

United States
Department of
Agriculture

Forest Service

April 2004



Forest Service Performance and Accountability Report— Fiscal Year 2003

Message from the Chief

The Forest Service Performance and Accountability Report—Fiscal Year 2003 represents the dedication and achievement of the more than 33,000 employees of the agency. As a result of the Forest Service's aggressive stance on improving financial accountability, we have again accomplished our goal of achieving an unqualified, "clean," audit opinion in FY 2003. I believe this second unqualified audit opinion demonstrates to Congress, to the Office of Management and Budget, and to the American people that the Forest Service is making great strides in financial and performance accountability.

The natural resource and land management work of the USDA Forest Service continues to be held in high regard. We are committed to developing expert systems and processes that will enable us to meet constantly changing demands. In doing so, we will increase performance efficiencies, agility, and competitiveness in our workforce. We are refining all aspects of our operations in response to changing business practices so that we may better serve the American public, stakeholders, partners, and Forest Service employees. In 2003, the Forest Service revised its 5-year strategic plan to focus on outcomes to achieve sustainable resource management and set the goals and agency priorities for fiscal years 2004 through 2008.

The focus of public discussion and debate about Forest Service issues has shifted from issues of logging and road building to what we have identified in 2003 as four major threats to the Nation's forests in the 21st century: fuels and fires, invasive species, loss of open space, and unmanaged outdoor recreation.

While our financial midyear review was impeded by operating under a continuing resolution beyond the first quarter of FY 2003, we have taken great measures to meet our financial requirements. Congress provided \$636 million to repay the transfers of funds for fire suppression from 2002, which underscores our mutual commitment to mitigating the high risk of catastrophic wildfire. In 2003, the agency developed and implemented a strategy for cost containment on large wildfires. Also, as part of a multiyear transition to integrate agency performance with budget requests to Congress, the agency has developed and approved a model of a performance accountability system. In addition, the agency has awarded a contract for development of a prototype of the system to test in the Alaska Region.

The 2002 implementation of the Forest Service Strategy for Improving Organizational Efficiency addresses the five initiatives of the President's Management Agenda, creating a business environment that makes the agency more responsive to our customers. As a result, in FY 2003, the agency aggressively implemented competitive sourcing and business process reengineering. The Forest Service made substantial progress toward the E-Government Initiative by creating the infrastructure and preparing the business case analyses for Recreation One-Stop, environmental planning records, streamlining of the permit process, and online citizen requests for specific information, especially that relates to recreation in the national forests and grasslands.

Our five-point strategic approach to human capital addresses a New Employee Orientation; leadership succession, a knowledge management working group to develop methods to capture employee knowledge, a recruitment program to resolve mission-critical skill gaps, and workforce planning that addresses our diversity and competency needs. In addition, the Forest Service leadership has taken a proactive role in ensuring employees' civil rights with special emphasis on Equal Employment Opportunity complaint processing and improving workforce diversity.

Striving to improve our efficiency and effectiveness as a competitive organization, we have completed most of the studies that are required to determine a most efficient organization. We have extended the May 23, 2003, timeline for completing the Information Technology infrastructure study into FY 2004 in order to achieve an accurate and thorough study in which our stakeholders, our employees, and the American public can all have confidence.

As we accomplish the President's Healthy Forests Initiative, we are reducing layers of procedural delay, and streamlining our ability to protect communities and the Nation's natural resources from devastating wildfires through stewardship contracting. We are working daily with partners to focus on what we leave on the ground—not what we take.

The Forest Service also completed several administrative reforms in FY 2003. The agency established two new categorical exclusions provided for under the National Environmental Policy Act that allow priority fuel treatments, including thinning and prescribed fire, and forest restoration, including reseeding and planting, to proceed quickly without the need for lengthy environmental documentation.

Additionally, the Forest Service:

- (1) revised an administrative appeals rule to expedite appeals of forest health projects and encourage early and more meaningful public participation;
- (2) improved the design, review, approval, and implementation of Healthy Forests Initiative projects that involve endangered species, using guidance developed by several agencies and issued by the U.S. Fish and Wildlife Service and the National Marine Fisheries Service; and
- (3) implemented guidance from the Council on Environmental Quality to improve environmental assessments for priority forest health projects.

This Forest Service Performance and Accountability Report—Fiscal Year 2003 contains performance and financial data that are complete and reliable. The Management Controls, Systems, and Compliance to Laws and Regulations section contains a detailed assessment of the findings and needed improvements in some of the Forest Service's performance data and explains how we plan to remedy those deficiencies in the future.



