



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

Forest Service
Audit of Fiscal Year 2000
Financial Statements



Report No.
08401-11-AT
May 2001



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



DATE: May 4, 2001

REPLY TO
ATTN OF: 08401-11-At

SUBJECT: Forest Service Fiscal Year 2000 Financial Statements Audit

TO: Dale Bosworth
Chief
Forest Service

This report presents the results of our audit of the Forest Service's financial statements for the fiscal year ended September 30, 2000. The report contains our disclaimer of opinion and the results of our assessment of the Forest Service's internal control structure and compliance with laws and regulations.

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

We appreciate the courtesies and cooperation extended to us during the audit.

/s/
ROGER C. VIADERO
Inspector General

EXECUTIVE SUMMARY

FOREST SERVICE AUDIT OF FISCAL YEAR 2000 FINANCIAL STATEMENTS AUDIT REPORT NO. 08401-11-AT

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 Generally Accepted Accounting Principles (GAAP). 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 are unable to express, and do not express, an opinion on the Forest Service Consolidated Balance Sheet as of September 30, 2000, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the period then ended.

Generally Accepted Government Audit Standards (GAGAS) require us to obtain an understanding of the internal control structure and assess the control risk in order to properly plan the financial statement audit. However, Forest Service did not timely provide the financial system documentation required by the Joint Financial Management Improvement Program's (JFMIP) publication Framework for Federal Financial Management Systems, dated January 1995, Office of Management and Budget's (OMB) Circular A-127, as revised July 23, 1993, and the General Accounting Office's (GAO) Standards for Internal Control in the Federal Government, dated November 1999. Forest Service did not provide us with financial

system documentation until October 2000 (in draft form), and did not provide final documentation until the unaudited statements were presented to the Office of the Inspector General (OIG) on November 24, 2000. This documentation was essential for planning our audit and should have been available for review when the Foundation Financial Information System (FFIS) was implemented on October 1, 1999. The absence of the required documentation at the onset of our audit in February 2000, had a significant impact on our ability to effectively and efficiently plan the audit.

GAGAS also requires that we obtain sufficient competent evidential matter to render an opinion on the financial statements. However, because of the complexity of the newly implemented FFIS, and Forest Service's and OIG's unfamiliarity with extracting universe data from FFIS, the U.S. Department of Agriculture's (USDA) Office of Chief Financial Officer (OCFO) experienced significant difficulties in extracting transaction universes listing all Unpaid Obligations, Accounts Receivable, and Accounts Payable as of yearend, and the transaction universes for Revenues and Expenses, substantially delaying our field testing until mid-January. The universe data extracts were to be used for statistical sampling purposes. Our audit fieldwork was hindered because, during the time our auditors were performing testing at Forest Service units, the Forest Service could not trace many of our sample transactions related to automated processes for cost distribution and automated processes used to compensate for problems in interfacing other accounting systems with FFIS.

Additionally, Forest Service continued to make significant changes to the draft financial statements, presented to us in November, until February 6, 2001, and to the workpapers supporting compilation of the financial statement line items. In a statement before the House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, on March 30, 2001, the Comptroller General emphasized that the ultimate goal of financial management reform legislation such as Federal Financial Management Improvement Act (FFMIA) is to have "timely, accurate, and useful financial information and sound controls with which to make informed decisions and to ensure accountability on an ongoing basis rather than obtaining a clear opinion on the financial statements."

Our review of the supporting workpapers in February and March disclosed significant overstatements in certain line items, such as a \$261 million overstatement in Cash and Other Monetary Assets on the balance sheet, and abnormal balances⁴ in 5 Treasury accounts totaling \$277.4 million. Forest Service was able to determine the cause of a \$119.6 million

⁴ An abnormal balance indicates a credit (negative) balance in a Treasury symbol for Fund Balance with Treasury rather than a normal, debit (positive) balance.

abnormal balance in 1 of the 5 Treasury accounts. However, causes were not identified for \$157.8 million abnormal balances in the other 4 accounts prior to the completion of the audit.

Even though we were unable to express an opinion on the Fiscal Year (FY) 2000 financial statements, we did find that Forest Service made progress in improving its financial management, such as

- Converting from the unreliable non-Standard General Ledger (SGL) Central Accounting System (CAS) to FFIS which is designed to be SGL compliant;
- Analyzing and eliminating substantial amounts of unsupported balances in the CAS general ledger during conversion to FFIS such as \$1.6 billion in unsupported equity;
- Establishing supportable valuations for the agency's 381,000 miles of roads which comprised \$2.57 billion (32 percent) of Forest Service's reported assets totaling almost \$8 billion;
- Substantially reducing the out-of-balance condition between Fund Balance as shown in the general ledger and that shown in Treasury records from approximately \$674 million in FY 1999 to about \$180 million in FY 2000; and
- Developing a financial performance measure system that includes 34 individual measures focusing on obtaining a clean opinion, improving financial operations, and improving financial systems operations.

Our review controls revealed that (1) inadequate controls over recording Obligations and Expenses for firefighting resulted in a \$274 million violation of the Antideficiency Act⁵; (2) although implementation of FFIS improved Forest Service accounting, further improvements are needed to ensure that financial accounting data is complete, accurate, and reliable; and (3) additional improvements are needed to adequately safeguard assets.

Using a statistically selected sample of 150 individual (non-pooled) real property assets with capitalized values totaling approximately \$113 million, the accounting firm of Price WaterhouseCoopers (PWC) found that 36 of the 150 assets (24 percent) were overstated by approximately \$7.1 million; 8 assets (5 percent) were understated by \$524,000; and, 10 assets

⁵ The Antideficiency Act (31 USC 1341) states that an officer or employee of the U.S. Government may not "make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation."

(7 percent) did not have adequate documentation to support the capitalized values of \$798,000. Based on PWC's review of individual real property, we determined that the error rates were too high to make statistically valid projections of misstatements or unsupported capitalized values. As a result, we were unable to obtain reasonable assurance that the real property balance of \$4.5 billion was fairly stated.

Our examination of Forest Service's compliance with laws and regulations disclosed that (1) the agency should continue to work to achieve full compliance with FFMIA requirements by continuing to integrate systems such as Infrastructure (INFRA) with FFIS and by designing and utilizing monthly listings for Forest Service units to check the accuracy and validity of Unpaid Obligations, Accounts Receivable, and Accounts Payable; and (2) the agency should continue to work to effectively implement the requirements of the Government Performance and Results Act (GPRA) by fully implementing a strategy to ensure the collection and reporting of accurate, complete and meaningful performance data.

KEY RECOMMENDATIONS

In our reports on Forest Service's internal control structure and compliance with laws and regulations, we recommended that Forest Service:

- Timely record Obligations and fire-related expenses in FFIS.
- Research and identify the cause for the significant differences between U.S. Treasury Records and FFIS.
- Maintain adequate documentation to support recorded Obligations, Accounts Payable, and Accounts Receivable. Ensure that Obligations, Accounts Payable, and Accounts Receivable are valid at fiscal yearend.
- Develop a systematic methodology for estimating Allowance for Doubtful Accounts for Non-Federal Accounts Receivable.
- Ensure that accounting units properly record Revenues and Expenses to general ledger and maintain adequate documentation.
- Train field unit personnel on how to set up agreements and process

billing, advance billing, and advance liquidation documents in Project Cost Accounting System (PCAS).

- Revise the PCAS document numbering system so that field units can readily identify their cooperative agreements, billing documents, and advance liquidation documents.
- Monitor and provide sufficient oversight to ensure that field units (1) complete real property inventories in accordance with established procedures, (2) use established physical procedures to inventory real property assets, (3) have sufficient documentation to support the values recorded in INFRA, and (4) supported values have been properly recorded in INFRA. Because of conditions identified in the audit, Forest Service should reverify recorded values for its real property in INFRA during FY 2001.
- Conduct sufficient reviews to ensure field units (1) complete personal property inventories in accordance with Washington Office (WO) instructions, (2) line officers take an active role to ensure that personal property inventories are conducted in accordance with procedures described in the Financial Health Desk Guide, (3) enter corrections from the physical inventories in Personal Property Management System (PROP) and Equipment Management Information System (EMIS), (4) have sufficient documentation for all personal property items and (5) ensure personal property items are correctly recorded in PROP and EMIS. Because of conditions identified in the audit, Forest Service should reverify recorded values in its personal property subsystems during FY 2001.
- Reconcile computer cost between EMIS and the Hardware Management System (HMS) to ensure that computers and other items purchased by the working capital fund are properly recorded in EMIS.
- Train field units to obtain monthly reports from FFIS and ensure personnel verify the validity of their outstanding Obligations, Accounts Receivable, and Accounts Payable.

AGENCY POSITION

On May 1, 2001, we discussed the issues presented in our reports with agency officials. They generally agreed with the report's findings and recommendations.

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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



REPORT OF THE OFFICE OF INSPECTOR GENERAL

TO: Dale Bosworth
Chief
Forest Service

We attempted to audit the accompanying Consolidated Balance Sheet of the Forest Service as of September 30, 2000, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing, for the FY then ended. The financial statements are the responsibility of Forest Service management.

GAGAS require that we obtain sufficient competent evidential matter to render an opinion on the financial statements. However, because of the complexity of the newly implemented FFIS, and Forest Service's and OIG's unfamiliarity with extracting universe data from FFIS, the USDA's OCFO experienced difficulties in extracting transaction universes listing all Unpaid Obligations, Accounts Receivable, and Accounts Payable as of yearend, and the transaction universes for Revenues and Expenses, substantially delaying our field testing until mid-January. The universe data extracts were to be used for statistical sampling purposes. Our audit fieldwork was hindered because, during the time our auditors were performing testing at Forest Service units, the Forest Service could not trace many of our sample transactions related to automated processes for indirect cost distribution and automated processes used to compensate for problems in interfacing other accounting systems with FFIS. These conditions significantly impacted our ability to determine whether the Balance Sheet and the Statements of Net Cost, Changes of Net Position, and Budgetary Resources were fairly stated.

We were unable to determine the accuracy of the approximately \$2.5 billion reported as total Fund Balances with the U.S. Treasury in Forest Service's balance sheet, as of September 30, 2000. Fund balances comprised 32 percent of the agency's total assets and represents (a) amounts that are available from which Forest Service is authorized to make expenditures and pay liabilities (entity assets) and (b) amounts that are not available to finance activities (nonentity assets). Since 1992, we have reported that the Fund Balance with Treasury accounts had not been properly reconciled with Treasury records. Last year we reported that the out-of-balance condition between Treasury

records and the Forest Service general ledger totaled about \$674 million. For the most recent FY ended September 30, 2000, the absolute value of the out-of-balance amount totaled about \$180 million. While still a concern, this represents a significant improvement.

Similarly, we were still unable to determine the reliability of individual real property assets that comprised \$1.8 billion (38 percent) of the book value of General Property, Plant, and Equipment on the balance sheet. Based on a review of 150 statistically sampled individual real property assets, performed by the accounting firm PriceWaterhouseCoopers, we determined that error rates were too high to make statistically valid projections of misstatements.⁶

We were unable to determine the reliability of the Statement of Budgetary Resources because significant adjustments were made to the FFIS general ledger trial balances for various Treasury symbols to equal amounts shown in Treasury records. We could not determine the accuracy of the reported \$5.19 billion of Obligations Incurred for FY 2000 and the accuracy of the reported \$1.43 billion in Obligated Balance (Unpaid Obligations) as of yearend. To adjust to Treasury records, Forest Service made 149 adjustments totaling \$1.25 billion (absolute value) for Obligations Incurred during FY 2000, and 119 adjustments totaling \$742.5 million (absolute value) for FY 2000 Unpaid Obligation, for various Treasury symbols. Forest Service did not thoroughly research the reasons for the differences in the general ledger and Treasury records nor did it establish that the Treasury amount was correct. The Statement of Budgetary Resources was incorporated into the Federal financial statements in 1998 and was created as an aid in controlling the use of budget authority, consistent with requirements of fiscal laws such as the Antideficiency Act [31 U.S.C. 1501, 1108 (c)].

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 extent of the limitations noted above, we were not able to satisfy ourselves as to the value of Forest Service's assets, liabilities, and net position as of September 30, 2000; as well as its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary Obligations for the FY then ended. Therefore, we are unable to express, and we do not express, an opinion on these financial statements.

⁶ Misstatements include overstatements and understatements in capitalized values. Because of errors in Forest Service's Infrastructure (INFRA) system's calculation of depreciation, we were not able to select our sample based on book value (capitalized value less accumulated depreciation).

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

/s/

ROGER C. VIADERO
Inspector General

April 27, 2001



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE

TO: Dale Bosworth
Chief
Forest Service

We attempted to audit the accompanying financial statements of the Forest Service, as of, and for the FY ended September 30, 2000, and have issued our report thereon, dated May 7, 2001. In planning and performing our audit of the financial statements, GAGAS requires that we evaluate the internal control structure and assess the control risk. However, Forest Service did not timely provide adequate financial system documentation as required by JFMIP, OMB Circular A-127, and GAO internal control standards.

Forest Service is responsible for performing certain functions in establishing, maintaining, and documenting an adequate financial management system. For example, the Federal Financial Management Improvement Act of 1996 requires each agency to implement and maintain systems that comply substantially with Federal financial management systems requirements. The detailed requirements are outlined in publications issued by JFMIP. In particular, JFMIP's publication Framework for Federal Financial Management Systems, dated January 1995, describes critical documentation needed to support a financial management system including documentation that *"describes the total system as a functional entity and includes the policies, processes (manual and automated), and procedures. A general system overview (integrated text and graphics) should describe how each application integrates with other applications, and the overall operational process."* GAO's Standards for Internal Control in the Federal Government (AIMD-00-21.3.1), dated November 1999, state: *"Internal control and all documentation should be readily available for examination."* To ensure that proper internal controls are implemented so that transactions are accurately and timely recorded, the GAO standards further state: *"This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."*

Forest Service did not provide us with financial system documentation until October 2000 (in draft form), and did not provide final documentation until the unaudited statements were presented to OIG on November 24, 2000. This documentation is essential for planning our audit and should have been available for review when the FFIS was implemented on October 1, 1999. The size and complexity of Forest Service's financial operations along with the agency's implementation of FFIS during FY 2000, significantly limited our ability to assess internal controls without the agency timely providing an adequate description of its financial system.

To perform the risk assessments and plan audit testing, we must first obtain a sufficient understanding of the procedures used for all material types of transactions as well as test the internal controls related to the transactions. The term "sufficient understanding" includes an understanding of the financial management system used to process the transactions as well as the internal controls integrated into the process. At a minimum, an understanding of the financial management system should include:

- The classes of transactions in the entity's operations that are significant to the financial statements.
- How those transactions are initiated.
- The accounting records, supporting documents, computer media, and specific accounts in the financial statements involved in the processing and reporting of transactions.
- The accounting processing involved from the initiation of a transaction to its inclusion in the financial statements, including how the computer is used to process data.
- The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures.

The management of 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 the internal control structure policies and procedures. The objectives of an internal control structure are to provide management reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the agency's prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of

any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the internal controls we were able to assess, the matters we considered to be reportable conditions are presented in the “Findings and Recommendations” section of this report.

FINDINGS AND RECOMMENDATIONS

I. INADEQUATE CONTROLS OVER RECORDING OBLIGATIONS AND EXPENSES FOR FIREFIGHTING RESULTED IN A \$274 MILLION VIOLATION OF THE ANTIDEFICIENCY ACT

FINDING NO. 1

Because of inadequate controls over the recording of Obligations and Expenses for firefighting, Forest Service obligated \$274 million in excess of funds available in

their Wildland Fire Management Account as of yearend, and violated the Antideficiency Act. Forest Service did not timely record a significant amount of Obligations and Expenses.

During FY 2000, a total of \$1.252 billion was made available for fighting wildfires. Congress appropriated funds to Forest Service as follows:

- \$561 million was appropriated by Congress for fire preparedness, hazardous fuels reduction, and suppression activities in FY 2000,
- \$240 million was released from the Emergency Contingency Funds from FY 1997 and FY 2000 appropriations,
- \$150 million in emergency supplemental appropriations was made available on July 13, 2000,
- \$26 million in miscellaneous Forest Service funds available during FY 2000.

In addition to its Wildland Fire Management appropriation, Forest Service was authorized to advance funds from any resources to fight fires under 16 U.S.C., Section 556d that states:

Advances 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).

Toward the end of FY 2000, Forest Service utilized this authority to borrow an additional \$276 million from Knutson -Vandenberg (K-V) funds.

- \$200 million was authorized by OMB to be advanced from K-V on September 18, 2000, and
- \$76 million was authorized by OMB to be borrowed from K-V on September 29, 2000.

In mid-September, using quantitative tool for predicting fire expenditures on a monthly basis, Forest Service predicted fire suppression expenditures of \$1.1 billion. However, Obligations in FFIS did not support the projection. A Forest Service Official told us that the Obligations in FFIS were lower than the projected costs. As of September 29, 2000, Forest Service expected that the additional amounts transferred from K-V funds provided the agency with a \$30 million balance in its Wildland Fire Management account as of the end of the year. However, subsequent to yearend, Forest Service discovered that it had over expended funds in its Wildland Fire Management account by \$49.4 million (per Treasury records). In contrast to Treasury records, the FFIS general ledger trial balance at yearend showed a \$147 million positive balance in the account. In addition to having a deficit in the account as of September 30, 2000, the agency discovered that overall it had obligated approximately \$274 million more than available for firefighting purposes.

On January 17, 2001, the Secretary of Agriculture in accordance with 31 USC 1351 notified the President of the relevant facts surrounding the Antideficiency Act violation. The Secretary also indicated that the department was conducting an in-depth investigation into fire management issues and planning to implement corrective actions.

A Forest Service review of FY 2000 firefighting expenditures, performed in February 2001, disclosed instances where Obligations for (1) agreements with states and other partners, (2) reimbursements to the U.S. military and (3) reimbursements to other civilian federal agencies, such as the Department of Interior's Bureau of Land Management, were not timely recorded. The Forest Service review concluded:

The Antideficiency Act Violation of 2000 was a result of a record fire season, a late fire season, inexperienced staff in the WO, a failure to anticipate obligations owed to partners and for national contracts, a new financial management system, a lack of trained financial staff, the lack of an on-site automated financial system and system performance issues.

Forest Service recorded \$259 million of Obligations from September 29 through September 30, 2000, which caused the large Antideficiency Act violation. If the Obligations had been timely recorded this violation could have been prevented.

For example, one region could not process a liability for a \$60 million reimbursement because it did not receive a bill from the California Department of Forestry (CDF) until September 27, 2000.

Forest Service's review found that key financial staff (i.e., payment teams), dispatched to firefighting duties during the fire suppression emergency, were not adequately trained in fire camp documentation or the operation of FFIS. While these personnel were out fighting fires, they were not able to process the massive number of obligation documents into FFIS in a timely manner. This was especially critical during the month of September, the last month of the FY. Thus preventing the financial staff from conducting yearend accounting and reporting procedures essential to efficient and effective closeout the FY 2000 appropriations.

Forest Service review found that, "[a]t the beginning of the fire season, procurement officers on buying teams were initially making purchases with credit cards defaulting to a home unit and not to fire. Direction to the field advising procurement officers to change default code to fire prior to going out to fire camp did not occur until mid August." In addition, the review found that "when procurement officers returned to their home unit they had to catch up on normal work, reconciliation to correct fire codes was not a priority and most reconciliation occurred in late September."

Forest Service officials also told us that they were not able to transfer funds from K-V to the Wildland Fire Management account because Treasury would not timely issue a warrant to move the funds. During the FY 2000 fire season all Wildland Fire Management funding was exhausted and additional funding was needed to cover remaining fires expenses. In September 2000, Forest Service requested that OMB approve a transfer of \$276 million from the K-V fund to its Wildland Fire Management appropriation. OMB approved the transfer and apportioned these funds. However, according to Forest Service officials, the U.S. Treasury would not timely issue a warrant for the transfer. Rather than transferring fund balances from the K-V trust fund to the Wildland Fire Management, Forest Service transferred expenses from the firefighting fund into K-V. Moving expenses from one fund to another greatly increases the complexity and therefore the effort needed to keep track of expenditures to ensure that they were properly classified.

These methods of borrowing funds for firefighting may have also caused differences between the FFIS general ledger and Treasury records. For example, during the compilation of the financial statements, Forest Service compared the FFIS general ledger account balances with Treasury's Undisbursed Appropriation Ledger (TFS 6653), and found that Treasury records showed \$215.7 million more in disbursements for the Wildland Fire Management account than shown in the FFIS general ledger. To reduce the FFIS general ledger balance to equal Treasury records, Forest Service debited (increased) Undeposited Collections and credited (reduced) Fund Balance with

Treasury by \$215.7 million. Undeposited Collections are reported on the financial statements as part of the line item Cash and Other Monetary Assets that is defined by OMB Bulletin 97-01 as:

(i) coins, paper currency, and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit, (ii) amounts on demand deposit with banks or other financial institutions, (iii) cash held in imprest funds, and (iv) foreign currencies... Other monetary assets include gold, special drawing rights, and U.S. reserves in the International Monetary Fund."

The adjustment to increase Undeposited Collections for the Wildland Fire Management account caused an overstatement of \$215.7 million in the line item Cash and Other Monetary Assets because there were no currency or negotiable instruments related to the adjustment. Similar adjustments to 29 other Treasury accounts because of differences in disbursements caused an additional overstatement of \$45.3 million to Cash and Other Monetary Assets.

