmental	\$ 10,677
Governmental	196,532
Total Program Costs	<u>\$ 207,209</u>
Less: Earned Revenues	<u>(12,704)</u>
Excess Production Costs over Revenues	\$ 194,505

NON-PRODUCTION COSTS

Acquisition Costs of Stewardship Assets	<u>-</u>
Net Program Costs	\$ 194,505

NET COST OF OPERATIONS

\$ 194,505

U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
SUPPORTING SCHEDULE BY PROGRAM
OTHER RESPONSIBILITY SEGMENT
For the Year Ended September 30, 1999

(In Thousands)

	Working Capital Fund	USDA Agencies	Other	Total
PROGRAM COSTS				
Intragovernmental	\$ 4,835	\$ 40,062	\$ 58,639	\$ 103,536
Governmental	127,718	-	168,373	296,091
Total Program Costs	<u>\$ 132,553</u>	<u>\$ 40,062</u>	<u>\$ 227,012</u>	<u>\$ 399,627</u>
Less: Earned Revenues	(168,777)	-	(5,391)	(174,168)
Excess Production Costs over Revenues	\$ (36,224)	\$ 40,062	\$ 221,621	\$ 225,459
NON-PRODUCTION COSTS				
Acquisition Costs of Stewardship Assets	-	-	-	-
Net Program Costs	<u>\$ (36,224)</u>	<u>\$ 40,062</u>	<u>\$ 221,621</u>	<u>\$ 225,459</u>
NET COST OF OPERATIONS	<u><u>\$ (36,224)</u></u>	<u><u>\$ 40,062</u></u>	<u><u>\$ 221,621</u></u>	<u><u>\$ 225,459</u></u>

**NOTE 16. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES
IN NET POSITION**

In preparing these financial statements, the Forest Service made prior period adjustments to reflect the following:

Property, Plant, and Equipment – to ensure that the general ledger equaled Infrastructure, the subsidiary ledger
\$ (450,059)

Property, Plant, and Equipment – to capitalize previously expensed road prism costs
(51,734)

Property, Plant, and Equipment – to expense stewardship land
(109,055)

Federal Employees Compensation Act – to record 4th Quarter, FY 1998 expense
5,810

Total
\$ (605,038)

NOTE 17. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

Net Amount

Budgetary Resources Obligated for Undelivered Orders, End of Period
\$ 559,873

Available Borrowing and Contract Authority, End of Period
853

Description of Terms of Borrowing Authority Used:

Forest Service has the following major permanent indefinite appropriations:
Pacific Yew, Recreation Fee Collection Costs, Brush Disposal, Licensee Programs, Smokey Bear

and Woodsey Owl, Restoration of Forest Lands and Improvements, Roads and Trails for State, National Forest Fund, Timber Roads, Purchaser Elections, Forest Service, Timber Salvage and Operation, Maintenance of Quarters, Construction, National Forest System, Research, and State and Private.

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

See attached statement for the detail of budgetary resources by key Forest Service programs.

NOTE 18. CUSTODIAL ACTIVITY

General Fund Receipt Accounts

The Forest Service, as of September 30, 1999, collected the following revenue for the U.S. Department of the Treasury (Treasury):

120891	Miscellaneous Fees for Regulatory and Judicial Services	\$ 50
121060	Forfeitures of Unclaimed Money and Property	52,900
121099	Fines, Penalties and Forfeitures	345,900
121210	Contributions to "Conscience Fund"	300
121299	Gifts to the United States	450
121435	General Fund Proprietary Interest	214,000
123200	Collections of Receivables from Canceled Accounts	95,300
123220	General Fund Proprietary Receipts	<u>8,611,000</u>
Total General Fund Receipt Accounts		<u>\$ 9,319,900</u>

Special Fund Receipt Accounts

The Forest Service, as of September 30, 1999, estimates the following revenue collections are due to Treasury:

125008	National Forest Fund Receipts	\$ 95,368,000
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National Forest Fund Receipts represent revenue from the sale of timber and other forest products. Twenty five percent of these receipts is used to make payments to states, on a *fiscal-year* basis, in accordance with 16 U.S.C. 500. After the payment is made, the remaining receipts are returned to Treasury. The Forest Service plans to authorize disbursement to the states in December 1999. Therefore, as of September 30, 1999, the portion of these receipts which is payable to Treasury was estimated.