DALE N. BOSWORTH
Chief

Message from the Chief Financial Officer

I am pleased to present the consolidated financial statements of the U.S. Department of Agriculture Forest Service for FY 2003 and 2002. For the second consecutive year, the Forest Service has received an unqualified, “clean,” audit opinion on its statements. I want to extend my sincere appreciation to all individuals and organizations whose dedication and resolve made the FY 2003 unqualified opinion possible. Receiving an unqualified opinion verifies that the Forest Service’s financial statements are fairly presented and demonstrates accountability in the execution of our responsibilities.

During FY 2003, the Forest Service continued agencywide improvement efforts to effectively and efficiently manage public funds and property through “Sustainable Financial Management” activities. Accomplishments during the year included the development of a Budget and Finance Strategic Plan to provide a “road map” for sustainable financial management within the Forest Service. Strategic goals for financial management focused on creating an effective, efficient, and economic financial management organization; establishing financial management performance accountability; sustaining financial management improvements; and integrating financial processes and systems.

During FY 2003, the Forest Service also continued to aggressively address the material weaknesses reported by the Office of Inspector General to determine the root causes of our material deficiencies and to move quickly to remedy them. During FY 2003, the following material deficiencies have been fully corrected or reassessed and determined to be no longer material—adequacy of financial statements, performance reporting, administration of lands special use permits, and timber sale environmental analysis. The Forest Service has also made progress in resolving issues from the FY 2002 financial statement audit regarding the reconciliation of funds balance with Treasury; accurate reporting of plant, property and equipment; and accurate recording of accruals.

For FY 2004, our goals will center on maintaining an unqualified audit opinion; eliminating the new and remaining reportable conditions and compliance issues; and improving our ability to provide timely, accurate, and useful financial information. The Forest Service will aggressively pursue business process reforms and organizational realignment in order to assure that the financial position of the agency remains solid over the long term.



HANK KASHDAN
Chief Financial Officer, Acting

Contents

| | | | |
|--|-----|---|-----|
| Message from the Chief..... | i | Forest Service’s Performance Highlights for 2003 | 28 |
| Message from the Chief Financial Officer | iii | 2003 Forest Service Performance Indicators and Trends | 30 |
| Foreword..... | vii | Validation, Verification, and Limitations of Data Sources..... | 48 |
| Forest Service at a Glance | 1 | FY 2003 Performance Report | 51 |
| Mission..... | 1 | Overview of Performance Reporting..... | 51 |
| Organization | 1 | FY 2003 Performance Trends..... | 52 |
| Annual Highlights..... | 1 | Supporting Performance Management with Program Evaluations..... | 58 |
| Founding Legislation and History of the Forest Service’s Traditional Role | 1 | How Forest Service Programs Accomplish the Mission | 60 |
| Roadmap to the FY 2003 Performance and Accountability Report | 2 | Consolidated Financial Statements | 69 |
| Management’s Discussion and Analysis | 5 | Financial Statements and Notes..... | 69 |
| Mission Statement | 5 | Required Supplementary Information..... | 102 |
| Organizational Structure..... | 5 | Required Supplementary Stewardship Information..... | 117 |
| Our Focus on Existing Priorities | 7 | Report of the Office of Inspector General..... | 121 |
| Our Focus on New Priorities | 11 | Appendices | 161 |
| The President’s Management Initiatives | 14 | Appendix A. FY 2003 Program Tables | 161 |
| Management Controls, Systems, and Compliance with Laws or Regulations | 17 | Appendix B. Acronyms and Abbreviations..... | 173 |
| Followup to the Inspector General’s Recommendations..... | 19 | Appendix C. Discussion of the 2002 Organizational Structure..... | 175 |
| Forest Service’s Financial Highlights for 2003..... | 25 | | |

Foreword

The *Forest Service Performance and Accountability Report—Fiscal Year 2003* has been prepared in accordance with the Report Consolidation Act of 2000 and the Office of Management and Budget's direction. As required by law, this document integrates the Forest Service's annual performance report with its annual consolidated financial statements. It also includes the resulting KPMG LLP¹ opinion on the agency's financial statements, internal controls, and compliance with laws and regulations. A summary of Forest Service accomplishments and plans for addressing major management challenges and program risks, identified through Office of Inspector General and General Accounting Office reports, may be found in the Management's Discussion and Analysis section.

All comments regarding this report are welcome. To learn more about the Forest Service and to download the electronic version of the performance and accountability report, see <http://www.fs.fed.us>.

Comments may be addressed to:

Forest Service, USDA
Strategic Planning and Resource Assessment Staff
Mail Stop 1129
1400 Independence Avenue, S.W.
Washington, DC 20250-1129

¹ KPMG LLP (KPMG) is an independent auditor.