Similarly, Forest Service's comparison of FFIS and Treasury's Undisbursed Appropriation Accounts Ledger (TFS 6653) for the K-V account found that Treasury records showed \$213.2 million less in disbursements than FFIS. To adjust FFIS to Treasury records, Forest Service increased (debited) Fund Balance with Treasury and established a liability by crediting Disbursements in Transit (included in the A/P line item on the balance sheet) by \$213.2 million that caused an overstatement in Accounts Payable. Similar adjustments to 16 other Treasury accounts because of differences in disbursements caused an additional overstatement of \$43.4 million to A/P.

Because Forest Service did not research and identify detailed reasons for the differences, we cannot be sure that moving expenses from one account to another caused all of the differences. However, it appears that it could have significantly contributed to the differences. In their FY 2002 Budget Justification, Forest Service included \$274,147,000, to liquidate the deficit created by over-obligating their firefighting funds.

RECOMMENDATION NO. 1a

Record Obligations and fire related expenses in FFIS timely.

RECOMMENDATION NO. 1b

Research and identify the cause for the significant differences between U.S. Treasury Records and FFIS.

II. ALTHOUGH IMPLEMENTATION OF FFIS HAS IMPROVED FOREST SERVICE ACCOUNTING FURTHER IMPROVEMENTS ARE NEEDED TO ENSURE THAT FINANCIAL ACCOUNTING DATA IS COMPLETE, ACCURATE, AND RELIABLE

FINDING NO. 2

On October 1, 1999, Forest Service switched its remaining field accounting units from the non-integrated CAS general ledger to FFIS. In our 1997 through 1999 audits, significant financial weaknesses in CAS prevented us

from performing sufficient tests to obtain assurances that amounts reported in the previous years financial statements were fairly presented in accordance with (GAAP).

Even though we were unable to express an opinion on the FY 2000 financial statements, we did find that Forest Service made progress toward improving its financial management by switching from CAS to FFIS including:

- Converting from the non-SGL, CAS system to the SGL compliant FFIS.
- Eliminating substantial amounts of unsupported balances in the CAS general ledger during conversion to FFIS such as \$1.6 billion in unsupported equity.
- Substantially reducing the out-of-balance condition between Fund Balance as shown in the general ledger and that shown in Treasury records.

Although improvement was made in Forest Service's financial management, further improvements are needed to ensure that financial accounting data is complete, accurate, and reliable.

On November 24, 2000, Forest Service provided us with their unaudited financial statements in accordance with the timeline established by the Department's OCFO. However, the statements, marked "DRAFT", were not complete. Forest Service continued to work on the statements making significant changes until February 6, 2001, when another set of financial statements marked "UNAUDITED" was provided to OIG.

Our review of the February 6, 2001, unaudited financial statements disclosed significant misstatements in certain line items and abnormal balances in some the general ledger accounts that impacted or may impact other line items on the statement.

- We identified \$277.4 million in abnormal (credit) balances in Fund Balance with the U.S. Treasury for 5 accounts. Working with Forest Service staff, we determined that, for one account, a general ledger entry had not been made for receipt of a Treasury Warrant issued for payments to States. Therefore, when the payments were made, the general ledger showed a negative balance for the Treasury account. This caused an understatement of \$119.6 million on the Fund Balance with U.S. Treasury financial statement line item. For the other 4 accounts with abnormal balances totaling \$157.8 million, Forest Service did not provide documentation explaining the cause and the potential effect on the statements.
- We identified a \$261 million overstatement in the Balance Sheet line item entitled Cash and Other Monetary Assets. This line item comprises cash on hand (including amounts on deposits with banks) and negotiable instruments, and was reported in the FY 1999 financial statements as \$23.2 million. In the February 6, 2001, unaudited statements, Forest Service reported the line item as \$322.4 million, almost 13 times as much as reported in FY 1999. We found that an incorrect adjustment was made to the general ledger to debit (increase) Undeposited Collections, a component of Cash and Other Monetary Assets, in order to make the general ledger agree with Treasury records.
- We identified a \$256.7 million overstatement in the Balance Sheet line item Non-Federal Accounts Payable. We found that Forest Service had adjusted the general ledger to credit (increase) Disbursements in Transit, a component of Accounts Payable, in order to make the general ledger agree with Treasury records without researching the reasons for the differences. Within the timeframes of our audit, we could not determine whether the adjustment related to actual A/P as of yearend.
- For the Statement of Changes in Net Position, we found that the Net Position-Beginning of Period was understated by \$668.3 million and the line item entitled Prior Period Adjustments was understated by the same amount because write-offs, resulting from the conversion from CAS to FFIS, that affected the Cumulative Results of Operations should have been recorded as a prior period adjustment.

Forest Service made adjustments to their final statements based on our audit findings. However, the agency will need to determine the reasons for the abnormal balances in some Treasury accounts and research the differences in disbursements reported in FFIS and those reported in Treasury records, and make appropriate adjustments for the FY 2001 financial statements.

We were unable to obtain sufficient competent evidential matter because of problems with universe data extracts which were to be used for statistical sampling purposes. Additionally, our audit fieldwork was hindered because we were not made aware of certain automated processes for cost distribution and automated processes used to compensate for problems in interfacing other accounting systems with the Foundation Financial Information System FFIS. Problems in FFIS were corrected prior to yearend. However, automated adjustments were made to correct errors that had occurred through much of the FY. Even though we were not able to utilize universe databases for statistical projects to determine whether amounts were fairly stated, we performed field testing from January 16 through March 2, 2001, to test Obligations, A/R, A/P, Revenues, and Expenses at 12 Forest Service units. The results of our field reviews follow.

Obligations

Using a universe database provided by OCFO, we statistically selected 166, Obligations totaling \$17,239,483, for review at 12 Forest Service units. Our review of yearend Obligations disclosed that

- 50 of the Obligations reviewed totaling \$6,435,436 were not supported with adequate documentation, and
- 57 of the Obligations reviewed totaling \$1,427,856 were not valid yearend Obligations.

Accounts Receivable

We judgmentally selected 45 A/R at 12 Forest Service units, which comprised a total receivable balance of \$1,294,680.88. We found that

- 2 of the A/R transactions were overstated by a total of \$62,719.57;
- 12 of the A/R transactions were understated by a total of \$188,627.53;
- 3 of the A/R transactions totaling \$63,598 were not valid yearend receivables;
- 5 of the A/R transactions totaling \$85,589, were incorrectly recorded as advance payments rather than A/R for special use permits, thereby under reporting revenue;
- 2 of the A/R transactions totaling \$2,308 were incorrectly classified as a reimbursable expense rather than revenue, thereby understating revenue; and
- 1 of the A/R transactions totaling \$10,642 was incorrectly classified as revenue rather than a reimbursable expense, thereby overstating revenue.

Allowance for Doubtful Accounts

Forest Service did not use a systematic methodology for determining the \$33.7 million Allowance for Doubtful Accounts relating to Non-Federal receivables. As in prior years, Forest Service used 20 percent of all governmental non-timber related accounts as Allowance for Doubtful (Uncollectible) Accounts. Statement of Federal Financial Accounting Standards (SFFAS) No 1 states:

Allowances for uncollectible amounts should be reestimated on each annual financial reporting date and when information indicates that the latest estimate is no longer correct. Losses to uncollectible amounts should be measured through a systematic methodology. This methodology should be based on analysis of both individual accounts and a group of accounts as a whole. Loss estimation for individual accounts should be based on (a) the debtor's ability to pay, (b) the debtor's payments record and willingness to pay and (c) the probable recovery of amounts from secondary sources. Regarding a group of receivables, they can be grouped by (a) debtor category (business firms, state and local governments and individuals), (b) reasons that give rise to the receivable or (c) geographic regions.

In the Accounts Receivable compilation workpapers, Forest Service's methodology stated that previous analysis showed that most non-governmental receivables are related to reimbursements or refunds and not revenue. Forest Service expects to collect most of the reimbursements and only a small amount will be uncollectible. The 20 percent allowance rate is higher than Forest Service's expected rate and ensures that it does not overstate the Balance Sheet Accounts Receivable and understate the Statement of Net Cost's Bad Debt Expense. However, Forest Service's methodology does not follow SFFAS No. 1 since it does not, at least annually; re-estimate the Allowance for Doubtful Accounts.

Accounts Payable

Using a universe database provided by OCFO, we selected 179 Accounts Payable totaling \$2,383,194 for review at 12 Forest Service units. We determined that 118 of the 175 sample items were Accounts Payable that had been recorded during the year, but were no longer valid at yearend. Of the 118 that were not valid yearend Accounts Payable, 86 also had zero balances in our sample database. The remaining 32 Accounts Payable had balances totaling \$685,853.

In order to assess whether units were making necessary year-end accruals, we judgmentally selected up to 5 Accounts Payable from October 2000 FFIS transaction registers, obtained supporting documentation, and ascertained whether the payable was recognized in the proper FY. In total, we looked at 30, October 2000, Accounts

Payable, representing total charges of \$319,012. We found that 24 of these, accounting for \$218,930, should have been accrued in September 2000.

Revenues and Expenses

Collections

Using a universe database provided by OCFO, we statistically selected 179 account payable totaling \$1,200,436 for review at 12 Forest Service units. We identified the following conditions.

- For 15 of the 16 lock box deposits related to on-going permits (land use leases for cabins, radio towers, ski runs, etc.), units did not record the appropriate revenue and liability when billed. Many of the special use permits are on-going, and in some cases, last for ten or more years.
- For all 5 map sales reviewed, the transactions were incorrectly recorded as a liability, not as revenue. In the 5 instances, Forest Service employees used the prescribed management code and document combination to record the sales, but the accounting protocol is setup to record the sales transaction as a liability to the budget-clearing fund.
- An advance billing, Advanced Billing (AB) document, deposit recorded the transactions as revenue. The Forest Service entered into an agreement with a governmental entity to provide services paid for in advance. Most of the advances are used in cooperative work agreements and these agreements often span more than one FY. The revenue from the advances should be recognized periodically as the project costs occur. In addition, the system increased the budgetary resources by adding to the appropriated trust or special fund receipts account instead of the unfilled customer order account.
- One unit deposited incorrectly recorded reimbursement revenue from a State agency as an expense refund. The Forest Service entered into a reimbursable agreement with a State agency to produce brochures. Expense refunds are used to correct mistakes in overpaying vendors for good and services. The costs to produce the brochures should not be reduced; rather revenue in the fund should be recognized.
- One unit recorded cabin rental as an advance from others, (a liability.) Forest Service policy is to recognize small receipts, (less than \$1,000), as revenue when billed instead of adjusting the advance later.

Project Cost Accounting System

Forest Service units enter into reimbursable agreements to perform work such as constructing a building they will share with another Federal agency, external cooperator, or another Forest Service unit. We used the FFIS adhoc report as of September 30, 2000, to judgmentally select 53 agreements at 10 of the 12 units we visited. The two civilian conservation corps units had no agreements. The value of these agreements totaled \$3,718,486.

We found that Forest Service units did not use PCAS for processing billings, collections and expenditures for 22 of the 53 agreements reviewed. This occurred in part because the WO gave units the option of whether to use PCAS or not. Additionally, unit personnel lacked training on how to set up agreements in the system and/or process billing and advance liquidation documents. As a result, revenue was prematurely recognized and liabilities were not properly recorded.

Table 1: Specific Results of our Review of the Agreements

Type of Agreement	Comments
Advance Collection Agreements	Forest Service units either did not use the correct billing and collection documents or did not enter agreements into PCAS to record 13 advance payments, totaling \$526,880, on 17 advance collection agreements totaling \$1,076,052. This resulted in premature recognition of revenue and neglected the recognition of the liability. For the remaining 4 agreements, Forest Service properly entered them into PCAS; however, the units did not process the correct standard voucher documents to reduce the liability and the unbilled Accounts Receivable posted by the distribution process.
External Agreements	Revenue, Accounts Receivable and reimbursable receivables totaling \$548,136 were not recognized in the correct FY on 6 of 19 external agreements totaling \$1,113,016. Forest Service units did not enter these agreements into PCAS and did not use the correct billing and collection documents for recovering reimbursable expenditures.
Internal Agreements	Forest Service units did not use PCAS for processing billings, collections, and expenditures totaling \$53,200 on 3 of 17 internal agreements totaling \$1,529,417. This caused an overstatement of revenue and Accounts Receivable.

An underlying accounting principal for both external reimbursable and advanced collection agreements is that revenue and receivables (budgetary and proprietary) are to be recognized when expenditures are incurred. Because Forest Service units did not

set up agreements in the system, the billing and advance collection documents used did not post to the proper general ledger accounts. This caused revenue recognition to be delayed until the customer was billed, sometimes until completion of the agreement. Also, a bill may not be sent to a customer until the next FY, resulting in the recognition of revenue in the wrong FY.

While it is not appropriate to assess indirect costs on internal agreements between Forest Service units, we questioned 23 of the 36 external and advance collection agreements where Forest Service did not assess overhead rates. Financial management staff at Forest Service units that did not assess an overhead rate stated that it was an oversight that some external customers and cooperators were not assessed the overhead rate. Staff at other units said that they did not charge overhead costs if the Federal or state agencies were unwilling or lacked the additional funds to pay these costs. Additionally, units did not prepare decision statements that justified not charging overhead nor did they report the estimated overhead that was not assessed to the WO at FY end, as required by the Forest Service Financial Health Desk Guide, Chapter 6.

RECOMMENDATION NO. 2a

Maintain adequate documentation to support recorded Obligations, Accounts Payable, and Accounts Receivable. Ensure that Obligations, Accounts Payable, and Accounts Receivable are valid at FY end.

RECOMMENDATION NO. 2b

Develop a systematic methodology to annually estimate Allowance for Doubtful Accounts for Non-Federal Accounts Receivable.

RECOMMENDATION NO. 2c

Ensure that accounting units record Revenues and Expenses to general ledger properly and maintain adequate documentation.

RECOMMENDATION NO. 2d

Train field unit personnel to set up agreements and process billing and advance liquidation documents in PCAS.

Revise the PCAS document numbering system so that field units can readily identify their agreements and their billing and advance liquidation documents.

III. ADDITIONAL IMPROVEMENTS ARE NEEDED TO ADEQUATELY SAFEGUARD ASSETS

FINDING NO. 3

We found that additional internal control improvements are needed for (1) Fund Balance with Treasury and (2) Property, Plant and Equipment to ensure that Forest Service assets are adequately safeguarded.

Forest Service's Consolidated Balance Sheet, as of September 30, 2000, reported total assets of approximately \$8 billion. The total Fund Balances with U.S. Treasury and Property, Plant and Equipment comprise a combined total of \$7.3 billion or 92 percent of Forest Service total assets. Total assets significantly increased from approximately \$6 billion in FY 1999 to almost 8 billion in FY 2000, or 33 percent. Most of this increase came from Forest Service estimation of pre-1995 road prism that was not included in the prior year's balance sheet.

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 are safeguarded from unauthorized use or disposition and that financial records are reliable to permit the preparation of the financial statements. SAS also states that:

In context if 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.

Fund Balance with the U.S. Treasury

Forest Service's balance sheet, as of September 30, 2000, reported total Fund Balances with the U.S. Treasury of approximately \$2.5 billion or 32 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 but are not available to finance activities (nonentity assets). The balances are a sum of appropriations, net transfers, reimbursements, and collections, less disbursements.

We have reported since 1992 that the Fund Balance with Treasury accounts had not been properly reconciled with Treasury records. Last year we reported that the out-of-balance condition between Treasury records and the Forest Service general

ledger totaled about \$674 million. For the most recent FY ended September 30, 2000, the absolute value of the out-of-balance amount totaled about \$180 million. While still a concern, this represents a significant improvement.

Improvement occurred because the National Finance Center (NFC) and Forest Service took action to correct this longstanding material weakness. The NFC contracted with a public accounting firm to assess the reconciliation efforts, provide recommendations to resolve the reconciliation problem, and assist in leading the actual reconciliation. This work, covering pre-fiscal year 2000 variances, identified their causes as involving data entry mistakes, improper accounting, duplicate and unrecorded activities, and general ledger posting errors. Accounting adjustments were identified to correct the variances.

In FY 2000 similar problems continued to affect the Fund Balance with Treasury reconciliation process. Our audit of the U.S. Department of Agriculture Consolidated Financial Statements reported the following problems (report no. 50401-39-FM dated February 2001):

- The FFIS general ledger contains erroneous information that causes discrepancies with Treasury records.... This was caused by (1) inadequate internal controls which allowed erroneous and/or incomplete data into the FFIS general ledger and (2) posting model problems.
- While the FFIS Project Office reported that the posting models were corrected as of August 2000, we noted that as of September 2000 that the payroll tax withholding posting model was still erroneously posting to the Standard Form 224, "Statement of Transactions," collection cash account and a Travel System posting model problem remained uncorrected. In addition, the errors caused by the corrected posting models had not been corrected in the system.

Erroneous and incomplete data adversely affected Forest Service's accounting for funds in the FFIS general ledger. For example, due to unfamiliarity with new source document entry procedures, Forest Service did not record a Treasury warrant in the Fund Balance with Treasury accounts, thus causing an abnormal balance of negative \$119.6 million in the general ledger. Forest Service used this amount to compute Fund Balances with Treasury for the Balance Sheet.

In FY 2000, the Forest Service began to assume responsibility from the NFC for reconciling the Fund Balance with Treasury accounts. However, an application program used to compare agency records to Treasury has impeded reconciliation. Because the program distorted reported differences, it could not be relied on to provide accurate data for reconciling differences on the FMS 6652, "Statement of Differences." Forest Service continues to work on resolving this problem. Also, reconciliation using a new automated tool is planned for FY 2001.

A Forest Service goal is to achieve complete reconciliation within fifteen days of month-

end by the end of FY 2001. Since the agency is continuing to diligently work with the Department to complete required reconciliations, we are not making recommendations for this finding.

General Property, Plant, and Equipment

As of September 30, 2000, Forest Service reported property, plant, and equipment totaling \$4.8 billion (60 percent) of the agency's total reported assets. Approximately \$4.5 billion (94 percent) 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.

Pooled Assets

Pooled assets consisted primarily of road costs, recreation trails, and improvements to forest habitat and comprised \$2.6 billion of the real property reported on the balance sheet. In their FY 1998 financial statements, Forest Service expensed road prism costs rather than capitalizing the costs because the agency considered road prism to be a permanent improvement to stewardship land. In FY 1999, Forest Service received an interpretation from the Federal Accounting Standards Advisory Board (FASAB) stating that road prism should be capitalized if used in harvesting timber.

During FY 2000, Forest Service, in cooperation with OIG, developed a methodology for valuing pre-FY 1995 road costs. The Forest Service developed cost matrices to estimate road prism and surfacing costs. The matrices were developed to account for characteristics of roads such as whether they were single or double lane, and whether the type of road surfacing was native soils, aggregate, or pavement.

Our review of the roads the cost matrices and roads inventories disclosed that Forest Service established supportable valuation totaling \$2.57 billion for the agency's 381,000 miles of roads.

Individual Real Property Assets

Individual real property assets were valued at \$1.8 billion on the balance sheet and consisted of: buildings, administrative sites, recreation sites, Improvements to Recreation Sites⁷, dams, and utility systems.

Using a statistically selected sample of 150 individual (non-pooled) real property assets with capitalized values totaling approximately \$113 million, PWC found that 36 of the 150 assets (24 percent) were overstated by approximately \$7.1 million; 8 assets (5 percent) were understated by \$524,000; and, 10 assets (7 percent) did not have adequate documentation to support \$798,000 of the \$7.8 million capitalized value for

⁷ Improvements to recreation sites that are not capitalized and depreciated as part of the original sites.

these assets. Based on PWC's review of individual real property, we determined that the error rates were too high to make statistically valid projections of misstatements or unsupported capitalized values.

The criteria for determining whether the capitalized value of these assets were properly supported with sufficient documentation is listed in Chapter 5 of the Forest Service's Financial Handbook. Forest Service policy requires its units to keep individual asset files for all fiscal years. This file should maintain all documents that support the transactions that affect the asset. Forest Service units should have retained actual documentation such as contracts, invoices, and purchase orders for all real assets acquired on or after October 1, 1994. Furthermore this handbook also states that Forest Service units must follow a documentation hierarchy for assets that were acquired prior to October 1, 1994. This hierarchy requires the units to gather and maintain:

- A. Actual documentation to support costs.
- B. Auditor accepted values including prior accounting records such as Forest Service forms 6500-53, BUDG 4Y-1 reports, Unit Financial Statements, or Statements of Obligations (Other accounting records such as ORACLE reports were an acceptable form of documentation).
- C. 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).

The accounting firm, PWC performed the substantive testing of the 150 assets from November 21, 2000 through January 26, 2001. The following are some examples of misstatements that PWC found during their review.

- An administrative developed site in one unit showed a capitalized value of \$2,186,808 in INFRA. However, the unit determined that expense transactions and Engineering estimated would only support a \$1,429,210 million capitalized value. The unit had not updated INFRA, resulting in an overstatement of \$757,598.
- A recreational developed site had a recorded capitalized value of approximately \$1.5 million. In INFRA. However, documentation supported only \$765,000. The Forest Service field unit agreed that the value was overstated by almost \$720,000.

From January 16 through March 2, 2001, we also tested real property procedures at Forest Service units. Our testing disclosed that some of the units did not meet the requirements for inventory completion as directed by the WO. On March 29, 2000, Forest Service's chief operating officer sent a memorandum to the Forest supervisors and station directors requiring the units to complete inventories for individual real property assets by June 30, 2000, and pooled assets by September 30, 2000. The memo included enclosures that provided procedures for conducting an adequate inventory of Real Property. The following are examples of Forest Service units that did not meet the inventory requirements as required by the WO:

- Two units did not reconcile the assets that were inventoried with the recorded data in INFRA. Furthermore, these units also did not update their database to correct discrepancies discovered while conducting the inventory.
- One unit did not include land tracts in their inventories because the staff incorrectly considered land to be part of the buildings.
- One unit did not perform physical inventories of administrative sites and land due to an oversight.
- Certain assets such as recreation and administrative sites were not inventoried at one Forest Service unit because these sites were not included in the FY 1999 or FY 2000 inventory.