125896 National Grasslands Receipts

\$ 11,926,500

National Grasslands Receipts represent revenue from the use of national grasslands. Twenty five percent of these receipts is used to make payments to counties, on a *calendar-year* basis, in accordance with 7 U.S.C. 1010-1012. After the payment is made, the remaining receipts are returned to Treasury. The Forest Service plans to authorize disbursement to the counties in March 2000. Therefore, as of September 30, 1999, the portion of these receipts that is payable to Treasury was estimated.

Total Special Fund Receipt Accounts

\$ 107,294,500

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

- ◆ Property owned by the Federal Government
 - ❖ Stewardship land
 - ❖ Heritage assets
- ◆ Expenses/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
- ◆ Information on the financial impact of continuing to provide current programs and services.

Stewardship Land

Description	FY 1998 Ending Balance	Net Change 3/	FY 1999 Ending Balance	Condition 1/
National Forests	187,485,759 Acres	179,693	187,665,452	Varies
National Forest Purposes	144,093,072 Acres	167,858	144,260,930	Excellent
Wilderness Areas	34,739,900 Acres	10,997	34,750,897	Varies
Primitive Areas	173,762 Acres		173,762	Varies
Wild and Scenic River Areas	944,774 Acres	79	944,853	Varies
Recreation Areas	2,739,803 Acres	56	2,739,859	Varies
Scenic Areas	127,180 Acres	1,742	128,922	Varies
Scenic-Research Areas	6,618 Acres	12	6,630	Varies
Game Refuges/Wildlife Preserves	1,218,990 Acres		1,218,990	Varies
Monument Volcanic Areas	167,427 Acres	(1,051)	166,376	Varies
Monument Areas	3,267,693 Acres		3,267,693	Varies
Historic Areas	6,540 Acres		6,540	Varies
National Grasslands	3,831,207 Acres	164	3,831,371	Varies
Purchase Units	347,316 Acres	5576	352,892	Varies
Land Utilization Projects	1,876 Acres		1,876	Varies
Research & Experiment Area	64,871 Acres		64,871	Varies
Other Areas	124,703 Acres	5507	130,210	Varies
Total Acreage – NFS	191,855,732 Acres	190,940	192,046,672	Varies
Trails 2/	133,087 Miles		133,087 Miles	Poor
Roads	383,518 Miles	23,138	406,656 Miles	Varies

1/ The condition of NFS land is generally considered good because important wildlife habitat and watershed protection functions are provided. In some areas watershed health is deteriorating. Methodologies for assessing condition are being explored in concert with the Department of Interior's Bureau of Land Management.

2/ Trail miles are based on a 1996 inventory. The number of trail miles has not been updated since. The predominate activity is reconstruction of existing trails.

3/ Land acquired through purchase is needed to protect critical wildlife habitat, cultural and historic values, congressionally designated areas, and other outdoor recreation and conservation purposes.

Net additions to the total road miles occur through new construction, correction of errors in the systems inventory, to include unclassified roads that had previously been excluded.

Definitions

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

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

- ◆ Game Refuges and Wildlife Preserve Areas – Areas designated by Presidential Proclamation or by Congress for the protection of wildlife.
- ◆ Monument Areas – Areas including historic landmarks, historic and prehistoric structures, and other objects of historic or scientific interest, declared by Presidential Proclamation or by Congress.
- ◆ 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 suitability as a component of the National Wilderness Preservation System.
- ◆ Recreation Areas – Areas established by Congress for the purpose of assuring and implementing the protection and management of public outdoor recreation opportunities.
- ◆ Scenic-Research Areas – Areas established by Congress to provide use and enjoyment of certain ocean headlands and to insure protection and encourage the study of the area for research and scientific purposes.
- ◆ Wild and Scenic River Areas – Areas designated by Congress as part of the National Wild and Scenic River System.
- ◆ Wilderness Areas – Areas designated by Congress as a part of the National Wilderness Preservation System.