Personal Property

During the period January 16 through March 2, 2001, we reviewed personal property procedures at 12 Forest Service units. We judgmentally selected a total of 194 personal property assets (104 PROP assets and 90 EMIS assets) with capitalized values totaling \$13.7 million. Our review disclosed 75 (39 percent) of the 194 sampled items had incorrect capitalized values. EMIS asset costs were understated by \$201,454.62 and PROP asset costs were overstated by \$151,211.03 for the sample items with incorrect values.

We also identified the following deficiencies related to controls over personal property.

- Two units did not have proper controls in place for personal property.
- Four units did not save copies of inventory progress reports and 5 units did not save the handwritten inventory field notes when the inventory was taken.
- Five units did not conduct a complete inventory of PROP and EMIS assets.

- Four Forest Supervisors signed the inventory certification letters when the inventory was not conducted correctly.
- Four units did not prepare the inventory certification as required by the WO.
- At three units the Property Management Officer (PMO) did not sign all the AD-112 forms, Report of Unserviceable, Lost, Stolen, Damaged or Destroyed Property.
- Four units did not prepare forms for destroyed or transferred assets and did not create complete document files for found or acquired property.
- Ten units did not keep acquisition documentation for the period of time required by Forest Service policy.
- Four units did not take sufficient action to locate lost or stolen property, and 1 unit certified a personal property item was at the unit, when in fact, the asset was stolen 4 years earlier while the asset was on loan to another unit.
- Seven units did not enter corrections from the physical inventories into the accounting systems.
- Six units were coding add-on components with an incorrect budget object code (the asset is being expensed rather than capitalized).

Additionally, at 2 units, we found that the PROP system did not allow the PMO or clerk to change incorrect PROP values when a document number was used to create the asset in PROP. The PROP system automatically shows a capitalized value when an asset is established using a document number. The PMO could not determine how NFC arrived at the value in some cases. The PMO could only correct the value by deleting the asset and entering a new asset under the “found” option in PROP.

All of the Units, except the CCCs, did not reconcile the computer costs between EMIS and HMS. 5 Units (Geospatial, Humboldt, Cleveland, Regional Office 2, and PNW) had over \$2.04 million dollars in computer cost differences between the two systems. A large portion of the differences related to WCF 2000 computer purchases not being entered in EMIS.

At each of the 12 sites visited, we also tested the accumulated depreciation balance for 2 PROP assets and 2 EMIS assets. All of the Units, except for 3, showed incorrect accumulated depreciation balances for EMIS assets. In contrast, accumulated depreciation balances for PROP assets were accurately calculated for all units. We found that EMIS accumulated depreciation was understated by a total of \$133,286 for the items sampled.

We also noted the following during our review.

- Forest Service units were not properly tracking Credit Card Acquired Property, and none of the units could determine what the PCMS dollar entry represents in FFIS.
- Forest Service employees told us that the problems with the EMIS – FFIS interface caused some of the errors that we noted in transactions.
- Forest Service employees also told us that the NFC was not remitting the EMIS reports in a timely manner to any of the units, and that the EMIS system was not available on a timely basis to enter adjustments and corrections.

RECOMMENDATION NO. 3a

Monitor and provide oversight to ensure that field units (1) complete real property inventories in accordance with established procedures, (2) use established physical procedures to inventory real property assets, (3) have sufficient documentation to support the values recorded in INFRA, and (4) supported values have been properly recorded in INFRA. Because of conditions identified in the audit, Forest Service should reverify recorded values for its real property in INFRA during FY 2001.

RECOMMENDATION NO. 3b

Conduct sufficient reviews that ensure field units (1) complete personal property inventories in accordance with WO instructions, (2) line officers take an active role to ensure that personal property inventories are conducted in accordance with procedures described in the Financial Health Desk Guide, (3) enter corrections from the physical inventories in PROP and EMIS, (4) have sufficient documentation for all personal property items and (5) ensure personal property items are correctly recorded in PROP and EMIS. Because of conditions identified in the audit, Forest Service should reverify recorded values in its personal property subsystems during FY 2001.

RECOMMENDATION NO. 3c

Reconcile computer cost between EMIS and the Hardware Management System (HMS) to ensure that computers and other items purchased by the working capital fund are properly recorded in EMIS.

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

/s/

ROGER C. VIADERO
Inspector General

April 27, 2001



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



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

TO: Dale Bosworth
Chief
Forest Service

We attempted to audit the accompanying financial statements of USDA as of and for the FY ended September 30, 2000, and have issued our report thereon dated May 7, 2001.

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

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

As part of the audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems, as required by the FMFIA, and compared USDA's most recent FMFIA report, with the evaluation we conducted of USDA's internal control structure. We were unable to review and test USDA policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the MD&A section because it was not submitted in time for us to review as a part of this audit. Furthermore, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

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

The results of our tests disclosed instances, described in our "Findings and Recommendations" section, where the Forest Service's financial management systems, as a whole, did not substantially comply with the three requirements in the preceding paragraph.

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

FINDINGS AND RECOMMENDATIONS

IV. FOREST SERVICE SHOULD CONTINUE TO WORK TO ACHIEVE FULL COMPLIANCE WITH FFMIA REQUIREMENTS

FINDING NO. 4

The Federal Financial Management Improvement Act (FFMIA) of 1996 was enacted to provide for consistency of accounting by an agency from one FY to the

next; increase the accountability and credibility of Federal financial management; improve performance, productivity, and efficiency of Federal Government financial management; and establish and uniform accounting standards throughout the Federal Government. The FFMIA requires, among other things, that agencies implement and maintain financial management systems that substantially comply with federal financial management systems requirements. JFMIP and OMB Circular A-127, Financial Management Systems establish the Financial System requirements. There are seven different functions of the core financial system:

- **Core financial management** that includes system-processing rules maintained for consistency with financial management policy.
- **General ledger management** that is the central function of the core financial system and the highest level of summarization. It must maintain account balances by funds structure and individual general ledger accounts.
- **Funds management** ensures that the agency does not obligate or disburse funds in excess of this appropriated and/or authorized.
- **Payment management** provides appropriate control over all payments made by or on behalf of the agency.
- **Receipt management** supports activities associated with recording agency's cash receipts, including servicing and collecting receivables.
- **Cost management** measures the full cost of federal program, their activities and outputs.
- **Reporting** provides timely and useful financial information to (1) supporting management's fiduciary role; (2) support budget formulation and execution functions; (3) support fiscal management of program delivery and decision

making; (4) support the internal and external reporting requirements, including financial statement requirements; and (5) monitor the financial management system.

While Forest Service has made improvements by implementing FFIS an SGL compliance system, actions are still needed to comply with FFMIA. Subsystems, such as INFRA were not fully interfaced with FFIS. Forest Service should make improvements in FFIS to comply JFMIP's Core System Requirements in the general ledger, funds control, payment control, receipt collection and recording, cost measurement and financial reporting.

Our audit found instances where FFIS improved Forest Service's financial management and other areas that still need action to comply with FFMIA that include:

Core Financial Management

FFIS provides capability for Forest Service to classify accounting transactions by fund, program organization, project, activity and cost center. FFIS has a coding structure for processing and classifying accounting transactions into four major groups that include standard single line, project, property and deposit codes. The Job Code structure ensures consistent posting of accounting transactions across Forest Service. Once a Forest Service field unit uses a job code, it may not be used again.

The standard single job code is used to capture most of Forest Service's activities. Unlike the previous CAS, this limits field units ability to distribute accounting transaction to more than one job code and provides better funds control. In CAS, Forest Service employees had the ability to add and change management codes as well as allocated costs posted to these management codes. While some exceptions exist, for the project, property, and deposit groupings, field units must limit and justify the use of more than one job code for a single accounting transaction.

General Ledger

FFIS has a common posting process that automatically posts transactions to all journals and the Forest Service general ledger. In converting from CAS to FFIS, Forest Service put into operation a system that was capable of producing reports in compliance with the U.S. SGL. However, for the most part, Forest Service was not able to depend on the general ledger trial balances to generate the FY 2000 financial statements. Forest Service made adjustments to the general ledger trial balances so that FFIS would agree with U.S. Treasury records. Also, Forest Service's real property balances came from INFRA, a real property subsystem not interfaced with FFIS for FY 2000.

Additionally, our audit of the U.S. Department of Agriculture Consolidated Financial Statements reported the FFIS general ledger contains erroneous information that causes discrepancies with Treasury Records. These errors were caused by inadequate

internal controls that allowed erroneous and/or incomplete data into the FFIS general ledger and posting models problems. Also, in September 2000, our Audit of USDA's Consolidated Financial Statements found that payroll tax withholding posting model was still erroneously posting to a Standard Form 224, "Statement of Transactions", collection cash account and a Travel System posting model remained uncorrected. We found that errors corrected by posting models had not been corrected in FFIS.

Funds Control (Fund Management)

FFIS uses a budget and funds control that establishes a unique budget structure for individual appropriation. The function automatically checks available funds to prohibit overspending when needed and it adjusts budget ceilings throughout the year. Also, the budget and funds control function allows Forest Service to view the current status of all funds. These functions were not effectively used during the FY 2000 fire season. During the Fire Season, field units and fire crews were obligating and expending millions of dollars each month and not timely recording the Obligations and Expenses. The WO could not rely on FFIS to provide timely, accurate, or reliable information to adequately monitor and control the firefighting budget. As a result, as of September 30, 2000, Forest Service had an Antideficiency Act violation in its wildland fire management appropriation of over \$274 million.

Payment Control (Payment Management)

FFIS allows Forest Service users to record, classify, and report financial information related to the order, receipt, and payment of goods and services. The system maintains payee information that includes data for Obligations, Accounts Payable and disbursements process. However, Forest Service field units did not obtain monthly reports from FFIS that allow them to verify the validity of their Obligations and Accounts Payable. During our field-testing, we identified Obligations and Accounts Payable, recorded in FFIS, that were not valid payable at fiscal yearend.

Receipt Collection and Recording (Receipts Management)

FFIS Accounts Receivable module supports Forest Service billing and collection needs. The module records and tracks billings as well cash receipts. Forest Service manages its Accounts Receivable through additional systems that feed FFIS general ledger that include the Special Uses Data Base System, (INFRA – SUDS), Range Management Information System (INFRA – Range) and the Timber Sale Accounting System (ATSA). In addition, the Accounts Receivable module records, calculates and posts administrative charges and penalty charges for overdue receivables; and select receivables for write – offs or referral to collection agencies.

FFIS has detailed information by account; but audit trails and support for billing and research activities is still inadequate. Forest Service field units did not obtain monthly listings to verify the accuracy and validity of their Accounts Receivable. Our fieldwork

disclosed amounts reported as Accounts Receivable even though they were not valid yearend receivables, and duplicate postings of Accounts Receivable, as well as other problems. In addition, Forest Service did not have a systematic methodology that aged non-federal Accounts Receivable to compute its Allowance for Doubtful Accounts (bad debts).

Cost Measurement (Cost Controls)

FFIS allows Forest Service to use its agency accounting system to identify information, such as funds and projects, to support the cost accumulation and assignment processes. However, the FFIS Project Cost Accounting System (PCAS) was not fully implemented to track and bill reimbursable and cooperative work performed for external customers as authorized by reimbursable and advance collection agreements. Forest Service units did not use PCAS for processing expenses, billings, and collections for 22 of 36 reimbursable or cooperative agreements reviewed. Consequently, the matching of costs and revenues, billings of receivables, and liquidations of advance collections were not properly recognized in the general ledger and FY 2000 financial statements.

This occurred because the WO gave units the option of not using PCAS and unit personnel lacked specific training on how to set up agreements in the system and/or process billing and advance liquidation documents.

The financial management systems policy stated in OMB Circular A-127 requires establishment of a single integrated financial management system. Further, the JFMIP Framework for Federal Financial Management Systems discusses the importance of training:

Quality training is key to successful implementation and ongoing operation of a financial management system.

Reporting

FFIS allows information to be queried for specific detailed data and have this data understood by non-technical users. However, for the FY 2000 financial statements, FFIS did not have financial data that could be traced directly to SGL accounts to produce financial reports. Forest Service made substantial changes to FFIS total balances to adjust to U.S. Treasury records for the FY 2000 Financial Statements. To arrive at \$5.19 billion in Obligations Incurred, and \$1.43 billion in Obligated Balance-Net of End Period, reported on the Statement of Budgetary Resources, Forest Service made 149 adjustments totaling \$1.25 billion for Obligations Incurred and 119 adjustments totaling \$742.5 million for Obligated Balance – Net End of Period. Forest Service did not thoroughly research the reasons for the differences in the general ledger and Treasury records.

Even though FFIS allows Forest Service to produce formatted reports that can be tailored to the specific requirements of various users, the capability to generate reports was not used effectively. To be more helpful to field units and improve financial management, Forest Service should develop and utilize monthly reports that list their Unpaid Obligations, Accounts Receivable and Accounts Payable.

RECOMMENDATION NO. 4

Train field units to obtain monthly reports from FFIS and ensure personnel verify the validity of their outstanding Obligations, Accounts Receivable, and Accounts Payable.

V. FOREST SERVICE SHOULD CONTINUE TO WORK TO EFFECTIVELY IMPLEMENT GPRA

FINDING NO. 5

In our Audit of the Implementation of the Government Performance and Results Act in the Forest Service Fiscal Year 1999, dated June 28, 2000 (OIG Report No: 08-001-0001-HQ), we reported that Forest Service had not

effectively implemented the Government Performance and Results Act (GPRA) of 1993. The FY 1999 Annual Performance Report was based on flawed data and assumptions and did not accurately reflect Forest Service's performance or progress toward its goals and objectives. We found errors and omissions occurred because performance reporting was not incorporated into the Forest Service's business practices and because field level employees did not understand the need or value of performance reporting.

In addition, we found that internal controls over performance reporting were inadequate as designed and implemented. Forest Service had no effective system to review and correct improper reporting. The minimal reviews processes did not directly address performance and were not effective in obtaining compliance with national office directions.

We made six recommendations to Forest Service:

1. Develop and implement a process, which ensures the collection and reporting of accurate, complete and meaningful performance data.
2. Require field unit managers to attest to the accuracy of reported accomplishments in written certifications.
3. Ensure that the strategy includes a set of effective internal controls, to include a strategic management review, program level review, and controls to test the reasonableness of reported data.
4. Continue the process of establishing, publishing, and ensuring adequate written guidance defining each performance measure and setting forth the documentation needed to support accomplishments.
5. Report the lack on an effective system of internal controls over performance reporting as a material weakness in the FY 2000 FMFIA submission of Forest Service.

6. Ensure that the FY 2000 Annual Performance Report does not provide inaccurate or meaningless performance data.

In its September 19, 2000, response, Forest Service agreed with our recommendations and proposed planned corrective actions and timeframes in which they would be implemented.

Although Forest Service had planned to develop and implement a strategy to ensure the collection and reporting of accurate, complete, and meaningful performance data, and require field units to attest, through written certifications, to the accuracy of reported accomplishments by September 1, 2000, they stated that they were unable to achieve the corrective actions by the planned date because of budget constraints and other priorities. Agency officials stated that they had developed a comprehensive strategy to collect and report accurate, complete, and meaningful performance measures but had not fully implemented procedures. Forest Service was in the process of preparing a draft report that outlines actions it will take to ensure accurate collecting and reporting of performance data, but as of our audit, Forest Service senior management had not approved the draft report and did not expect to issue final report until March 31, 2001.

Forest Service had planned, by October 1, 1999, to have an automated process that would facilitate the collection of data by field units to compare against Forest Service's established performance measures. However, Forest Service personnel said this automated process would not be operational until March 31, 2001. Additionally, Forest Service did not require regional foresters, forest supervisors, area and station directors to attest to the accuracy of their accomplishments as related to its performance measures in FY 2000. Forest Service WO officials told us that they would not require Forest Service managers to certify to their accomplishments until the automated process to collect performance data has been placed in operation.

In USDA's FY 2000 FMFIA report, Forest Service reported that it currently lacks effective internal controls over the quality of data included in its performance accomplishment report under GPRA. The agency reported that it had "invested in new technology to improve upward reporting by line officers in the field" during FY 2000, and reported the following milestones and completion dates.

- Planned for FY 2001:

Utilize the new reporting system for FY 2000 end of year reporting for the purpose of assigning, adjusting, and reporting performance data in FY 2001 (4TH Qtr).

Revise current performance measures to make them more meaningful to line officers and program managers at all levels of the organization (4th Qtr).

Revise definitions, develop standards and guidance for data reporting, and implement field reviews to ensure effective internal controls over the data reported for accomplishment reporting purposes (4th Qtr).

- Planned for FY 2002:

Implement new set of performance measures (1st Qtr).

- Planned for FY 2003:

Use new measures as a tool to assess and report on agency performance (4th Qtr).

Because Forest Service is currently working to correct deficiencies in its performance reporting for GPRA, we are not making further recommendations.

We considered these material instances of noncompliance in forming our opinion on whether the FY 2000 Principal Financial Statements of USDA are presented fairly, in all material respects, and this report does not modify the disclaimer of opinion expressed in our report, dated May 7, 2001.

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

/s/

ROGER C. VIADERO
Inspector General

April 27, 2001

ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
AB	Advanced Billing
AICPA	American Institute of Certified Public Accountants
CAS	Central Accounting System
CFO	Chief Financial Officers Act
EMIS	Equipment Management Information Systems
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FFIS	Foundation Financial Information System
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers Financial Integrity Act
FY	Fiscal Year
GAO	General Accounting Office
GPRA	Government Performance and Results Act
HMS	Hardware Management Systems
JFMIP	Joint Financial Management Improvement Program
NFC	National Finance Center
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PCAS	Project Cost Accounting System
PMO	Project Management Officer
PROP	Personal Property Management System
USDA	United States Department of Agriculture
WO	Washington Office

**USDA Forest Service
FY2000 Financial Statements
And
Management's Discussion and Analysis**

Wednesday, May 2, 2001

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Message from The Chief

Fiscal year 2000 (FY 2000) has been an exciting year. We responded to an unusually severe fire season while making giant gains in a quest that is vitally important to the Forest Service: restoring an environment of trust with our stakeholders. In a measure of that trust, Congress raised our FY 2001 budget to \$4.4 billion, a 47 percent increase that includes \$1.1 billion to help meet our responsibility for reducing the risk of wildland fires nationwide.

I am proud to report our accomplishments and to reconfirm our agenda for the future—conserving our natural resources for generations to come. Today, our first and highest priority is living within the limits of the land. Sustainability should be our guiding star. We can fulfill our mission of serving the American people only if we first care for the land on the basis of a sound land ethic.



In FY 2000, we accomplished many things. Here are just a few highlights:

- At the President's request, we developed a National Fire Policy and action plan to protect communities and restore ecological processes in fire-dependent ecosystems.
- After a 10-year effort, we published a new forest planning rule to make ecological sustainability the guiding principle for managing our national forests and grasslands.
- We completed business plans for 15 large-scale watershed restoration projects and prepared more than 40 Burned Area Rehabilitation Plans. Our watershed projects will help sustain flows of pure, clean water nationwide, a priority for the American people.
- We launched a new Recreation Agenda to meet the Nation's growing need for outdoor recreation in a manner that protects the health, diversity, and productivity of the land.
- We released a new Roads rule to focus on maintaining and restoring the Forest Service's 381,000 miles of roads. We also published a final environmental impact statement for a new rule governing roadless areas. The new rule will protect up to 58 million acres.
- We worked with Congress to stabilize payments to States for schools and roads while removing a perverse incentive to degrade the land. This was the first major change to legislation tying timber receipts to local schools and roads since 1911.
- We completed conversion to, and fully operated under, a new accounting system that complies with the standard general ledger.

We accomplished many objectives in FY 2000 through the dedication and hard work of all Forest Service personnel and our partners. In FY 2001, we look forward to working as one team toward our mission, "Caring for the Land and Serving the People."

/s/ Mike Dombeck
MIKE DOMBECK
Chief

Message from the Chief Financial Officer

I am pleased to present the US Department of Agriculture Forest Service's Fiscal Year (FY) 2000 Financial Statements prepared in accordance with the Chief Financial Officers Act, Office of Management and Budget guidelines and Federal Accounting Standards.

The Chief Financial Officer (CFO) has the lead for improving financial accountability in the Forest Service. Our overall measure of how we improve financial management to achieve fiscal accountability is our ability to receive and maintain a clean audit opinion on our annual financial statements. In FY 2000, we focused financial improvement efforts to address the four goals underlying the Office of Finance's strategic plan.



The four goals of the strategic plan are: 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

Implementing the Foundation Financial Information System (FFIS): FFIS, a new integrated, standard general ledger compliant accounting system was successfully implemented on October 1, 1999 and has been stabilized, operated, and maintained. Additionally, no problems were encountered after a successful Y2K system transition.

Deliver Quality Results: Resource performance measures that link to mission-related outcomes, the strategic plan, and financial information were developed. Our country's leaders can now evaluate budget proposals based on performance as required by the Government Performance and Results Act. Concurrently, Congress approved a significant realignment of funds between budget line items, and the Agency implemented the Primary Purpose Principle and the standard definition for indirect costs which were developed last year.

Progress toward a Clean Audit Opinion: Substantial progress has been made towards achieving a clean audit opinion. A costing methodology for roads, trails, and bridges constructed prior to FY 1995, was developed and implemented in collaboration with the Office of Inspector General, Forest Service field units, and engineers. This assures an accurate and complete inventory/valuation of real and personal property. A financial performance measurement system was developed. The system is designed to measure progress on obtaining and maintaining a clean audit opinion, how well financial operations are being conducted, and how FFIS, the new accounting system, is functioning. With these measures, we will be able to focus our resources so that significant improvements may be made in areas that will keep us on track toward financial credibility.

Although I am very proud of the progress and success presented in this report, there are many more initiatives to accomplish. The Forest Service will continue to provide sound management of the resources entrusted to our care, 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

As the lead Federal agency in natural resource conservation, the USDA Forest Service protects and manages the use of the Nation's forest, rangeland, and aquatic ecosystems. Our management approach integrates ecological, economic, and social factors to maintain and enhance the quality of the environment.

This approach helps us meet our primary goals of Ecosystem Health, Multiple Benefits for People, Scientific and Technical Assistance, and Public Service.

Our Mission

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

Our commitment to land stewardship and public service is the framework within which we manage natural resources. Implicit in this statement is our collaboration with partners and the public.

The Forest Service restores and maintains species diversity and ecological productivity. Through land and resource management plans, we help ensure sustainable ecosystems. This provides recreation, water, timber, minerals, fish, wildlife, wilderness, and aesthetic values for current and future generations.

Through technical and financial assistance, we:

- Help state and private landowners practice good stewardship
- Promote rural economic development
- Improve the natural environment of cities and communities

We continue to develop and use the best available scientific information to achieve our goals and objectives. Domestic and international activities develop values, products, and services that benefit the people and maintain ecosystem health.

Significant Accomplishments

As stewards of America's national forests, we have made many major accomplishments in this past year. During FY 2000, the Forest Service:

- **Extinguished over 75,000 fires.** This is the largest number of fires we have had in the last 10 years. Our initial attack efforts prevented many from becoming large wildfires threatening communities, state and private lands, and National Forest System lands. We developed the President's Report on Fire and the Cohesive Fire Strategy to protect communities and restore ecological processes on millions of acres of fire dependent ecosystems.
- **Developed the draft environmental impact statement** for the Sierra Nevada project to conserve and restore 11.5 million acres of old growth and late successional

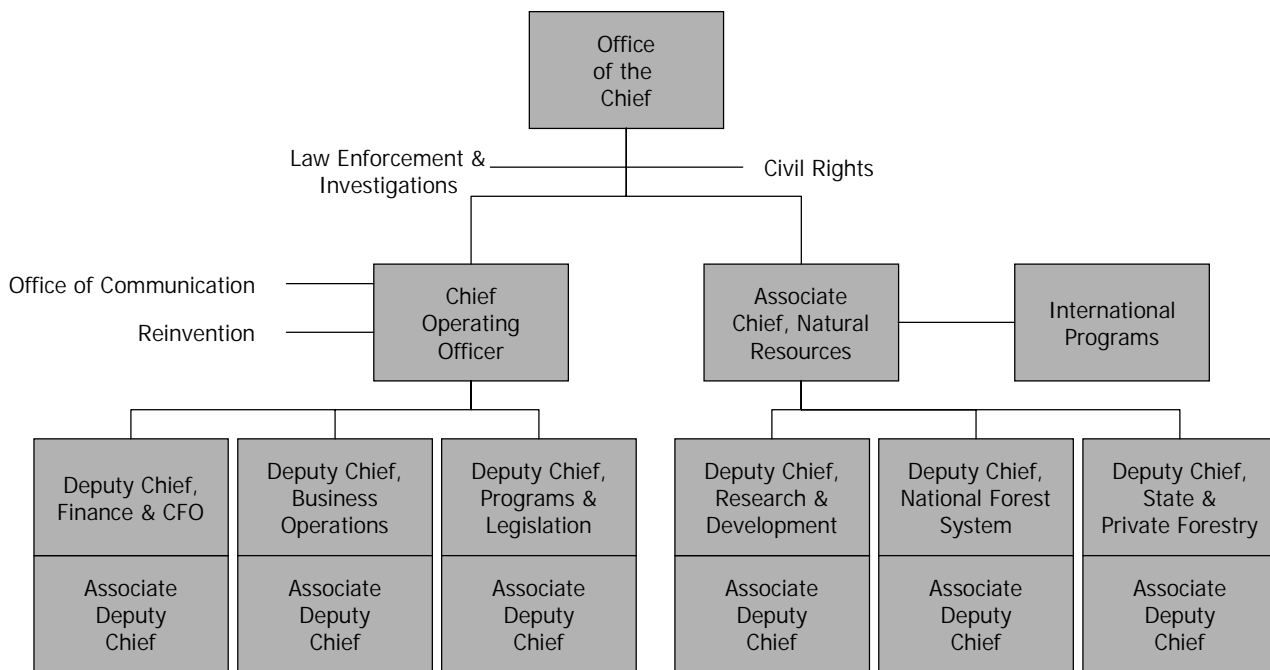
forest, habitat for threatened and endangered species, and essential water supplies in the Sierra Nevadas. We also began restoration of 15 large watersheds with a total of \$24 million dollars. Contributions from private partners helped leverage these funds.

- **Published the Forest Planning rule.** This ensured that ecological sustainability is the guiding principle for 192 million acres of national forests and grasslands management. It also developed the Roads rule that changed the focus from construction and development to conservation, maintenance, and restoration of the Forest Service's roads system.
- In the area of civil rights, we **resolved 94 percent of grievances** from a backlog that had accumulated over many years. We also resolved long-standing civil rights issues with the Mississippi Forestry Commission and signed a memorandum of understanding to work together in the future. In FY 2000, our Executive Committee, Management Committee, and the National Leadership Team were diversified to be more ethnically diverse than anytime in the history of the Forest Service.
- **Published the final environmental impact statement** for the Roadless Rule providing protection for up to 58 million acres. These areas represent some of the last, best, unprotected wildland anywhere in our nation. The condition of inventoried roadless areas influences ecosystem health. The condition impacts water quality, affects habitat for wildlife species that require large, relatively undisturbed areas, can increase the risk of damage from wildfire, insect and disease infestations, and affects the spread of non-native, noxious weeds.
- In the area of financial management and budget, we **significantly improved financial accountability** through implementing the Foundation Financial Information System (FFIS), Primary Purpose Principle, and performing a real property inventory. We streamlined the budget structure from 34 line items to 13 line items in the National Forest System and Construction appropriations (a 62 percent reduction), providing for more budget flexibility, efficiency and accuracy. We worked with Congress to pass Payments to States legislation to stabilize payments to states for school and road improvements while removing the perverse incentive that historically resulted in 25 percent of all timber receipts being used for local schools and roads. This is the first major change to the Payments to States legislation since 1911.

Our 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.

The organizational structure seen on the next page aligns responsibilities with deputy areas, with other offices reporting to the Chief. Each deputy area and office plays an integral part in the management and maintenance of the Nation's forests 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.

State and Private Forestry programs are critical to the sustainability of America’s forestlands. They 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.

Through research and development of forestry and range management practices, we provide scientific and technical knowledge to enhance and protect the economic productivity and environmental quality of the Nation’s 1.6 billion acres of forests and associated ranges.

Through International Programs, the Forest Service seeks to advance global conservation efforts and cooperation with other countries ultimately leading to a more sustainable global forest resource.

Programs and Legislation provides corporate services to the Forest Service. Key components of Programs and Legislation include strategic planning, resource assessment, legislative affairs, policy analysis, and coordination and completion of controlled correspondence for the agency.

Business Operations provides leadership and customer service in the delivery of our programs. This area is accountable for Information Resource Management, Human Resource Management, Acquisition Management, our Early Intervention Program, and our Senior, Youth, and Volunteer programs.

The Office of Communication provides corporate services to the Forest Service. Key components of the Office of Communication include policy, planning, and liaison, executive services, corporate communication, media relations and customer service.

Law enforcement is essential to the management of National Forest System lands. This role is emphasized through the three primary program areas: Enforcement Activities, Investigative Activities, and Cooperative Law Enforcement.

The purpose of the Civil Rights area is to ensure that no person is denied participation in or benefits of Forest Service programs or employment because of race, color, sex (including sexual harassment), religion, age (if over 40), national origin, disability, marital status, or sexual orientation.

The purpose of the Office of Finance is to provide financial management leadership, deliver quality, cost-effective customer service; work with Human Resources and Civil Rights to cultivate a skilled, diverse, financial management oriented workforce; and deliver state-of-the-art financial systems.

Planning for the Future

The national forests and grasslands comprise about 192 million acres of public land. Some of these lands are available for recreation; habitat for hundreds of species of fish, wildlife, and plants; spiritual renewal for families; and environmentally responsible economic opportunities. The land is the source of many opportunities that strengthen this Nation.

Through care and stewardship of national forests and grasslands, we care for the land. Through cutting edge research programs, we promote conservation and recycling. Through new technologies, we support ecologically sustainable development. Through our State and Private Forestry programs we help deliver the benefits of conservation to hundreds of communities and States across the Nation.

Through the incorporation of results based performance measures, the FY 2000 Revised Strategic Plan, that will be implemented in FY2001, focuses on outcomes and results that will be achieved over a period of time. The Strategic Plan's goals and objectives set the framework for implementing actions that are guided by the Natural Resource Agenda and the Forest Plans. Through Performance Plans and Budget Requests, performance is linked to the Strategic Plan and the Natural Resource Agenda. The result is improved credibility of the information we provide to Congress and the American people, as well as improved performance accountability.

Strategic Plan

We have significant authority and responsibility for stewardship of the Nation's forest and grassland resources. The goals and objectives of our Strategic Plan (2000 Revision) will guide future agency actions. The development of the 2000 Revision includes consideration of science-based information from recent resource assessments, ideas and suggestions from the public, and other information.

The four goals of the 2000 Revision address ecosystem health, multiple benefits for people, scientific and technical assistance, and effective public service. Associated with each goal are objectives, strategies to achieve objectives, and measures of progress. We developed 18 performance measures to support our goals and are developing an annual performance plan that links to the measures. Collectively, these components of the strategic plan provide purpose and context for evaluating progress toward the goals.

The 2000 Revision focuses on outcomes and results to be achieved over a period of time. These outcomes will be achieved by managing the lands and resources of the National Forest System, delivering technical assistance through State and Private Forestry programs, making use of scientific information from Research and Development programs, and improving the management of, and accountability for, these activities.

This focus on outcomes – or long-term results, such as the health of the land, the quality of water, and customer satisfaction – represents an important change in focus for the USDA Forest Service.

Separately, annual performance plans will address specific management actions and investments needed to ensure progress toward the goals and objectives of the strategic plan. Annual performance plans will reflect local needs identified in resource management plans for the national forests and grasslands as well as plans for research, and assistance to Tribal governments, States, and communities. Annual budget proposals will seek the funding needed to deliver the annual actions and investments.

We are committed to providing the best possible stewardship, which will benefit current and future generations of the American people. The realities of diverse interests, finite budgets, and environmental considerations will each influence the choices to be made in the management of forest and grassland resources. Delivering on this commitment requires understanding of the public's interests through direct discussions and collaboration; financial support through congressional appropriations, volunteers, partners, and user fees; development and use of scientific information; and broad support for the Agency's long-term goals and objectives.

Natural Resource Agenda

What follows is our vision for managing the 192 million acres of national forests and grasslands. Maintaining and restoring the health, diversity, and productivity of the land is an awesome responsibility one that we implement by working in a collaborative manner with all who use and care about forests and grasslands.

On March 2, 1998, we unveiled our Natural Resource Agenda for the 21st century. This vision ties to our Strategic Plan, as revised for FY 2000. Our programs, natural resource agenda, and strategic plan emphasize four areas of concentration that align with our mission.

Watershed Health and Restoration

Watersheds are vital to ecosystem health. They absorb rain and recharge underground aquifers. They serve as habitat for thousands of species of fish, wildlife, and rare plants. Watersheds dissipate floods across floodplains, increase soil fertility, and minimize damage to lives, property, and streams. Clean water that flows from watersheds is consumed, helps produce food, develops agriculture, creates jobs, generates power, and provides recreational opportunities.

Most watersheds are healthy; however, they are deteriorating at alarming rates. The following goals are aimed at restoring watershed health:

- Increase watershed improvements
- Increase aquatic and terrestrial habitat restoration

- Improve the conservation of threatened, endangered, and sensitive species
- Reduce the risk of catastrophic fire by increasing hazardous fuel treatments
- Improve efforts to prevent non-native, invasive species from entering or spreading in the United States

Sustainable Forest Ecosystem Management

Sustainable forest ecosystem management connects the health of the land to people and communities. Forest tract sizes are becoming smaller and more fragmented causing diminished wildlife habitat, reduced access, and degraded water quality. The United States cannot sustain its forests without working in a cooperative manner with private landowners. We must share our expertise with all landowners, learning from each other as we consider our common long-term objectives:

- Develop policies that encourage long-term investments in forests and discourage conversion to other uses
- Increase the number of non-industrial private forest landowners completing long-term forest stewardship plans
- Expand the role of research and development
- Increase cooperative fire assistance

National Forest Roads

Few marks that we leave on the land are more lasting than the roads we build and few natural resource issues in recent years have attracted as much public scrutiny as the management of the forest road system. Though less costly to build and maintain than most public highways, forest roads can have adverse impacts on watersheds, especially if they are poorly maintained. Yet roads are needed for the goods and services that Americans expect from their national forests. Forest management requires careful consideration before deciding to build new roads. The following actions are focused at national forest road issues:

- Implement the new, long-term forest road policies
- Develop and use new scientific tools and analytical procedures to develop forest roads
- Increase maintenance and capital improvements for existing roads, while reducing the number of unneeded roads

Recreation

Recreation in our national forests benefits our Nation. It is the window through which most Americans experience their wildland heritage and learn about the land. Recreation plays a large and expanding role in the economy. We must meet the Nation's growing need for outdoor recreation in a manner that protects the health, diversity, and productivity of the land.

The following goals aim to improve and increase recreational opportunities:

- Increase opportunities for, and satisfaction with, outdoor recreation activities

- Maintain and improve trails and developed recreation facilities

FY 2001 President's Budget: Revised Budget Structure

In the FY 2001 President's Budget request, we presented a simplified budget structure for the National Forest System. We developed the revised structure with participation from GAO and congressional staff. In addition, as recommended by the National Academy for Public Administration (NAPA) in August 1999, we revamped the method and format used to justify the FY 2001 President's Budget. For the first time in Forest Service history, we proposed that Congress appropriate funding based on performance rather than evaluate our budget solely on the money spent.

The key component of the new budget structure for the Forest Service is to reduce the number of budget line items for the National Forest System from the existing 13 to 3 (Ecosystem Assessment and Planning; Ecosystem Conservation; and Public Services and Uses). The new structure:

- Reflects on-the ground accomplishments to meet our mission of caring for the land and serving people
- Links on-the-ground performance to implementation of the strategic plan and the Natural Resource Agenda
- Supports integrated work necessary to restore and maintain land health while at the same time promoting ecological sustainability and community livability
- Begins to link the strategic plan and budget to long-term measurements of land health and water quality

The NAPA report recognized that a simplified budget structure is critical to achieving accountability. The new budget structure provides the flexibility that is required if the Forest Service is to be held to current accounting standards.

The FY 2001 President's budget includes comparisons between the new and old budget structures.

As part of the FY 2001 appropriations process, neither the House of Representatives nor the Senate fully supported our approach to changing the budget structure. With a few minor exceptions, rather than reduce the number of budget line items, bill report language in both the House and Senate generally keeps the current budget line items, but eliminates the expanded budget line items.

Funding

The Forest Service receives funds from Federal appropriations and trust funds. The tables that follow present detail and summary level information regarding our appropriations for the last three years.

U.S. Forest Service
Summary of Appropriations (\$ in Thousands)

Discretionary Appropriations

Programs	FY 1998 Final	FY 1999 Final (Note 5)	FY 2000 Final
Forest and Rangeland Research			
Total	187,797	197,444	202,510
State, Private, and International Forestry			
Forest Health Management	73,597	55,035	60,632
Cooperative Fire Protection	0	23,510	27,983
Cooperative Forestry	87,580	92,687	113,730
Supplemental	48,000	0	0
Title VI—Lands Legacy	0	0	5,000
Total	209,177	171,232	207,345
International Forestry (Note 1)			
Total	{3,500}	{3,500}	{3,500}
National Forest System			
Land Management Planning	36,174	40,000	39,738
Inventory and Monitoring	91,931	80,714	87,771
Recreation Use	218,260	187,587	197,562
Wildlife and Fisheries Habitat Management	96,768	100,376	108,211
Rangeland Management	45,315	57,050	58,446
Forestland Management	274,580	285,200	285,954
Soil, Water, and Air Management	51,196	56,097	63,363
Minerals and Geology Management	36,000	37,050	36,956
Landownership Management	61,987	61,139	62,609
Infrastructure Management	109,216	0	0
Law Enforcement Operations	63,967	66,288	66,847
General Administration	261,888	255,264	248,362
Supplemental	10,461	0	5,365
Total (Note 2)	1,357,743	1,226,765	1,261,184
Wildland Fire Management			
Preparedness	319,167	324,876	359,840
Fire Operations	265,392	237,300	200,687
Emergency Contingent Appropriations (Note 3)	{250,000}	102,000	{90,000}
Supplemental	2,000	0	300
Total	586,559	664,176	560,827
Reconstruction and Maintenance			
Reconstruction and Construction	166,015	197,468	209,289
Maintenance	0	170,553	186,306
Supplemental	0	5,611	1,299
Total	166,015	373,632	396,894
Land Acquisition—Land and Water Conservation Fund			
Acquisition Management	7,500	8,000	8,492
Land Purchase	45,476	109,918	71,010
Title V—Priority Land Acquisitions (Note 4)	167,000	0	0
Title VI—Lands Legacy	0	0	76,000
Total	219,976	117,918	155,502
Other Appropriations			
Land Acquisition, National Forests	1,069	1,069	1,069
Land Acquisition, Exchanges	210	210	210
Range Betterment Fund	3,811	3,300	3,300
Gifts, Donations, and Bequests	92	92	92
Alaska Economic Assistance Fund	0	0	22,000
Alaska Subsistence Uses	0	3,000	0
Total	5,182	7,671	26,671
Discretionary Appropriations			
Total	2,732,449	2,758,838	2,810,933

U.S. Forest Service
Summary of Appropriations (\$ in Thousands)

Mandatory Appropriations

Programs	FY 1998 Final	FY 1999 Final (Note 5)	FY 2000 Final
Permanent Appropriations—Working Funds			
Brush Disposal	23,340	17,276	20,820
Licensee Programs—Smokey Bear, Woodsy Owl	121	0	121
Restoration of Forestlands and Improvements	600	31,703	6,610
Recreation Fee Collection Costs	1,800	564	1,100
Recreation Fee Demonstration Program	17,979	19,764	26,000
Timber Roads—Purchaser Election Program	6,499	1,951	5,945
Timber Salvage Sales	150,632	124,253	119,197
Timber Sales Pipeline Restoration Fund	0	4,099	6,160
Roads and Trails for States—10 Percent Fund	50,052	32,502	34,769
Midewin National Tallgrass Prairie	1,005	350	1,100
Land between the Lakes Management Fund	0	0	3,500
Operation and Maintenance of Quarters	8,181	6,641	7,434
Total	260,209	239,103	232,756
Permanent Appropriations—Payment Funds			
Payment to Minnesota	1,267	1,267	1,267
Payments to Counties—National Grasslands Fund	6,093	4,794	6,016
Payments to States—National Forest Fund	118,176	103,001	113,059
Payments to States—Northern Spotted Owl Guarantee	124,767	124,767	114,512
Total	250,303	233,829	234,854
Cooperative Work—Trust Funds			
Knutson-Vandenburg Trust Fund	189,639	136,293	156,626
Other Cooperative Work	42,246	45,445	40,814
Land between the Lakes Trust Fund	0	0	1,000
Reforestation Trust Fund	30,000	30,259	30,000
Total	261,885	211,997	228,440
Mandatory Appropriations			
Total	772,397	684,929	696,050
All Regular Forest Service Programs			
Grand Total	3,504,846	3,443,767	3,506,983
Total Appropriations			
Programs	FY 1998 Final	FY 1999 Final	FY 2000 Final
Discretionary	2,732,449	2,758,838	2,810,933
Mandatory	772,397	684,929	696,050
Total	3,504,846	3,443,767	3,506,983

Note 1: International Forestry is Funded by the NFS Appropriation. The amount listed is not additive, but is part of the NFS line below.

Note 2: FY 1998 figure adjusted for rounding.

Note 3: Contingent Appropriations for FY 1998 and FY 2000 are not additive.

Note 4: The FY 1998 Title V Priority Land Exchanges were displayed in the FY 1999 Financial Statements as a non-additive figure. In the FY 2000 Financial Statements, it is displayed as an additive figure and Title V Priority Land Exchanges are now considered as part of the regular Forest Service program.

Note 5: The FY 1999 column from the FY 1999 and FY 2000 financial statements do not match because the FY 1999 financial statement display did not include final budget data.

Funding Accomplishments

GPRA directs Federal agencies to incorporate performance management into the way we conduct business:

- Affirm the Agency's mission
- Establish definitive goals and quantitatively measuring performance

Agencies must be:

- Accountable for results
- Able to articulate outcomes
- Measure progress against those outcomes

Our immediate priorities are to maintain and restore the health of the land. While active management for a variety of goods and services remains an important use of the NFS, we must conduct it within the land's sustainable capacity. We are implementing natural resource programs in tandem with our diverse partners in a manner that recognizes the diversity of the public served. We are committed to having a highly skilled multicultural workforce to deliver these programs.