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

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

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

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

Heritage Assets

The Forest Service manages 155 national forests and 20 grasslands on over 192 million acres of public land. This encompasses a significant number of cultural and heritage assets. Some are listed on the National Register of Historic Places and some have been designated as National Historic Landmarks. Forest Service cultural resource specialists at the 155 national forests maintain separate lists. Prior to FY 1999 there was no requirement to consolidate them either at the regional or national levels. It is estimated that there are approximately 277,000 heritage assets on lands managed by the Forest Service. The vast majority of these assets have no annual maintenance performed on them. The Forest Service is formulating a long-term methodology to better assess the extent and condition of these assets.

Category	Estimated Inventory	Condition
Total Heritage Assets	277,000 Sites	Poor – Fair
Eligible for the National Register of Historic Places	109,000 Sites	Poor – Fair
Listed on the National Register of Historic Places	887 Sites	Fair
Sites listed with Structures listed on National Register of Historic Places	335 Sites	Poor – Fair
National Historic Landmarks	7 Sites	Fair
National Historic Areas	1 Site	Fair
World Heritage Sites	0 Sites	N/A

Definitions

Historic Structures—Constructed works consciously created to serve some human purpose. They include buildings, monuments, logging and mining camps, and ruins. Structures are classified as historic if they meet the minimum requirements of the National Register of Historic Places.

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

National Register of Historic Places—Includes properties, buildings, and structures that are significant in U.S. history, architecture, archaeology, and culture and that contribute to the understanding of the historic and cultural foundation of the Nation.

World Heritage Sites—An asset that meets specific criteria that constitutes outstanding global value. The preservation of a common world heritage is the object of the International Convention Concerning the Protection of the World’s Cultural and Natural Heritage.

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

**Human
Capital**

**Job Corps Civilian Conservation Centers
FY 1999 Net Cost of Operations - \$88 million**

The Forest Service, in partnership with the DOL, operates 18 Job Corps civilian conservation centers. Job Corps is the only Federal residential, educational, and training program for the Nation's disadvantaged youth between the ages of 16 and 24 years. The purpose of the program is to provide the skills necessary to obtain and hold a good job at a living wage. The program is carried out in a structured residential environment that provides education, vocation, and social skills training, counseling, social development, medical care, placement assistance, and an allowance.

Job Corps enrollees learn trades such as basic forestry, urban forestry, heavy equipment operation and maintenance, cement and brick masonry, auto mechanics, carpentry, welding, culinary arts, plastering, painting, business occupation skills, dispensing optician, health services, and security guard services.

During FY 1999 there were 8,623 participants with 5,274 placements.

**Research and
Development
(R&D)**

**Forest and Range Research
FY 1999 Net Cost of Operations - \$198 million**

Forest Service Research and Development is responsible for providing reliable science-based information to be incorporated into natural resource decisionmaking. Efforts consist of developing new technology, and then adapting and transferring this technology to facilitate more effective resource management. Major research—

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

The research staff is involved in all areas of the Forest Service in supporting goals by providing more efficient and effective methods where applicable. A representative summary of FY 1999 accomplishments include:

- ◆ Estimated 85 new interagency agreements and contracts established
- ◆ Estimated 59 interagency agreements and contracts continued
- ◆ Estimated 1,050 articles published in journals
- ◆ 2,505 articles published in all other publications
- ◆ 9 patents granted
- ◆ 8 rights to inventions established

Required Supplementary Information

Deferred Maintenance

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

Asset Class	Overall Condition 1/	Cost to Return to Acceptable Condition	Critical Maintenance	Noncritical Maintenance
Roads	Varies	\$ 6,618	\$3,024	\$3,594
Bridges & Major Culverts	Varies	231	36	195
Buildings	Varies	678	204	474
Recreation	Fair	499	255	244
Trails	Fair	125	35	90
Dams	Fair/Poor	33	15	18
Range	Varies	387	382	5
Wildlife	Varies	37	25	12
Watershed Structures	Varies	5	1	4
Historic Structures	Fair	60	60	0
Total		\$8,673	\$4,037	\$4,636
Add 19% Overhead*		\$1,648	\$767	\$881
TOTAL		\$10,321	\$4,804	\$5,517

Note: The above numbers are in millions

Total system road miles = 386,179 (based on Forest Service jurisdiction)

*Agency average as supplied by CFO/Budget Staff.