Our Strategic and Performance Plans used a common set of goals and objectives to focus priorities for the next five years. Annual performance plans constitute the basic management tool to direct resources and 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.

Goals and Objectives

Goal 1: Ecosystem Health	FY 2000	FY 1999	FY 1998
Stream miles restored or enhanced (appropriated):	1,477.4	2,193.5	1,843.0
Stream miles restored or enhanced (KV):*	135.4	147.4	344.3
Lake acres restored or enhanced (appropriated):	18,069.5	16,346.0	9,671.5
Lake acres restored or enhanced (KV):*	557.0	682.0	1,417.8
Soil & water resource improvements (appropriated):	29,898.8	35,561.9	38,496.5
Soil & water resource improvements (KV):*	2,891.0	2,546.9	18,153.4
Reforestation (appropriated & KV):	217,125.0	267,013.0	287,905.0
Timber stand improvements (appropriated & KV):	223,634.0	262,786.0	296,951.0
Hazardous fuels reduction (appropriated & brush disposal funds):	865,834.0	1,521,177.0	1,604,796.0
Noxious weed treatment (appropriated):	121,946.4	86,999.8	74,443.5
Noxious weed treatment (KV):*	19,422.3	13,895.4	36,501.7
Nonstructural range improvements completed (appropriated):	24,276.0	28,123.0	23,817.0
Nonstructural range improvements completed (KV):*	2,239.0	6,440.0	8,641.0
Terrestrial wildlife habitat restored or enhanced (appropriated):	132,579.7	184,527.0	167,217.0
Terrestrial wildlife habitat restored or enhanced (KV):*	78,172.0	120,042.0	122,688.8
Goal 2: Multiple Benefits to People			
Number of grazing allotments administered to standard (appropriated):	3,695.1	4,235.0	4,113.0
Acres of land ownership adjustment excluding exchanges (appropriated):	139,445.1	151,438.2	97,045.5
Acres of land exchange fee (appropriated):	75,295.5	180,013.0	69,938.0
Miles of road decommissioned (appropriated):	1,817.1	2,762.2	1,412.7
Miles of road decommissioned (KV):*	163.2	177.7	0.0
No. of mineral operations processed (energy/non-energy)(appropriated):	11,171.0	12,247.0	14,000.0
Timber Volume offered million cubic feet (New):	222.4	298.5	402.2
Timber Volume offered million cubic feet (salvage):	99.7	138.1	243.6
Goal 3: Scientific and Technical Assistance			
No. of research products, tools, and technologies transferred to users:	6,719.0	5,715.0	N/A
Goal 4: Effective Public Service			
No. of persons served in Job Corps:	8,818	8,623	9,373
No. of persons served in Senior Community Service Employment Program:	5,410	5,221	5,484
No. of persons served in Youth Conservation Corp:	705	717	594

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

Program Highlights

National Forest System

National Forest System programs provide for the protection, management, and use of over 192 million acres of national forests and grasslands located in 44 states, Puerto Rico, and the Virgin Islands for a variety of purposes and values. Programs run the spectrum from preservation of watersheds and wildlands to intensive resource use.

Ecosystem Management

The Forest Service applies ecological approaches to manage the Nation's forests and grasslands through six very demanding and complex processes.

The six major processes are:

- The National Environmental Policy Act (NEPA), which includes environmental analyses and Environmental Impact Statements (over 15,000 documents processed per year)
- The National Forest Management Act (NFMA), which requires the development of land management plans at the forest level (127 existing Forest Service plans)
- Track and coordinate all of the agency's appeals (average 250 per year) and litigation (150 cases ongoing at any one time)
- Develop and implement ecosystem management in the field
- Develop and manage corporate data standards
- Support databases for Forest Service resource management

Ecosystem management is an interdisciplinary process that is environmentally sound, socially responsive, science-based, and 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 databases.

Strategy:

- Increase the use of NEPA and NFMA in the management of national forests and grasslands
- 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 databases for Forest Service resource information

Accomplishments:

- Completed 10,000 categorical exclusions, 5,000 environmental assessments, and 200 environmental impact statements

- Developed proposed revisions to the Forest Planning Regulations, Roadless Policy and Transportation Policy
- Fully Implemented the Natural Resource Information System (NRIS) in one Region, linking required resource data to the Agency's mission and business needs
- Reduced resource inventory cycle to 15 years
- Completed 80 Forest Monitoring & Evaluation Reports
- Conducted 130 watershed and broad-scale assessments to support Forest Plans land management revisions and project planning
- Continued to revise 36 Forest Plans.
- Completed 40 percent of all NEPA documents prepared by the Government

Recreation, Heritage, and Wilderness Resources

We will meet the Nation's present and future needs for outdoor recreation in a manner that protects the health, diversity, and productivity of the land.

NFS lands offer the single largest source of outdoor recreation opportunities in the United States and recreation is the fastest growing use on national forests and grasslands.

The Recreation, Heritage and Wilderness Resource program strives to address the needs and expectations of millions of people who use national forests while protecting the health and integrity of the land.

Strategy:

- Improve the settings for outdoor recreation
- Improve visitor satisfaction with our facilities and services
- Improve educational opportunities for the public about the values of conservation, land stewardship and responsible recreation
- Strengthen our relationships with private entities, and volunteer based and non-profit organizations
- Establish professionally managed partnerships and intergovernmental cooperative efforts

Accomplishments:

- In partnership with 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. We processed over \$27 million in total revenue and made about 600,000 reservations
- In cooperation with a multitude of partners, Recreation, Heritage and Wilderness Resources cared for 133,087 miles of hiking, biking, snowmobiling, cross-country, horse,

and off highway trails; 399 wilderness areas and 4,268 miles of Wild and Scenic Rivers; 383,000 miles of authorized roads; and 277,000 heritage sites

- Implemented Recreation Fee Demonstration Projects resulting in \$80 million in revenue for recreation resources
- Developed three focus strategies in Recreation, Heritage, and Wilderness: “The Recreation Agenda,” “Thinking Like a Mountain,” and “It’s About Time.” These long-term strategies help us keep pace with increasing recreational demands, while caring for the long-term health of the land
- Established baseline data for recreation for the first time through efforts such as the Recreation Use Study, and Meaningful Measures

Recreational Opportunities Supported by Forest Service Funds

- 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 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

Wildlife, Fish, and Rare Plants

Species and habitat conservation continues to be at the very center of our management.

The purpose of this program area is to restore, protect, and improve wildlife, fish, and rare plant habitats. Our national forests contain fish and wildlife resources that are closely associated with a high quality of life for most Americans. We continue into the new millennium developing partnerships around the programs, ending the century with about \$43 million funding leveraged to provide fish and wildlife habitat improvements. Examples of these resources follow:

- Clean water is a precious commodity for society. 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, 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 non-game species in the 44 States that contain National Forest System lands.
- Over 250 species of migratory songbirds depend on national forests and grasslands. The ecological importance of these species is difficult to overestimate.

As our population grows, national forests and grasslands become more essential to the recovery of imperiled species. Over 360 species listed as threatened or endangered depend on national forest habitats, and 2,800 other rare species depend on national forest lands. Additional ecologically and economically important populations of native plant species on national forest lands are managed to serve as genetic reservoirs awaiting future uses.

Strategy:

- Provide technical expertise and strategic advice on conservation initiatives
- Continue to implement the 10% Road and Trail fund
- Identify ecosystems that are most at risk and determine where the greatest opportunities for bio-diversity conservation exist through the 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

Accomplishments:

- Provided leadership and expertise for interagency lynx conservation
- Participated in "Partners in Flight," an international effort to conserve land-birds and their habitats before they become imperiled. We completed a strategic plan to guide Forest Service land-bird conservation

- Participated in an inter-regional interstate effort to conserve the native cutthroat trout of the interior west

Wildlife, Fish, and Rare Plant Initiatives:

- Forest bat conservation and recovery
- Invasive species management
- Imperiled ecosystem strategies
- Expanding partnership base
- North American Bird Conservation Initiative
- Wild turkey restorations
- Bison and elk management
- Quail habitat management
- Botany leadership
- Sage grouse conservation
- Sensitive species recovery
- Ute Ladies-tresses orchid
- Native fish conservation
- Goshawk conservation
- Indiana bat recovery
- Sierra Nevada Framework
- NatureWatch Leadership Project
- Prairie dog conservation
- Bighorn sheep conservation
- Black-footed ferret conservation
- Aspen management
- Southwest desert fish restoration

Watershed, Soils, and Air Management

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.

Prevention of Significant Deterioration (PSD) permits are required to protect wilderness areas from air pollution effects. The purpose of this program is to protect and improve the watershed conditions of the Nation's forests and grasslands.

Strategy:

- Accelerate the use of a priority watershed approach to protect and improve watershed conditions
- Continue to monitor air and soil quality
- Increase the expansion of Interdepartmental Abandoned Mine Lands Watershed Cleanup Initiatives
- Proceed with advances in the Burned Area Emergency Rehabilitation program
- Accelerate cooperation on riparian and wetland management
- Continue to enhance the Weather Information Management System

Accomplishments:

- Focused Clean Water Action Plan funding to protect watershed on national forests and grasslands. Completed business plans on 12 large-scale watershed restoration projects
- Formed a cooperative with the Environmental Protection Agency (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
- Completed over 40 Burn Area Emergency Rehabilitation Plans
- Participated in watershed management regarding abandoned land mines, Gila and White River, Southwest Strategy, Upper Columbia River Basin, and Regions 1 & 4 Restoration Strategy
- Reviewed PSD Permits, implemented Regional Haze Rule, and issued the Presidents 30 day report (for fire)
- Adjudicated water rights
- Prioritized watersheds
- Initiated cleanup of abandoned mines
- Conducted burned area emergency rehabilitation on 400,000 acres
- Sponsored National Wetlands Workshop Week
- For watershed improvements, we incorporated the Wyden Amendment into the Forest

Service manual for co-op agreements

- Participated on the Clean Air Act Advisory Committee
- Started the Geomorphic Description Framework
- Developed agreement with the Environmental Law Institute
- Supported enhancements to fire weather data and information network

Minerals and Geology Management

The Forest Service explores, develops and produces energy and mineral resources from NFS lands. Our minerals program seeks to foster and encourage energy and non-energy mineral activities in an environmentally acceptable manner. We aim to administer mining activities and mineral development and explore and produce energy products.

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 is 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.

Strategy:

- Continue to foster and encourage mineral development and production
- Facilitate mineral development on NFS lands leading to sustainability of economies of surrounding local communities
- Continue to explore, develop, and produce energy and minerals to generate increased revenues shared by cities and states
- Ensure that production activities are performed in an environmentally sound manner
- Ensure that ecosystem health and sustainability are guaranteed by requiring that appropriate design, mitigation, and reclamation practices are compliant with environmental protection measures

Accomplishments:

- We added \$115-125 million* to Treasury, recouped from mineral production and royalties from NFS lands. Income from these mining operations contributes to small businesses and various local rural economy tax bases

* All estimated production and dollar figures are applicable for FY 1999. FY 2000 figures will not be available until after the publication of the FY 2000 financial statements

- Participated in the Paleontology Advisory Group
- Produced a national paleontology poster for educational outreach

- Reviewed local issues dealing with rock-hounding and fossil collection on NFS lands

Mineral, Oil, and Gas Statistics:

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

Lands

The Lands and Realty Management programs help provide multiple uses on National Forest System lands. Some of the uses and activities include purchasing land to protect critical resource areas and provide recreation opportunities, ensuring that a hydro-electric project protects riparian areas, and exchanging land with private landowners to achieve desired national forest land ownership patterns that support forest land and resource goals and objectives.

Strategy:

- 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 lands through quality land records and permanent survey of boundaries
- Acquire highly valuable, sensitive, and scenic land into the NFS

Accomplishments:

- During FY 2000, 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.
- Acquired the 95,000 acre Baca Ranch (Valles Caldera) and played a key role in the enactment of accompanying legislation that created the Valles Caldera National Preserve. We also acquired over 200,000 acres of critical resource lands.
- Expect a reduction of permit costs by at least 30 percent as a result of actions of the National Special Use Re-engineering Team. We used a pending pilot program to authorize cost-recovery funding in the administration of special use authorizations. We adopted and implemented revisions for the Special Use Regulations. We also revamped

the 5409-120 Handbook on Appraisal Procedures representing current professional practices.

- A National Lands Oversight Team reviewed over 100 land exchanges resulting in improved consistency and knowledge.
- Released the automated Land Information System application for the Forest Service. This system provides basic landnet information for use by Forest Service personnel.
- Completed 130 land acquisition cases, adding 200,000 acres of highly valued and scenic land to the NFS. Completed the survey of approximately 1,000 miles of NFS boundary. Finished over \$1 billion of appraisal work for land acquisitions, exchanges, and fee schedules.

Partners in the Lands Area

- National Appraisal Foundation
- Trust for Public Lands
- The Conservation Fund
- The Nature Conservancy
- State Land Commissioners

Visible Legislative Progress in the Lands Area:

- Triangle Land Exchange Act of 1999
- Conservation and Reinvestment Act
- Land Exchange Reform Act of 2000
- Valles Caldera Preservation Act
- City of Sisters, Oregon Land Conveyance
- Chugach Alaska Natives Settlement Implementation Act of 2000
- City of Craig Land Conveyance
- Kake Tribal Corporation Land Exchange Act

Forest Management

This area aims to produce forest products and treat vegetation for ecosystem management purposes.

Mostly through the use of genetically improved seedlings, the Forest Service has reforested thousands of acres of NFS lands. Aggressive reforestation practices continue to ensure that NFS lands:

- Remain productive
- Provide for healthy ecosystems
- Sustain the production of desired forest products
- Meet other land management objectives

Timber Stand Improvement (TSI) treatments on NFS lands include timber stand release, pre-commercial thinning, pruning, and fertilization. Timber harvesting has declined over the last decade. Reforestation and TSI activity levels are also declining, as they are directly related to timber harvesting.

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. As a result, we used the regular timber and salvage sale programs to treat thousands of acres of NFS land. These sales focus on the implementation of forest plan goals and objectives, particularly the restoration and maintenance of forested ecosystems.

Strategy:

- Reforest NFS lands. This ensures 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

Accomplishments:

For FY 2000, the Forest Service continued 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.

We continue to implement the 28 stewardship contracting pilot projects authorized under Section 347 of the FY 1999 Omnibus Appropriations Act. The legislation set forth several new procedures that we are testing in connection with these pilots.

Our purpose is to determine whether any of the new procedures will enhance the Agency's ability to:

- Efficiently manage small diameter, low-value material
- Better meet the needs of local resource dependent communities

In cooperation with various local community groups, we prepared detailed business plans for the 28 National Stewardship Pilots. We also created a framework to ensure multiparty monitoring and evaluation of stewardship pilots.

Key Timber Statistics:

FY 2000 Forest Service Timber Sales

Total volume offered: 3,221,071 CCF
Total volume sold: 3,489,010 CCF
Salvage volume offered: 997,119 CCF *
* Salvage was 31% of total volume offered

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

Range Management

The Range Management program emphasis has shifted in recent years as societal needs and values have changed. Sustainability of range, healthy habitats, and 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 permit holders, other agencies, and a variety of external organizations to make the transition to range sustainability a success. The focus of Range Management is slowly shifting towards rangeland vegetation management with forage as a product of healthy ecosystems.

Strategy:

- Restore and maintain rangeland ecosystems and sustain rangeland ecosystem health
- Prevent introduction and spread of non-native invasive plants
- Protect and restore riparian areas and watersheds
- Improve and maintain structural and nonstructural improvements
- Sustain forage production for livestock and wildlife
- Maintain or improve soil stability and water quality

Accomplishments:

- Used the National Environmental Policy Act (NEPA) to help analyze and make decisions about grazing allotments and management of rangeland resources
- Participated in the Federal Interagency Committee for Management of Noxious and Exotic Weeds (FICMNEW), established by a Presidential Executive Order

Affiliations and Partnerships:

Our Range Management staff interacts with private individuals, groups, and organizations that represent a range of interests, values, and expectations for public land management. These groups include the American Farm Bureau, the Wilderness Society, the Audobon Society and the Western Governors Association.

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

Engineering

Engineering provides technical and managerial support to all programs within the Agency. We work to develop and maintain Forest Service infrastructure that is safe, functional, and durable. This includes our facilities, roadways, trails, and bridges.

Strategy:

- Continue to restore sites and maintain and develop trails and bridges
- Enhance critical roads
- Conduct watershed analyses
- Relocate problem roads and decommission roadways that are no longer used
- Perform hazardous material cleanup as needed
- Implement a national facilities initiative to aggressively deal with critical deferred maintenance needs

Accomplishments:

- Developed and published the road analysis process to evaluate transportation needs
- Collected deferred maintenance, annual maintenance, and capital improvement data
- From 1990 through 1999, decommissioned 24,107 miles of road
- Drafted a facilities business plan to assess future facility needs
- Introduced new legislative bills to sell unneeded administrative sites and retain the proceeds

State and Private Forestry

State and Private Forestry programs are critical to the sustainability of America's forestlands. They 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
- Private landowner objectives are enhanced through non-regulatory approaches and voluntary participation

Two-thirds of National Forests are not Federally owned. 75% of wildland fires occur on these lands. Innumerable animal species listed as threatened or endangered live in non-Federal forestlands. Management practices on non-Federal lands directly impact water quality and quantity, 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
- Protect riparian areas while assuring forest productivity
- Enable communities to strengthen their economic and social vitality through resource-based ventures
- Extend information and tools to diverse publics to promote sustainable resource management

Strategy:

- Deliver programs to underrepresented and socially disadvantaged groups
- Build partnerships with Federal, state, and local agencies, non-profit and for-profit organizations, and other interested parties
- Implement forest health protection programs on Federal lands and provide help and technology to private land owners

Accomplishments:

- Initiated a five-year New Century of Service project to recognize Forest Service employees, volunteers, and retirees' contributions to supporting our natural resource goals
- Strengthened Federal government to tribal government relations and pursued partnerships and exchanged information with various tribal governments
- Conducted forest health surveys and evaluations on 812 million acres. Provided national direction and field support to suppress pests in urban areas and communities
- Accelerated and expanded the development of risk maps for insect and disease mortality, wildland fire, wildland and urban interface, and threatened and endangered species

- Represented the Forest Service as a member of the President’s Invasive Species Council, helped establish the Council (Executive Order 13112) to provide national leadership to control invasive species
- Delivered national workshops on “FIREWISE COMMUNITIES.” FIREWISE is a successful partnership with states, insurance companies, and communities, helping to stimulate long-term change in community planning, cooperation, and enhanced insurance standards
- Developed, refined, and integrated the Sustainable Forest Management Criteria and Indicators into Agency planning, inventory, and monitoring activities
- Provided leadership and timely action in emphasizing the integration of small farms into program efforts
- Initiated the first National Conservation Education Grant program. Organized the first national conservation education meeting with over 135 attendees representing 36 states and 1 territory
- Reinvigorated the Smokey Bear and Woodsy Owl Symbols program, moving from a custodial, opportunistic approach to a dynamic, strategic program supporting natural resource management
- Continued to restore and conserve forested ecosystems and biological diversity by updating the insect and pathogen risk map, invasive species prevention and management, forest health monitoring, forest pest suppression, and communication efforts
- Cooperated with the Animal and Plant Health Inspection Service (APHIS) in the first worldwide pest risk assessment for solid wood packing materials. Also cooperated with APHIS on actions needed to control the Asian long-horned beetle infestations in New York and Chicago. The actions included surveys, eradication, research, and community education efforts
- As a member of the International Activities Team, facilitated development of programs, technology, and working relations among international partners and completed 36 technical assists to other countries
- Implemented USDA regulations on Environmental Justice through organizational changes and coordination with the natural resource environment strategy
- Continued the 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, Urban and Community Forestry, Economic Action Programs, and Forest Legacy
- Cooperative Fire program increased safety and efficiency of state and local fire-fighting organizations, and protection of wildland-urban interface areas
- Initiated wildland-urban hazard mitigation programs with states. States were able to implement hazardous fuel mitigation, prevention, and education programs and hazard mitigation within communities

- Developed a Memorandum of Understanding with the Department of Housing and Urban Development (HUD) to achieve urban stewardship and enhance objectives to work cooperatively to revitalize urban areas and improve livability of communities
- Continued to integrate small farm emphasis with the delivery of State and Private Forestry programs, such as the Agricultural Marketing Outreach Workshop, and developed a Memorandum of Understanding with the National Black Farmers Association and the Cherokee Nation of Oklahoma

Wildland Fire Management

Charged with the responsibility for managing wildland fire on 192 million acres of NFS lands, Forest Service staffs are world leaders in wildland fire management operations and research.

The Wildland Fire Management appropriation is for:

- Expenses associated with necessary forest fire pre-suppression and initial activities on NFS lands
- Emergency fire suppression on or adjacent to such lands or other lands under the fire protection agreement
- Reduction of hazardous fuel on NFS lands
- Support to Federal emergency response
- Emergency rehabilitation of severely burned NFS lands and water

Guided by the principles and policies of the Federal Wildland Fire Management Policy and Program Review, adopted by the Secretaries of Agriculture and Interior in 1995, this appropriation also finances Fire Science Research in support of the Joint Fire Science Program.

Program outcomes serve to:

- Protect the life, property, and natural resources on the 192 million acres of NFS lands
- Manage the role of fire in healthy ecosystems to reduce the threat of catastrophic fire
- Provide the fire organization with the capability to prevent, detect, and take effective initial attack suppression action on wildland fires
- Provide funding to plan, implement and support fuel management activities; prescribed fire, mechanical and chemical treatments to reduce unnatural fuel accumulations and stand density; and to treat critical wildland urban interfaces, the area where the urban sprawl encroaches on forested wildlands
- Provide burned area emergency rehabilitation

Strategy:

- Serve as an essential ecological process and natural change agent

- Support and implement land and resource management plans
- Suppress wildland fires
- Reduce hazardous fuel in the wildland-urban interface

Accomplishments:

In an unprecedented fire season, we were a major participant in efforts that suppressed over 75,000 fires. Across all ownership, the fires burned over 6.6 million acres of forested land, rangeland, urban interface land, and other lands at an estimated cost of \$1 billion to the Forest Service. We coordinated support from the military, National Guard, the Bureau of Indian Affairs, the Bureau of Land Management, the Fish and Wildlife Service, the National Park Service, the Federal Emergency Management Administration, other Federal, state and local agencies, and five countries.

In addition to these noteworthy accomplishments, we:

- Completed the multi-year strategy “Protecting People and Sustaining Resources in Fire-Adapted Ecosystems”
- Hosted the President’s visit to the Burgdorf fire in Idaho
- Reduced 865,834 acres of hazardous fuels
- Provided basic fire-fighting organization in the field: fire pre-suppression, fire detection, fire crew training, equipment and supplies, and fire program leadership and supervision
- Developed a national wildland urban interface data layer to the risk map, that identifies population densities at risk of catastrophic wildland fire

Research and Development

Through research and development of forestry and range management practices, we provide scientific and technical knowledge to enhance and protect the economic productivity and environmental quality of the Nation’s 1.6 billion acres of forests and associated ranges.

Strategy:

- Provide reliable science-based information and knowledge to program areas
- Develop new technologies
- Adapt and transfer new technologies for effective resource management
- Seek patents and rights to inventions
- Monitor changes in the ecosystem

Research Areas:

Research and Development focuses its efforts in four key research areas:

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

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

Resource Valuation and Use: 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: The goal in this area is to provide long-term baseline resource data and a scientific basis to assess current conditions and trends in the Nation's forest resources.

Publications:

A measure of the utility of research is the number of research findings in articles and the number of patents issued. We published 2,762 articles, printed in both Spanish and English for public use.

- Urban Forestry Guidelines for Professional and Volunteer Tree Planters (PSW-GTR-171): The Pacific Southwest Research Station published these guidelines, a national tool used by utilities, urban foresters, arborists, municipalities, consultants, nonprofit organizations and other interested parties to determine the benefits of urban forests on atmospheric carbon dioxide mitigation and re-mediation.
- Forest Plants of the Southeast and Their Wildlife Uses: One of our scientists co-authored this field-durable manual that describes 330 plant species and summarizes wildlife uses for each plant genus. The Southern Weed Science Society published the book, and it received the Printing Industry Association of the South's award for best 4-color book in 1999.
- Riparian Management in Forests of the Continental Eastern United States: Our Southern, Northeastern, North Central Stations and Regions 8 and 9 jointly published this compendium. It serves as a desktop reference for natural resource administrators, educators, and on-the-ground managers who routinely face the challenges of protecting riparian areas.
- Effects of Fire on Fauna: The Rocky Mountain Research Station published the first volume of a five volume series on Fire Effects in Ecosystems. This first volume describes how fire affects animals.
- The Contributions of Watershed Management: The Rocky Mountain Research Station coordinated, co-sponsored, and published the proceedings of an international conference on land stewardship in the 21st Century. We also provided global, national, and regional perspectives on the contribution that watershed research and management has made and can make to the conservation, sustainable development, and use of natural resources in ecosystem-based land stewardship.
- Livestock Management in the American Southwest: Ecology, Society, and Economics:

The Rocky Mountain Research Station published the results of this research. It is the first attempt to present the ecological and human aspects of grazing in a single source and reflects the interdisciplinary research that aims to resolve environmental challenges, sustain livelihoods, and improve the well being of people in the Southwest.

Assessments:

Assessments play a key role in research and development. Assessments serve to identify issues that will facilitate comprehensive, adaptive, and sustainable forest management. We completed these assessments this past year.

- Our Nation's Urban Forests: For the Resources Planning Act (RPA) Assessment, we prepared the first national assessment of urban forest resources in the United States. This technical report titled "Connecting People with Ecosystems in the 21st Century: An Assessment of our Nation's Urban Forests" details variations in urbanization and urban tree cover across the U.S by state, county, and individual urban areas. These areas will also improve the quality of the environment, enhance human health, and connect people with ecosystems in the 21st century.
- Wildland Fire Assessments: Through the National Interagency Fire Center, Forest Service scientists in the Pacific Southwest Research Station distributed a revised software package to fire-fighting agencies throughout the U.S. used to assess the relative merits of alternatives for fighting escaped wildfires. The use of this software package saved millions of dollars during the 2000 fire year by guiding more cost-effective fire-management decisions.
- Ozark-Ouachita Highlands Assessment: We published a set of five reports that provided a complete assessment of the social, economic, physical, and biological conditions and trends in the Highlands of Arkansas, Oklahoma, and Missouri. Scientists from the Southern Research Station and land managers of the Southern Region (R8) were major contributors to this multi-agency assessment.
- Southern Forest Resource Assessment: We are developing a multi-agency assessment of the natural resources of the Southern United States to address the ability of the southern forests to meet the growing and long-term demand for forest products and amenities. At each step of the assessment process, we incorporated significant public input, from the development of the issues and assessment questions, to review and comment on the analyses.
- Northern Minnesota Storm Recovery: In conjunction with scientists across the Nation, researchers from the North Central Research Station developed a comprehensive research needs assessment. It addresses issues on public and private lands impacted by the recent 477,000 acre blow-down in the Boundary Waters Canoe Area Wilderness of the Superior National Forest.

Other Accomplishments:

- Clean water: Forest Service scientists at the Forest Products Laboratory completed research demonstrating that low-cost, fiber-based water filtering technology can remove organic and inorganic toxic materials, pesticides, and herbicides from both point and non-point sources. We initiated field research trials in New York City and the Catskill Watershed Corporation and in the Wayne National Forest to clean up contaminated water from old, abandoned mines. The New York City and Catskill Watershed Corporation

provide drinkable water to over 9 million people. Scientists at the Forest Products Laboratory also developed a chlorine-free wood pulp bleaching technology that will eliminate discharge of chlorinated hydrocarbons into rivers and streams. This technology requires only 0.2 cubic meters of water per ton of pulp compared to 20-40 cubic meters for conventional bleaching.

- Annualized inventory: Our Research and Development Forest Inventory and Analysis Program is rapidly transitioning to annual inventories throughout the United States. Annualized surveys provide more timely information to public and private land managers on the status, condition, and trends of forest resources. Seventeen states will be fully annualized in 2000. Through the development of the FIA National Presentation Data Base and National Data Distribution tools.
- Municipal water supplies: We used research completed by Forest Service scientists on instream-flow needs to establish water permits in several areas in Puerto Rico. A National Science Foundation sponsored video on the Long-Term Ecological Research program highlighted our research. One hundred people attended a symposium on management of Puerto Rican streams, including representatives from five governmental agencies and Puerto Rico's Planning Board.
- Brazilian Cooperative Forestry Research. By increasing the capabilities of the analytical laboratory in Brazil and by initiating new studies on the biogeochemical and wildlife affects of selective timber harvesting, we expanded collaborative research with the Brazilian Government and the National Aeronautic and Space Administration (NASA) LBA program in the Tapajos National Forests.
- Mapping land cover and natural vegetation of Puerto Rico: The Institute of Tropical Forestry completed the first map of land cover in Puerto Rico since 1978. Accuracy assessments and further research on advanced mapping algorithms will begin in FY 2001.
- Kyoto Protocol : Scientists in the Northeastern and North Central Research Stations collaborated with USDA and other government agencies to interpret forestry implications of the Kyoto Protocol. Collectively, we developed the U.S. policy on forests and carbon sequestration for the State Department. The results could provide the incentive to practice sustainable forestry and help minimize the cost of reducing emissions. In addition, a policy on forests and carbon sequestration will be featured in international negotiations on the Kyoto Protocols culminating in November of this year.
- Guidelines for science-based decision-making: Forest Service scientists developed guidelines for the application of cutting-edge science on contentious management issues. The Forest Service and other research and land management agencies will use the guidelines to defend land management decisions on millions of acres of public forests and rangelands.
- Application of science to vital resource conservation issues: The Pacific Northwest Research Station provided leadership and oversight for the National Science Foundation on controversial decision-making processes regarding millions of acres of Federal lands in the Interior Columbia River Basin, the Sierra-Nevada ecosystem, and the President's Northwest Forest Plan. Through scientific information, the biological diversity and ecological integrity of the systems are being better protected while at the same time providing goods and services to economies and communities.
- Soil quality standards: The Pacific Southwest Research Station developed and proposed

soil quality standards for operational monitoring of sustainable forestry on public lands. Sierra Pacific Industries, the country's largest family-owned, forest management company, adopted the standards.

- Missouri chip mills: Scientists from the North Central Station conducted a special study on chip mills for the state of Missouri that compared the consequences of several alternative future scenarios on wood supply, forest conditions, and economic activity. The Governor of Missouri used the study to formulate a state policy on the introduction of chip mills.

International Programs

Through International Programs, the Forest Service seeks to advance global conservation efforts and cooperation with other countries ultimately leading to a more sustainable global forest resource.

Preparing the Forest Service for the 21st century is crucial, as the globalization of environmental and economic issues is likely to increase dramatically.

International cooperation is crucial to sustain the ecological and commercial viability of global forest resources. The results are:

- Improved forestry practices in our partner countries
- Increased opportunities to develop Agency skills that are needed domestically
- Innovative technologies we can bring back to the U.S.
- A more sustainable global forest resource for us all

International Programs promote the exchange of management and research methods and data. This improves global conservation and practices in countries with significant forest resources and promotes trade with the United States.

Strategy:

A key part of our strategy is to "internationalize" the human resource base of the Forest Service. International Programs link our field-based staff with overseas assignments in the areas of technical cooperation, policy assistance, and disaster coordination. We focus on key natural resource problems and issues in countries with significant forest resources and important forest-related trade with the United States. Our goal is to make global forestry sustainable by linking the Agency's researchers, foresters, wildlife biologists, hydrologists, policy makers, and disaster specialists with partners overseas. Together, they address the world's most critical forestry issues and problems.

Accomplishments:

- Supported the assessment of biocontrol agents for invasive species in China and Russia where some of the most threatening invasive pests originate. Four species are being addressed in the program: the Asian long-horned beetle, hemlock woolly adelgid, the kudzu vine, and mile-a-minute weed.
- We created the International Institute of Tropical Forestry and the Institute of Pacific

Island Forestry to plan and implement international programs in Latin America, the Caribbean, the Pacific Islands, and the Pacific Rim.

- We collaborated on management and research issues, policy development, and training with international organizations such as the United Nations, FAO, the CIFOR, and the International Tropical Timber Organization.
- In response to the ecological and economic importance of U.S. migratory species, International Programs has several significant projects in Latin America. Much of this activity centers on species that migrate annually to countries where riparian and wetland areas are not adequately protected. Habitat areas outside the U.S. are being lost at an alarming rate, threatening the survival of our migratory species. The target of this work is to preserve and restore those critical habitat areas. These issues prompted us to develop innovative partnerships with Ducks Unlimited, The Nature Conservancy, and other groups to conserve wildlife habitat on public and private lands throughout Latin America, adding value to the investment made to protect migratory species in the U.S.
- Invasive species from foreign countries have degraded many habitats in the United States. Researchers currently estimate there are at least 20 destructive forest pests that are likely to enter the U.S. in the coming decade. We developed a program to direct and emphasize control strategies for pests already in the United States and prevention of further introductions.
- Worked with Mexican and Indonesian counterparts to lower the risk of catastrophic fires and assess the underlying causes of forest fires in their countries. The goal is to lead to policy-based options to help reduce the occurrence of large uncontrolled fires and the associated environmental pollution.
- Conducted trials on the effectiveness of controlling the Siberian silk moth that attacks both deciduous and coniferous trees. While this pest has not yet entered the United States, researchers predict that it will arrive within the next few years.

Programs and Legislation

Programs and Legislation provides corporate services to the Forest Service. Key components of Programs and Legislation include strategic planning, resource assessment, legislative affairs, policy analysis, and coordination and completion of controlled correspondence for the Agency.

Strategy:

- Develop, coordinate, and implement the USDA Forest Service Strategic Plan, as required by GPRA
- Assess natural resources on national lands, as required by the Forest and Rangelands Renewable Resources Planning Act (RPA)
- Work closely with congressional staff, including those of major committees with oversight responsibilities for the Forest Service
- Respond objectively to questions of policy direction or content, Agency processes, policy implementation and foresight

- Ensure timely and effective response to Forest Service correspondence

Accomplishments in the Area of Strategic Planning and Resource Assessment:

We completed and began to implement our revised strategic plan. We provided Forest Service-wide opportunities to participate in, develop, and implement our strategic plan. We provided multiple venues and media for public review and comment on the content and consulted with members of Congress and their professional staff on the status of the strategic plan. We ensured that the revised strategic plan addressed crosscutting issues shared with other Federal, state, Tribal, and local government entities. In addition to this accomplishment, we:

- Completed and published the national assessment of natural resources and supporting technical documents
- Conducted a National Survey of the public's values, objectives, beliefs, and attitudes regarding the programs and activities of the Forest Service
- Developed scientific information that resulted in the publication of the Renewable Resources Planning Act Assessment and supporting technical documents

Accomplishments in the Area of Legislative Affairs:

We prepared testimony for the numerous hearings held on Forest Service matters and responded to document requests from the Hill. Legislative Affairs served as the focal point for Forest Service contact with Congress. We advised and consulted with senior leaders, managers, and subject matter experts in support of their working relationships with the members and professional staff of Congress. We prepared Congressional testimony for an average of three hearings a week. At all times, we worked closely with congressional staff, including those committees with oversight responsibilities for the Forest Service.

Accomplishments in the Area of Policy Analysis:

- Conducted investigations using staff analysts and external experts, and served as a facilitator of analytic efforts involving personnel from multiple programs and areas
- Provided staff for the team of government experts who analyzed and developed the USDA Secretary's recommendation to the President to establish the Giant Sequoia National Monument
- Published the first overview of water resources on national forests
- Analyzed the implications of the EPA's Total Maximum Daily Load ruling on Agency programs
- Designed a transition briefing package for the new administration and an associated website
- Finalized a charter for a Policy Analysis Board of Directors
- Conducted a workshop to help complete the National Committee Report on Collaboration
- Produced draft strategic plan for the recreation fee retention program

Accomplishments in the Area of Controlled Correspondence:

We developed Microsoft Word templates to standardize correspondence and make it easier to create Forest Service wide. To better equip our staff, we provided training to all staff in the Washington Office on how to prepare and handle correspondence. Our staff processed more than three thousand letters directed to the Forest Service or to the Department about Forest Service issues. We expanded controlled correspondence to include senior state officials and major non-governmental officials. Additionally, we:

- Developed articles on key Forest Service issues and initiatives for the press, as requested by the Chief Operating Officer
- Developed a draft revision of the Correspondence Handbook
- Proposed organizational changes to CCU to address the need for standard responses to write-in campaigns

Business Operations

Business Operations provides leadership and customer service to deliver business operations programs in support of the Forest Service mission. This area is accountable for Information Resource Management, Human Resource Management, Acquisition Management, our Early Intervention Program, and our Senior, Youth, and Volunteer programs.

Information Resources Management aims to provide integrated systems that make reliable and useful management information available to the Agency, cooperators, and the public. We provide leading technologies to support radio, voice, and data communications and leverage a \$300 million information technology investment portfolio to help accomplish our mission.

The goals of **Human Resource Management** are to conduct ongoing human resource reengineering efforts, plan future recruiting, training, and development activities that will bring to the Forest Service the skills and diversity we need in the new millennium. Human Resource Management also carries out our 5-year corporate training plan. Additionally, they aim to:

- Implement the COHO Classification Software program
- Implement the Agency-Wide Serious Accident Investigation Guide
- Expand the Automated Temporary Employment Program to cover all temporary jobs
- Promote collaborative labor-management relations through partnerships

Performance goals of **Acquisition Management** include:

- Implementing an internal control plan that will 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 to ensure compliance with applicable laws and regulations.
- Inventorying and managing both real and personal property assets in a manner that is satisfactory to the Office of Inspector General and supportive of an unqualified opinion

on our financial health.

The goals of the **Early Intervention Program Management** are to provide Alternative Dispute Resolution services and mediation and facilitation. These services help resolve workplace conflicts. Key components of this program are to provide internal and external mediation resources, resources for discrimination complaint mediations, and conflict resolution training recommendations for mediators and employees.

Our **Senior, Youth, And Volunteer programs** aim to provide human and natural resource benefits by administering and hosting programs in work, training, and education for the unemployed, underemployed, elderly, young, and other people with special needs. Programs include Job Corps, Youth Conservation Corps, Senior Community Service Employment Program, Volunteers in the National Forests, Hosted Programs, and Keep America Beautiful.

Strategy:

- Simplify, improve, and standardize our business operations
- Develop, implement and lead cost-effective programs and systems
- Collaborate with appropriate offices to improve delivery of services
- Support collaborative relationships with stakeholders
- Facilitate the exchange of information via the intra and internet
- Enhance business acumen and improve the knowledge and professionalism of the workforce
- Improve compliance and accountability within Business Operations
- Ensure consistent standards and conformance with the laws and regulations that govern Business Operations
- Provide leadership and direction on organizational structure
- Enhance organizational effectiveness through strategic direction linked with implementing GPRA

Accomplishments:

- Awarded 65 percent of total procurement dollars to small businesses, exceeding our goal of 63 percent
- Fully implemented our IBM system and installed 32,000 personal computers at 800 locations
- Developed a broad Strategic Analysis Plan for the future Forest Service workforce
- Developed a five-year recruitment strategy to address challenges we will face attracting a workforce reflective of the skill and social diversity needed
- Implemented a Service Wide Internal Control Plan that included improved acquisition planning and contract administration

- Through the second quarter of FY 2000, we successfully resolved 82 percent of workplace mediations conducted
- Developed the Forest Service Dispute Resolution Guide, a comprehensive guide containing redress options available to employees
- Administered and hosted programs in work, training, and education for youth, the unemployed, underemployed, elderly, and people with special needs

Office of Communication

The Office of Communication provides corporate services to the Forest Service. Key components of the Office of Communication include policy, planning, and liaison, executive services, corporate communication, media and customer service.

Strategy:

- Develop and implement strategic communication plans
- Help leadership and employees communicate with a variety of audiences and stakeholders
- Maintain direct communication with the national media on a personal level to ensure prompt placement of news-stories when appropriate
- Develop a more professional, highly-skilled Public Affairs Officer (PAO) career field
- Enhance internal communications throughout the Forest Service and USDA
- Direct an effective national website that serves the needs of internal and external stakeholders
- Develop an authoritative Forest Service history program serving our leadership, Congress, and the field
- National coordination of the Federal Advisory Committee Act (FACA) requirements
- Provide useful, timely, and accessible published and visual information to internal and external audiences
- Encourage feedback through the use of comment cards
- Conduct customer Surveys
- Service First “One-stop” shopping, a joint effort with other Federal agencies to provide services the public needs at a single site rather than multiple, decentralized locations
- Implement a National Customer Service Plan to gauge how well we deliver service
- Reinvention of our processes and procedures to help us provide the best customer service

Accomplishments:

- Helped leadership communicate with a wide variety of audiences through written speeches, articles, and editorials for use by Agency leadership. We prepared 11 speeches for the Chief, multiple editorials for leadership, and articles for placement on our website.
- Developed an authoritative Forest Service history program. We published the “History of the Forest Service,” provided background information to the Chief on multiple speeches and other writings, and developed a strategic plan for the national history program.
- Planned and implemented over 10 nationally significant events that included Roadless Plan, Planning Regulations, Roads Policy, Roadless Draft Rollout, Tu B'Shevat, two visits to Intermountain West, Sequoia National Monument, Forest Service National Recreation Area California Tour, Humboldt-Toiyabe Tour, and the Urban and Community Forestry Campaign.
- Maintained direct communication with the national media. We successfully supported the Fire and Aviation staff in coordinating interview requests during this record fire season, helped the Department with the media plan for the report to the President on wildfire strategy, and advised leadership on correct responses and talking points for critical issues facing the agency. We also revised the national news clip service to provide electronic versions of editorials and news articles and developed and issued news releases on various personnel and staff events.
- Developed a more professional, highly skilled PAO community. We introduced an on-line newsletter for the PAO community, completed a guide to competencies and training for PAO, and incorporated “The Art of Communication” course into Corporate Training.
- Enhanced internal communications. We published 30 issues of Forest Service-Today, an electronic newsletter circulated throughout the Forest Service, produced 52 issues of the Weekly report to USDA, 12 issues of the Monthly report, and coordinated numerous other internal publications.
- Directed an effective national website. We developed a plan to introduce our new website and prepared the statement of work and other documentation to prepare to implement our new national site.
- We provided career counseling and training to public affairs officers in the field and the Washington Office through personal contacts, organizing presentations, and training on improved communications, and publishing a reference manual, Public Affairs Professional Development Guide.
- Provided national coordination of FACA committee requirements. We guided the FACA process for twelve committees, advised USDA officials on FACA processes and completed Giant Sequoia and Lake Tahoe charters and approvals in record time.
- Provided useful, timely, and accessible published and visual information. The Washington Office staff helped more than 200 field offices, and about 225 external entities with publishing and visual communications services. We published about 500 communication products including publications, brochures, posters, fact sheets, and administrative documents such as reports and directives. Finally, we completed over 325 photographic services and 175 video services. We have 20 video productions underway.