- ◆ Critical Need. A requirement that addresses a serious threat to public health or safety, a natural resource, or the ability to carry out the mission of the organization.
- ◆ Noncritical Need. A requirement that addresses potential risk to the public or employee safety or health (e.g., compliance with codes, standards or regulations). Addresses potential adverse consequences to natural resources or mission accomplishment.

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

The Forest Service uses condition surveys to estimate deferred maintenance on all major classes of PP&E. There is no deferred maintenance on equipment because the Forest Service has their fleet vehicles and computer equipment in a working capital fund. The fleet vehicles are each maintained according to schedule. The Forest Service treats the remaining equipment as expensed, therefore, there is no deferred maintenance on general equipment.

Condition of administrative facilities:

- ◆ 22 percent of buildings are obsolete, over 50 years old
- ◆ 27 percent of buildings are in Poor condition needing major alterations and renovations
- ◆ 24 percent of buildings are in Fair condition needing minor alterations and renovations
- ◆ 27 percent of buildings are in Good condition needing routine maintenance and repairs

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

Condition of NFS Land: The average condition is considered good because important wildlife habitat and watershed protection functions are provided. In some areas watershed health is deteriorating. Methodologies for assessing condition are being explored in concert with the Department of Interior's Bureau of Land Management.

The standards for acceptable operating condition for different classes of general PP&E are—

- ◆ Buildings—Comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys.
- ◆ Roads and Bridges—Conditions of the National Forest Development Road system are measured by various standards including applicable regulations for the Highway Safety Act developed by the National Highway Transportation Safety Administration, best management practices for road construction and maintenance developed by the Environmental Protection Agency to implement the Clean Water Act, and Forest Service manuals and handbooks.
- ◆ Developed Recreation Sites—This is a wide category that includes campgrounds, trail heads, trails, wastewater facilities, interpretive facilities, and visitor centers. All developed sites are managed in accordance with Federal laws and regulations (CFR 36). Detailed management guidelines are contained in the Forest Service Manual (FSM 2330) and regional and forest level user guides. Standards of quality for developed recreation sites were developed under the meaningful measures system and established for the following categories: health and cleanliness, setting, safety and security, responsiveness, and the condition of facility.

- ◆ Range Structures—The condition assessment was based on: 1) a determination by knowledgeable range specialists or other district personnel whether or not the improvement was performing the originally intended function, and 2) a determination through the use of a protocol system to assess conditions based on age. A long-range methodology is being developed to gather this data.
- ◆ Watershed Structures—Field Hydrologists and Forest Service personnel used their professional judgement in determining deferred maintenance. Deferred maintenance was considered as upkeep that had not occurred on a regular basis. The amount was considered critical if resource damage would likely occur if maintenance was deferred much longer.
- ◆ Dams—Managed according to Forest Service Manual 7500 - Water Storage and Transmission, and Forest Service Handbook 7509.11 - Dams Management as determined by condition surveys.
- ◆ Wildlife, Fish, and Threatened and Endangered Species Structure—Field biologists at the forest used their professional judgement in determining deferred maintenance. Deferred maintenance was considered as upkeep that had not occurred on a regular basis. The amount was considered critical if resource damage or species endangerment would likely occur if maintenance was deferred much longer.
- ◆ Trails—Trails are managed according to Federal law and regulations (CFR 36). More specific direction is contained in the Forest Service Manual (FSM 2350) and the Forest Service Trails Management Handbook (FSH 2309.18). Standards of quality for trails have been developed under the meaningful measures system. Standards have been established for the following categories: health and cleanliness, setting, safety and security, and condition of the trail.
- ◆ Heritage Assets—These assets include archeological sites that require determinations of National Register of Historic Places status; National Historic Landmarks; National Register of Historic Places; and significant historic properties. Some heritage assets may have historical significance, but their primary function within the agency is as visitation or recreation sites and, therefore, might not fall under the management responsibility of the heritage program.