- We coordinated all aspects of the Capitol Holiday Tree event, including sponsorship, travel, Chief's program and reception, media, and liaison with Congress, USDA, and internal and external publics. We also produced a number of internal reports that included trip briefings for the Vice President and Congress, weekly and monthly reports and submittals for the Agriculture Fact Book, and the Annual Report.
- Completed 16 national customer surveys and processed 10,000 comment cards that resulted from our surveys.

Law Enforcement and Investigations

Forest Service Law Enforcement and Investigations (LEI) is charged with providing a safe environment for the public and our employees on National Forest System (NFS) lands and protecting natural resources and other property under the Agency's jurisdiction. Law enforcement cooperates with federal, state and local law enforcement agencies to achieve these goals. The LEI staff, (1) provides timely response to public and employee calls for service, (2) conducts criminal investigations (e.g. timber, archeological), (3) maintains strong relationships with cooperating law enforcement agencies, (4) reduces the production of domestic cannabis and other controlled substances and smuggling of illegal drugs through NFS lands, and (5) develops and applies new improved technologies for use in criminal investigations.

Increased forest visitation and urban encroachment are having significant impacts on NFS lands thereby increasing health and safety risks to public and employee safety and resource viability. Consequently, the demands on agency law enforcement personnel continue to increase significantly.

Program Elements

The law enforcement program focuses on three primary program areas.

Enforce Law and Regulations

During the past 10 years, the number of incidents involving crimes against visitors, and those perpetrated by visitors, has increased to an alarming level. LEI personnel responded to 285,146 incidents in FY2000, up from 144,000 in 1996, a 50% increase in public safety and resource protection violations and other incidents on NFS lands.

Approximately 456 uniformed law enforcement officers patrol NFS lands nationwide. These officers have the following responsibilities.

- Conduct patrols on NFS lands to enhance crime prevention efforts;
- Provide timely and effective response for the public in accident investigations, crimes in progress (domestic disputes in campgrounds, gang activity, resource damage, theft of government property), search and rescue, medical/emergency assistance, hazardous materials spills and other first responder incidents;
- Respond to unplanned incidents including environmental protests, threats to employees and government property, large group events, rave parties, and fire emergencies;
- Adjudicate misdemeanor violations through issuance of warning or violation notices;

- Eradicate domestic cannabis plants, locate clandestine methamphetamine operations and interdict illegal drug smuggling along all international borders;
- Conduct preliminary investigations to adequately obtain information for appropriate adjudication or further investigation; and
- Provide reimbursement, through cooperative law enforcement agreements, to state and local law enforcement agencies for extraordinary expenses incurred while enforcing state law on NFS lands. Reimbursements include regular patrol and drug enforcement activities.

Investigate Crime

Law enforcement has four primary investigative priorities, (1) timber and other forest product theft, (2) wildland fire, (3) archeological resource theft and damage, and (4) illegal drug production, distribution, and cross-border trafficking. In the past few years LEI has had significant convictions for timber theft, arson, and archeological theft/damage. LEI personnel are seen as international experts in timber theft and wildland fire investigation and often assist foreign countries in these areas. The production of illegal drugs is increasing at an alarming rate and has serious impacts on public and employee safety and natural resources.

There are approximately 126 criminal investigators with the following responsibilities.

- Conduct criminal investigations on matters related to NFS lands in compliance with applicable guidelines set forth in the President's Council on Integrity and Efficiency (PCIE), "Quality Standards for Investigations." These investigations include, but are not limited to, timber and other forest product theft, archeological violations, wildland fire, controlled substances, computer crimes, threats/intimidation against employees, and theft/damage to government property.
- Conduct internal and hotline complaint criminal misconduct investigations on employees and government programs in accordance with a Memorandum of Agreement with the USDA Office of Inspector General.
- Develop, improve, and demonstrate new technologies, materials, methods, and strategies to improve the effectiveness and efficiency of felony criminal investigations.

Enforce National Forest System Drug Control Act

Per the National Forest System Drug Control Act of 1986, amended in 1988, the Forest Service has primary responsibility for drug enforcement on NFS lands. This requires the unique skills and abilities that agency law enforcement personnel have gained through performing their regular law enforcement duties in a natural resource environment.

National Forest System lands are affected by three primary drug enforcement issues, (1) marijuana cultivation, (2) methamphetamine production, and (3) smuggling across the U.S./Mexico and U.S./Canadian borders.

National forests are a haven for the production of controlled substances; calendar year statistics are staggering. In CY 2000, 733,427 marijuana plants were eradicated; in CY 1999 490,304 were eradicated. In fact, from 1996-1998 the Forest Service eradicated more marijuana nationwide than the Border Patrol did between the ports of entry or the US Customs Service did at the points of entry along the southwest border. In addition,

methamphetamine lab and dump sites increased from 107 in CY1999 to 488 in CY2000. The risk to the public and employees from armed growers, booby trapped sites, and toxic chemicals is tremendous. Natural resources, particularly watersheds, vegetation, soils, and wildlife, are also at great risk from toxic chemicals, fertilizers, and wildlife poisoning/poaching.

Accomplishments

- Conducted 1,908 serious misdemeanor and felony level investigations for timber and other forest product theft, archeological violations, wildland fire, controlled substances, and other resource and property related crimes;
- Recorded 285,146 incidents, violation notices, and warning notices for offenses such as damaging government property and natural resources, vehicle violations, off-road vehicle violation, and wilderness, fire and forest product violations.
- Eradicated 733,427 marijuana plants off of NFS lands.
- Seized over 9,300 pounds of processed marijuana being smuggled into the United States across the southwest border and almost 600 pounds across the northern border.
- Located 488 methamphetamine lab/dumpsites on NFS lands.
- Entered into 528 cooperative agreements with state and local law enforcement agencies to enforce state and local laws for regular patrol functions and 61 cooperative agreements for drug enforcement activities.
- Made 833,808 public contacts for a variety of reasons such as providing general information, obtaining information on criminal matters, assisting with visitors' problems, and search and rescue efforts.
- Received and had oversight of 172 internal and hotline complaints against agency employees and programs.
- One successful wildland fire investigation resulted in the arrest of an individual charged with 14 counts of arson. The individual pled guilty to four counts and was sentenced to eight years in San Quentin State Prison and ordered to pay \$1,000,000 in restitution to the Forest Service.
- In a "grass-roots" effort along the northern border in Montana, a taskforce initiated by the Forest Service seized a total of 415 pounds of "BC Bud" (very high grade marijuana grown in British Columbia) being smuggled into the United States from Canada. The northern border is a concern for law enforcement personnel due to a significant lack of resources.
- Two Deming, NM brothers were found guilty of damaging a protected Mimbres Dwelling archeological site and conspiracy charges. The two will be billed \$80,000 by the Agency for damages. Sentencing is pending.
- Operation Interstate was an organized crime fraud investigation conducted by LEI personnel in California. The investigation stemmed from an employee who suffered losses during her relocation move; the moving company would not return her belongings initially and, although ultimately did, it was all severely damaged. Agents uncovered a

major national conspiracy using extortion and a fraud scheme to steal millions from several hundred other victims from at least three other federal agencies. Essentially, fraudulent interstate moving companies used names strikingly similar to reputable, large-scale interstate carriers and employees were diverted to the fraudulent companies unknowingly. Once the fraudulent company had the employees' belongings they would threaten and harass customers to obtain grossly inflated payments for the "services" provided. Six individuals were indicted. Two have plead guilty to charges of conspiracy to defraud the government; mail fraud; and wire fraud and were sentenced to 36 months and ordered to pay the approximately \$1 million in restitution. One defendant had charges dismissed for his testimony for the government against his co-conspirators. Another defendant fled to Israel and remains a fugitive. The fifth defendant was extradited from New York to California by Forest Service agents and plead guilty to mail fraud and received 5 years formal probation, fined \$5,000, and ordered to pay \$25,000 in restitution. The sixth defendant was arrested by FS agents in Florida and extradited to California on charges of conspiracy, mail and wire fraud, and extortion and is awaiting trial. LEI pursued this case when no other federal agency with jurisdiction would.

- For the past five years, LEI has been an integral part of an investigation into violations of the Clean Water Act by Central Industries, Inc, a poultry by-products rendering company. After intensive investigation by LEI, assisted by the EPA, FBI, and the Mississippi Department of Environmental Quality, indictments were issued on 26 counts, one for conspiracy to violate the Clean Water Act and 25 for discharging a pollutant into a water source. Eight individuals entered into a plea agreement and will be sentenced in February 2001. On November 2, 2000 the company was ordered to pay \$14 million in criminal fines and placed on probation for five years, making it the fifth largest criminal fine levied against a corporate water polluter with the Exxon Valdez ranking third. If it wasn't for the diligence on the part of LEI personnel this case would never have been pursued.
- LEI personnel conducted an investigation into the systematic theft of Forest Service firefighting equipment dating back to the Yellowstone fire of 1988. The former Chelan County Fire District (CCFD) No. 1 Chief plead guilty to one felony count of misprision of a felony (possession of stolen property – stolen firefighting equipment) and was sentenced to one year probation and fined \$5,000. The CCFD finalized a settlement agreement to repay \$68,000 for the fraudulent billings they submitted to multiple state and federal agencies including the FS, BLM, FEMA, and WA State Emergency Management, and WA Department of Natural Resources. The CCFD also agreed to repay a private insurance company and an additional \$12,000 to the FS for equipment. The investigation began in 1998 when current and former CCFD employees reported to LEI that the CCFD had been systematically stealing Forest Service firefighting equipment over the last 10 years.
- Four individuals were sentenced for plundering the Horsebone archeological site, a site traditionally used by the Cow Creek Band of the Umpqua Tribe of Indians. The site is found on the Umpqua National Forest in Tiller, OR. Damage was estimated at \$160,000. Two individuals pleaded guilty to misdemeanor charges and were sentenced to community service, probation, and must obtain permission from their probation officer before entering national forest land. Two pleaded guilty to felony charges of violating the Archeological Resources Protection Act. One was sentenced to pay more than \$70,000 restitution to the Forest Service, serve five years probation, four months home monitoring, and banned from national forest land during his probation.
- The growing problem of forest product theft was highlighted by the guilty plea of an individual who harvested over 100 tons of beargrass valued at \$250,000 from the

Willamette National Forest in Oregon. Beargrass is highly sought after in Asian markets to make baskets. The defendant was legally allowed to harvest a total of 10,800 pounds of beargrass with a permit he obtained. However, investigators discovered he sold at least 214,180 pounds to wholesalers in Washington. He hired two six-person crews of illegal Hispanic immigrants and some Laotian immigrants who were paid 40 cents per pound for stalks that were sold for \$1.40 per pound. He pled guilty to one charge of money laundering and was sentenced to 30 months in federal prison, ordered to pay \$7,010 in restitution to the Forest Service, and to serve 3 years supervised probation upon his release.

Civil Rights

The purpose of the Civil Rights program is to ensure that no person is denied participation in, or benefits of, Forest Service programs or employment because of race, color, sex (including sexual harassment), religion, age (if over 40), national origin, disability, marital status, or sexual orientation.

Strategy:

- Accountability: Incorporate the Secretary's Civil Rights Policy throughout Agency operations to ensure that customers and employees are treated fairly and equitably, with dignity and respect.
- Program Delivery: Ensure all customers' equal access and equal treatment in the delivery of USDA programs and services.
- Employment: Provide a workplace free of discrimination and enhance the diversity of the workforce.
- Procurement: Ensure equal opportunity for minority, women-owned, and small and disadvantaged businesses in all USDA contracting activities.

Accomplishments:

- Developed Civil Rights performance measures for Senior Executive Service employees that are aligned with the Secretary's Performance Goals and the Agency's Strategic Plan. The measures provide the opportunity for Executives to document their accomplishments and continuously improve their performance.
- Developed a Strategic Public Outreach Plan to ensure that all Americans, especially under-served, minority, and economically disadvantaged individuals and organizations, participate in natural resource management and benefit from Agency programs and services.
- Developed and implemented a Disputes Resolution Guide, which establishes procedures for the timely processing of EEO complaints and other disputes resolution avenues.
- Accomplished the Procurement Preference Program goals established by USDA-Office of Small and Disadvantaged Business Utilization.
- In August 2000, we conducted the first assessment of the Senior Executive Service employees, using the new civil rights performance measures. In the assessment, we provided written feedback to them and an opportunity for dialogue about areas of their

performance. As a result of this assessment and feedback, there is heightened awareness among the Agency's top management, and cross/inter-unit dialogue. This will result in improved performance.

- Used the results of the work environment Continuous Improvement Process all-employee survey to develop an Agency-wide plan to address workplace problems identified by Forest Service employees.
- Several Washington Office level Civil Rights Impact Analyses were accomplished for environmental decisions that are national in scope. They include the Roadless Policy FY 2000, the Roads Policy FY 1999, the New Forest Planning Regulation FY 2000, and the establishment of the Deputy Chief, Chief Financial Officer Area.

Office of Finance and the CFO

The Chief Financial Officer (CFO), Deputy Chief of the Office of Finance, provides leadership to all financial management and budget activities related to the programs and operations of the Agency. The CFO is also responsible for converting to the new Standard General Ledger (SGL) compliant financial system, FFIS. This SGL compliant information system will help produce timely and accurate financial statements. Timely and accurate financial statements will help us meet our mission. The Forest Service has made considerable progress during FY 2000 toward a clean audit opinion.

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 our longstanding problem with achieving financial accountability follow.

Strategy:

- 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

Strategic Goal One: Provide Financial Management Leadership

Our goal is to rebuild an organization that promotes accountability and recreates an environment of trust between the Forest Service and its stakeholders. This means that we must:

- Manage for progress towards a clean audit opinion
- Establish consistent national financial management policies and standards
- Implement a new budget and performance measurement structure
- Develop a means to monitor and review our new performance measurement structure
- Establish a compliance program

- Review and propose a streamlined financial management field structure

The Office of Finance carries out its programs through four sets of staff. Their key functions are outlined as follows:

- Program and Budget Analysis: Develop and present the Forest Service budget with a focus on GPRA and to manage the allocation and use of funds.
- Financial Management: 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: Prepare financial statements, conduct financial analysis, and manage a nationwide Quality Assurance Program.
- Financial Systems: Implement, maintain, and operate FFIS and oversee financial systems development and operations.

Strategic Goal Two: Deliver Quality, Cost-Effective Customer Service

The CFO's plan requires that we:

- Conduct quarterly financial resource reviews
- Centralize some accounting operations
- Establish financial management performance measures for quality, cost-effective customer service
- Provide user support for FFIS implementation
- Communicate Office of Finance initiatives to both internal and external customers

Strategic Goal Three: Cultivate a Skilled, Financial Management Oriented, and Diverse Workforce

To meet this goal we must:

- Complete core competencies for financial management personnel
- Work with the USDA-Office of the Chief Financial Officer and Forest Service Corporate Training office to develop a comprehensive training strategy for the CFO staff
- Work 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

Strategic Goal Four: Deliver State-of-the-Art Financial Systems

To achieve this goal, the Forest Service needs to:

- Develop a data warehouse that will incorporate both financial and programmatic data
- Develop an activity-based costing system

- Assess agency-wide financial systems against Federal accounting standards

Accomplishments:

- Implemented, stabilized, operated, and maintained FFIS. We converted account balances from the old Central Accounting System (CAS) to FFIS and executed the final close and shutdown of CAS. We are pleased to say that for the first time ever, we have a management information system that is compliant with the Standard General Ledger.
- In collaboration with field financial managers, we developed 34 financial performance measures that will be implemented in FY 2001.
- In collaboration with the Office of Inspector General, Forest Service field units, and our engineers, we developed and implemented a road cost methodology for valuing roads constructed prior to FY 1995.
- Developed and issued comprehensive real and personal property inventory instructions.
- Published financial policies and procedures in the areas of travel, transfer of station, and accounting requirements. We also developed them for the Primary Purpose Principal. This principle deems that expenses associated with activities should be charged against the appropriation most directly related to the activity, as opposed to charging them against multiple accounts for multiple purposes.
- In collaboration with OMB, Department, GAO, and Congressional staff, we developed a simplified budget structure for the National Forest System and the Capital Improvement and Maintenance Appropriations. We also developed an integrated set of Land Health and Service to People performance measures that link to mission-related outcomes and financial information. As a result, we completely reformatted our budget presentation using a performance-based approach with a reduced budget structure. This affords Congress the ability to appropriate funding based on our performance.
- Initiated a new approach to developing the Washington Office budget. The approach established ceilings for each deputy area allowing more funding for the field.
- Made significant progress towards centralizing accounting operations. Established a collections clearinghouse to help match collections processed through LOCKBOX with billing documents. Created a national Help-Desk to provide FFIS systems and operational support to the field. Formed a centralized operation to populate and maintain a vendor file.
- Designed and implemented a memorandum of understanding (MOU) with the National Finance Center and the FFIS project office to improve communication between all parties, develop policy to handle system requests, develop a short term solution to pay firefighters under the Casual Pay Plan, and resolve feeder system issues.
- Formed a centralized cash reconciliation team to help us assume full responsibility for the cash reconciliation function.
- Provided training to more than 2,500 employees on FFIS core processes. Produced and distributed 8 training CD-ROMs.
- Adopted the core competencies for financial management professionals, developed by the

Joint Financial Management Improvement Project (JFMIP).

- Began to develop an Activity-Based Cost Accounting System and a Financial and Accomplishment Data Warehouse, as well as, an Activity-Based Budget Formulation and Execution System.

The investment in our mission and goals will reap many benefits for the Forest Service. It will allow 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. This effectively turns financial data into management information that will allow the Forest Service to better its business.

This investment will help us achieve an unqualified opinion on our financial statements.

Financial Performance

Congress appropriates the Forest Service in excess of \$3 billion each year and more than 50 separate appropriation accounts. We receive revenue from timber and mineral sales, recreational fees, and other activities. We are authorized to use a portion of these revenues, for example, for reforestation of timber sale areas to cover operating expenses.

Although we received a disclaimer of opinion in FY 1998 and 1999, we have improved the quality of financial data. For FY 1991 and 1992, the USDA OIG issued adverse audit opinions on Forest Service financial statements. We made major improvements in FY 1993 and 1994 and received a qualified opinion both years. However, we received an adverse audit opinion again in 1995. As a result of the FY 1995 adverse opinion, we did not prepare financial statements for FY 1996.

We implemented the 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). FFIS will dramatically improve the integrity of accounting information and internal controls.

FY 2000 marks the first year that we will produce our financial statements from an accounting system that is in compliance with the Standard General Ledger.

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, we must demonstrate sustained financial accountability. We must implement a system of internal controls that are in line with the CFO Act and include field level actions where the financial transactions start. We must at a minimum receive an unqualified audit opinion on Financial Statements for two consecutive years.

Being included on the GAO list intensified our actions to correct our financial weaknesses. We continue to perform an annual risk assessment, prioritizing line items that need corrective action, so we can make strides toward obtaining a favorable audit opinion.

In FY 2000, we made significant progress that improved the documentation for capitalized real property values.

We developed a set of 34 financial performance measures that have been implemented for FY 2001. Performance measures are focused in three areas.

- Progress toward a clean opinion
- Financial operations
- Financial system operations

Financial Highlights

Real and Personal Property Guidance

We updated our real and personal property policies and procedures and provided these updates to Forest Service regions for review and comment.

The policy document (Forest Service Manual 6590) contains guidance on property, plant, and equipment accounting standards issued by the Federal Accounting Standards Advisory Board. The procedural document (Forest Service Handbook 6509.19) consolidates real and personal property procedural guidance and physical inventory procedures previously contained in separate Forest Service documents. The Office of the Inspector General reviewed the contents of the procedural document and we will incorporate their comments. We expect to formally issue the policy and procedural guidance in early 2001.

Cash Reconciliation

We mobilized the Joint Cash Reconciliation Matrix Team on April 24, 2000. Their goal is to transition cash reconciliation from the National Finance Center to the Washington Office by October 1, 2000, and to make process improvement recommendations. Team members included representatives from the Forest Service, PricewaterhouseCoopers, and the National Finance Center. The team's main focus is to reconcile differences between the FFIS general ledger and the Treasury for the period April through September 2000. As a result of the team's efforts, the FFIS general ledger is in agreement with the Treasury within 95%.

Management of the Document Suspense File

The Document Suspense File (SUSF) stores all documents entered in FFIS. Documents are either entered directly by users or generated by interfaces such as travel, payroll, and purchasing. Documents remain on SUSF until they are accepted or deleted from the file. Our FFIS help desk personnel monitor the SUSF file, help users clear their documents off the table, and help monitor National Finance Center documents.

Primarily, we monitor the Status and Aging reports. The Status Report is a snapshot of all documents in the Suspense file at a given time and the Aging Report includes only documents that have aged at least 20 days. Effective for FY 2001, documents are to be cleared from the SUSF file within 30 days.

Budget Highlights

The Forest Service currently has a number of activities that link the budget, performance objectives, and our strategic and annual performance plans. In 1999, the National Academy of Public Administration (NAPA) completed a study and issued a report titled "Restoring Managerial Accountability to the United States Forest Service." The report contained specific

recommendations that address the loss of credibility we faced in recent years, evidenced by internal and external audits and investigations.

In FY 2000, we began to implement many of the NAPA recommendations. These recommendations provide an unprecedented opportunity to achieve accountability through financial reform and program linkage. Actions also address many of the concerns raised in the Inspector General's audit of our implementation of GPRA.

Accomplishments:

Before we address the key budget reform measures we have undertaken, it is important to understand several other items that we accomplished. In November of 1999, we published our draft Strategic Plan (2000 Revision) for internal and external comment. The revised plan is the keystone of our management system, provides the context and purpose for near-term actions, and is our focus for long-term land health and public service outcomes.

We are fully committed to and will implement GPRA. The revised plan will help us implement GPRA in that it turns agency management away from "inputs and processes" towards "results and outcomes." The final plan was released in October of 2000 and will be available for public distribution shortly thereafter.

We published proposed revisions to the Land Management Planning Regulations that affect long-term management of our National Forests. The goals of the proposed regulations are to:

- Ensure ecological sustainability
- Promote economic and social stability
- Integrate the management of Forest Service lands within broader landscapes
- Engage the American public in the stewardship of their national forests
- Be visionary and pragmatic to guide decision-making

Budget Structure Reform:

As part of the Agency's reform effort, we developed our FY 2001 Budget Justification to reflect a simplified budget structure and present a performance-based budget. The simplified budget structure is philosophically consistent with that recommended in the NAPA Report. It primarily affects the NFS appropriation. The proposed new budget structure:

- Reflects the work that we routinely accomplish
- Links our performance and Natural Resource Agenda implementation strategy
- Supports integrated work necessary to restore and maintain land health and promote ecological sustainability

Land Health Based Performance Measures:

We developed an integrated set of Land Health and Service to People performance measures that link to mission-orientated outcomes and financial information. We used performance measures to justify our FY 2001 budget using the simplified budget structure. We tied all

budgeted resources to this integrated set of performance measures. These measures will be revised for presentation in the FY 2002 Budget Justification to better address linkage with the budget structure.

The proposed revised budget structure identified in the agency's FY 2001 Budget Justification, and which reduced budget line items for the NFS appropriation to three, was not approved by Congress. However, Congress did recommend a revised structure that eliminates the general administration line item and collapses selected expanded budget line items. This resulted in ten budget line items in NFS. This approach emphasizes:

- Increased accountability
- Integrated management of vegetation and watersheds
- Wildlife and fish habitat management

At the same time, it maintains the separate identity of programs important for the public and Congress such as recreation, forest products, and law enforcement.

New Budget Formulation and Execution System:

To support budget process reengineering efforts, we began to develop a new budget formulation process to better enable us to prepare out-year budget requests that reflect field needs, priorities, and agency initiatives. The new process will develop out-year budget requests based on field capabilities. It links budget requests to outputs and outcomes to support performance-based budgeting. The new system will also provide integrated methods for field distribution and track our budget once Congress appropriates it. It will be implemented for the FY 2003 process.

Primary Purpose Principle:

This principle deems that expenses associated with activities should be charged against the appropriation most directly related to the activity, as opposed to charging them against multiple accounts for multiple purposes.

Over the past fiscal year, we:

- Implemented this principle
- Presented a proposal to Congress to realign funds between budget line items. Congress approved the proposal
- Implemented new, standard, FASAB compliant definitions for indirect costs. This is the first time in our history that standard definitions for indirect costs have been used

Performance Reporting:

We will use a new method to collect performance data for FY 2000. By FY 2001, we will use the new system to allocate performance targets to field units.

The new system leverages our investment in Lotus Notes through the use of a Lotus Notes database that provides standardized reporting elements that allocate performance targets from the national level to the forest level. It rolls-up reported accomplishments from the forest to

the national level. Along with this development, we are reviewing current performance measures to assure they accurately reflect mission critical work.

Financial Performance Measures

In FY 2000, we developed a financial performance measurement system. The system includes 34 individual measures focused on obtaining and maintaining a clean audit opinion, financial operations, and the operation of FFIS the new accounting system. Having a financial performance measurement system in place represents a major step towards demonstrating our commitment to accountability in conducting our financial and budget programs as well as improving the quality, timeliness, and accuracy of our financial information. With these measures, we will be able to determine where we need to focus our resources in order to make improvements in areas that will keep us on track toward financial credibility. Measuring financial performance is an effective method to determine how well we are performing our mission.

Financial Reporting Systems

The Forest Service has a number of financial reporting systems. The following have experienced the most significant changes in FY 2000.

Foundation Financial Information System (FFIS)

We implemented FFIS agency-wide on October 1, 1999. 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 our ability to provide useful, reliable, and timely financial information for Forest Service managers and for external reporting purposes. The implementation of FFIS is a major step towards improved audit opinions.

Infra-Structure Data Base

The Forest Service must deliver sound and credible information to stakeholders about its assets. To address this need, we developed the Infra-Structure Data Base (Infra). This nationally deployed data base application provides an integrated inventory of its constructed features and land units. Infra automates 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. In FY 2000 Infra produced bills for collecting for range and special uses permits, and provided the billing accounting information for these permits to FFIS.

Infra follows Forest Service guidelines for integrating information and provides tools to help manage and share data. Information collected in Infra will also be able to interface with other systems, such as FFIS and the Natural Resource Information System (NRIS).

Management Controls

The Financial Reports and Analysis Staff within the Office of Finance are 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, utilizing committees comprised of staff from all levels of the Agency in developing, implementing, and monitoring the program. These committees will review and propose policies and procedures, perform routine and special reviews, and recommend improvements to determine whether adequate controls are in place and operating effectively. 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 provides strong controls. The SGL within FFIS will significantly enhance the Forest Service's ability to provide useful, reliable, and timely financial information for Forest Service managers and for external reporting purposes. Controls over financial operations and reporting will be further strengthened as Forest Service continues to develop the utility of FFIS.

The Forest Service is reporting one new material weakness and the status of six open material weaknesses under Section Two of Federal Managers Financial Integrity Act (FMFIA) and three instances of system nonconformance under Section Four of FMFIA. Forest Service is requesting closure of one material weakness and two instances of system nonconformance. As shown in the following table, significant progress has been made to resolve these problems.

Management Controls: Federal Managers Financial Integrity Act

Section Two Material Weaknesses	Anticipated Correction Date
Timber Sale Administration	System implementation FY 2000; Completion FY 2002
Financial System	FFIS implemented FY 2000; Completion FY 2002
Special Use Permits	Infra upgrade implemented; New regulations review required; Completion FY 2001
Encroachments	Publication of manual and implementation of process required; Completion FY 2002
Personal Property	Comprehensive inventory implemented; Request closure for FY 2001
Contracting	Training and certification required; Completion FY 2001
Performance Reporting	New reporting system implemented; Measure revisions required; Completion FY 2003
Section Four System Nonconformances	Anticipated Correction Date
Real Property Management Information System	Certification of accounting data complete; Interface with FFIS required; Completion FY 2001
Central Accounting Subsystem: Credit and Cash Management	FFIS implemented; Request closure in FY 2001
Unpaid Obligations Subsystem	FFIS implemented; Request closure in FY 2001

Limitations of Financial Statements

Pursuant to the requirements of the CFO Act of 1990, as amended by GPRA, we prepared the financial statements that follow to report the financial position and results of Forest Service operations. The FY 2000 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 2000 financial statements:

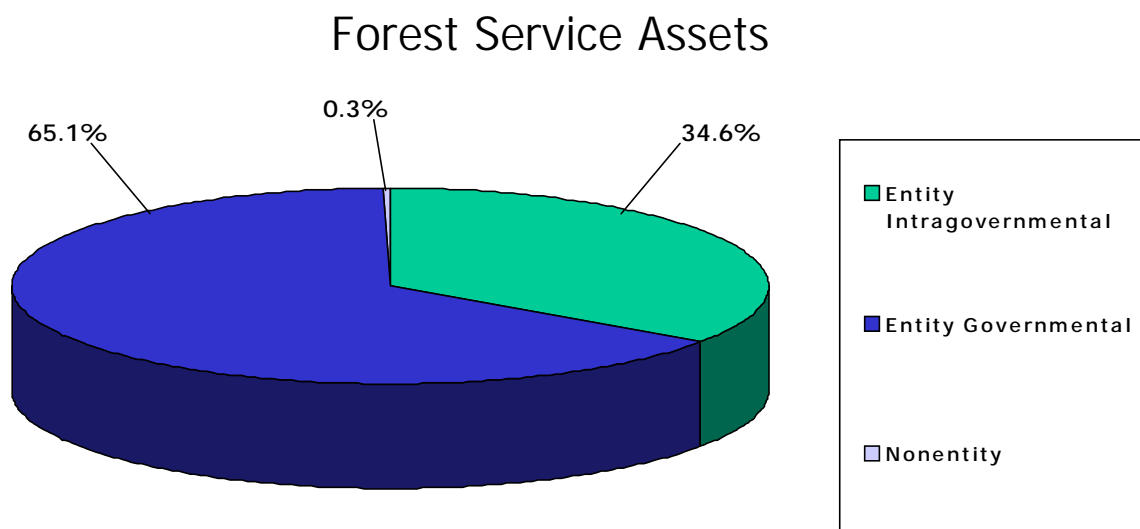
- We prepared the financial statements to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b).
- While we prepared the statements from the books and records of the entity in accordance with the formats prescribed by the Office of Management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

Principal Financial Statements

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

Balance Sheet

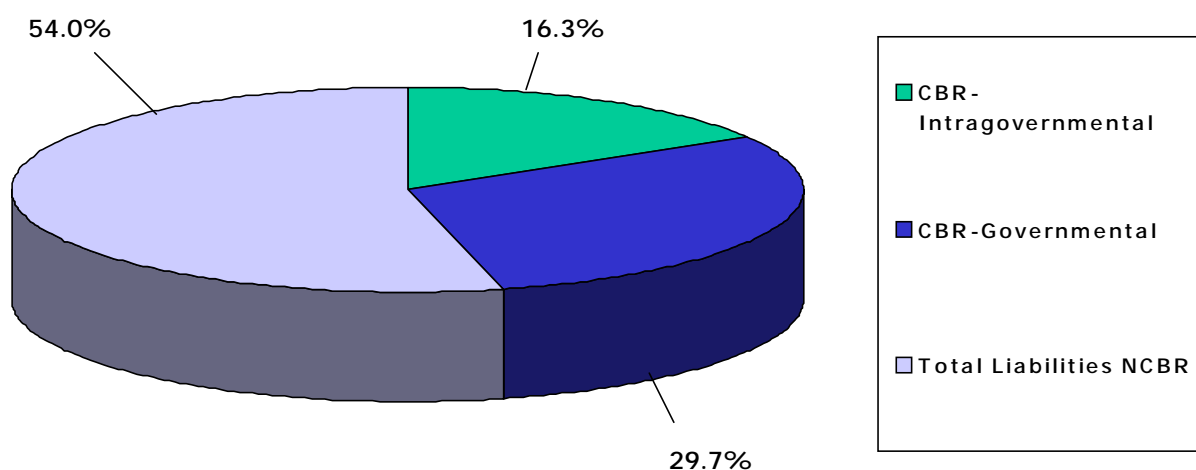
Forest Service assets are categorized into two major categories, entity and nonentity. The following assets chart further breaks down entity into intragovernmental and governmental. Entity assets are assets that the Forest Service has authority to use in operations. The Forest Service holds nonentity assets for others. Entity intragovernmental assets consist primarily of the fund balance with Treasury. Entity governmental assets consist primarily of general



property, plant, and equipment (PP&E). Nonentity assets are primarily funds at the Treasury awaiting transfer to the general fund. They 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 liability 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. The last category is accrued liabilities NCBR. Federal Employees Compensation Act (FECA) liabilities are intragovernmental and annual leave accruals are governmental.

Forest Service Liabilities

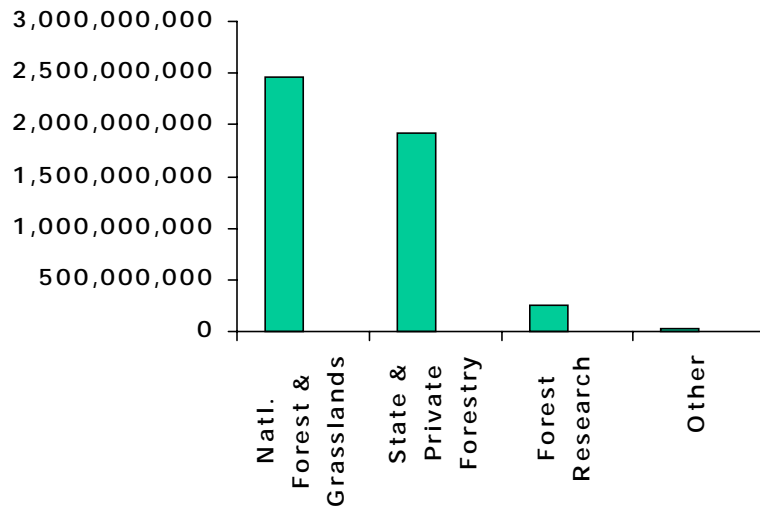


Statement of Net Cost

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, we received over \$700 million in exchange receipts. Of the revenue, over \$733 was earned by the national forests and grasslands programs. Included in the national forests' net cost was over \$181 million of stewardship assets acquired.

The chart on the following page shows how costs were incurred across program segments. As expected, 50.7 percent of operation expenses were for national forests and grasslands programs.

Cost By Segment



Principal Financial Statements

**U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
CONSOLIDATED BALANCE SHEET
As of September 30, 2000**

(In Thousands)

ASSETS	
ENTITY ASSETS:	
Intragovernmental	
Fund Balance with U.S. Treasury (<i>Note 2</i>)	\$ 2,645,092
Accounts Receivable, Net (<i>Note 4</i>)	61,102
Advances and Prepayments	<u>1,050</u>
Total Intragovernmental	<u>2,707,244</u>
Investments (<i>Note 3</i>)	2,795
Accounts Receivable, Net (<i>Note 4</i>)	148,013
Advances and Prepayments	531
Cash and Other Monetary Assets (<i>Note 2</i>)	61,387
Inventory and Related Property, Net (<i>Note 5</i>)	75,648
General Property, Plant, and Equipment, Net (<i>Note 6</i>)	<u>4,797,963</u>
TOTAL ENTITY ASSETS	<u>7,793,581</u>
NON-ENTITY ASSETS:	
Intragovernmental	
Fund Balance with U.S. Treasury (<i>Note 2</i>)	20,342
Accounts Receivable, Net (<i>Note 4</i>)	<u>26</u>
Total Intragovernmental	<u>20,368</u>
Accounts Receivable, Net (<i>Note 4</i>)	<u>4,086</u>
TOTAL NON-ENTITY ASSETS	<u>24,454</u>
TOTAL ASSETS	<u>\$ 7,818,035</u>

The accompanying notes are an integral part of these statements.

AUDITED

**U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
CONSOLIDATED BALANCE SHEET
As of September 30, 2000**

(In Thousands)

LIABILITIES

LIABILITIES COVERED BY BUDGETARY RESOURCES:

Intragovernmental

Accounts Payable	\$ 124
Unearned Revenue	14,773
Trust and Deposit Liabilities (Note 8)	50,503
Other Liabilities (Note 10)	237,489

Total Intragovernmental	302,889
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Accounts Payable	139,333
Accrued Program Liabilities (Note 9)	198,322
Unearned Revenue (Note 7)	29,369
Trust and Deposit Liabilities (Note 8)	81,443
Other Liabilities (Note 10)	102,177

TOTAL LIABILITIES COVERED BY BUDGETARY RESOURCES	853,533
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LIABILITIES NOT COVERED BY BUDGETARY RESOURCES:

Intragovernmental

Federal Employees Compensation Act Liability (Note 11)	401,881
Contingencies and Commitments (Note 13)	196,400
Other Liabilities (Note 10)	168,807

Total Intragovernmental	767,088
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Annual Leave (Note 11)	154,304
Liability for Environmental Cleanup Costs (Note 12)	-
Other Liabilities (Note 10)	78,828

TOTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES	1,000,220
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TOTAL LIABILITIES	1,853,753
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NET POSITION

Unexpended Appropriations (Note 14)	1,566,109
Cumulative Results of Operations (Note 14)	4,398,173

TOTAL NET POSITION	5,964,282
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TOTAL LIABILITIES AND NET POSITION	\$ 7,818,035
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The accompanying notes are an integral part of these statements.

AUDITED

**U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
STATEMENT OF NET COST
For the Year Ended September 30, 2000**

(In Thousands)

	National Forest and Grasslands	State and Private Forestry	Forest Research	Other	Combined Total	WCF Elimination	Consolidated Total
PROGRAM COSTS							
Federal	\$ 727,505	\$ 122,682	\$ 16,279	\$ 112,628	\$ 979,094	\$ 78,307	\$ 900,787
Non-Federal	1,730,231	1,767,786	283,630	77,825	3,859,472	77,825	3,781,647
Total Program Costs	2,457,736	1,890,468	299,909	190,453	4,838,566	156,132	4,682,434
Less: Earned Revenues	(733,924)	77,597	(43,705)	(156,132)	(856,164)	(156,132)	(700,032)
Excess Production Costs Over Revenues	1,723,812	1,968,065	256,204	34,321	3,982,402	-	3,982,402
NON-PRODUCTION COSTS							
Acquisition Costs of Stewardship Assets	181,208	-	-	-	181,208	-	181,208
Net Program Costs	1,905,020	1,968,065	256,204	34,321	4,163,610	-	4,163,610
NET COST OF OPERATIONS (Note 15)	\$ 1,905,020	\$ 1,968,065	\$ 256,204	\$ 34,321	\$ 4,163,610	\$ -	\$ 4,163,610

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, 2000**

(In Thousands)

	<u>National Forests and Grasslands</u>	<u>State and Private Forestry</u>	<u>Forest Research</u>	<u>Other</u>	<u>Total</u>
NET COST OF OPERATIONS	\$ (1,905,020)	\$ (1,968,065)	\$ (256,204)	\$ (34,321)	\$ (4,163,610)
FINANCING SOURCES:					
Appropriations Used	1,440,695	1,826,584	265,093	(49,436)	3,482,936
Donations	2,523	424	14	378	3,339
Imputed Financing	121,428	-	-	34,321	155,749
Transfers In	102,983	-	-	39,136	142,119
Transfers Out	(210,862)	(3,039)	(454)	(1,101)	(215,456)
Other	<u>(247,641)</u>		<u>-</u>	<u>-</u>	<u>(247,641)</u>
	1,209,126	1,823,969	264,653	23,298	3,321,046
Net Results of Operations	(695,894)	(144,096)	8,449	(11,023)	(842,564)
Prior Period Adjustments (Note 16)	<u>943,641</u>	<u>1,469,288</u>	<u>549,171</u>	<u>539,291</u>	<u>3,501,391</u>
Net Change in Cumulative Results of Operations	247,747	1,325,192	557,620	528,268	2,658,827
Increase (Decrease) in Unexpended Appropriations	<u>514,407</u>	<u>69,372</u>	<u>22,227</u>	<u>(378,782)</u>	<u>227,224</u>
CHANGE IN NET POSITION	762,154	1,394,564	579,847	149,486	2,886,051
NET POSITION - BEGINNING OF PERIOD	<u>2,541,150</u>	<u>(579,095)</u>	<u>103,034</u>	<u>1,013,142</u>	<u>3,078,231</u>
NET POSITION - END OF PERIOD	<u>\$ 3,303,304</u>	<u>\$ 815,469</u>	<u>\$ 682,881</u>	<u>\$ 1,162,628</u>	<u>\$ 5,964,282</u>

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, 2000**

(Dollars in Thousands)

BUDGETARY RESOURCES

Budget Authority	\$ 3,934,227
Unobligated Balances - Beginning of Period	1,317,572
Spending Authority from Offsetting Collections	261,886
Adjustments	296,387
TOTAL BUDGETARY RESOURCES	\$ 5,810,072

STATUS OF BUDGETARY RESOURCES

Obligations Incurred	\$ 5,223,671
Unobligated Balances - Available	321,565
Unobligated Balances - Not Available	264,836
TOTAL STATUS OF BUDGETARY RESOURCES	\$ 5,810,072

OUTLAYS

Obligations Incurred	\$ 5,223,671
Less: Spending Authority from Offsetting Collections and	(571,737)
Obligated Balance, Net - Beginning of Period	845,042
Obligated Balance Transferred, Net	-
Less: Obligated Balance, Net - End of Period	(1,493,309)
TOTAL OUTLAYS	\$ 4,003,667

The accompanying notes are an integral part of these statements.

AUDITED

U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
STATEMENT OF FINANCING
For the Year Ended September 30, 2000

(Dollars in Thousands)

OBLIGATIONS AND NON-BUDGETARY RESOURCES

Obligations Incurred	\$ 5,223,672
Less: Spending Authority for Offsetting Collections and Adjustments	(571,737)
Donations Not in the Budget	3,339
Financing Imputed for Cost Subsidies	155,749
Transfers-In (Out)	(73,337)
Exchange Revenue not in the Budget	(856,163)
Other	<u>-</u>
Total Obligations as Adjusted and Non-Budgetary Resources	<u>3,881,523</u>

RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS

Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided	106,797
Costs Capitalized on the Balance Sheet	(139,141)
Financing Sources that Fund Cost of Prior Periods	-
Other	<u>(474,133)</u>
Total Resources that Do Not Fund Net Cost of Operations	<u>(506,477)</u>

COSTS THAT DO NOT REQUIRE RESOURCES

Depreciation and Amortization	302,668
Revaluation of Assets and Liabilities	83,751
(Gain) Loss on Disposition of Assets	33,680
Other	<u>-</u>
Total Costs that Do Not Require Resources	<u>420,099</u>

FINANCING SOURCES YET TO BE PROVIDED	<u>368,465</u>
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NET COST OF OPERATIONS	<u>\$ 4,163,610</u>
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The accompanying notes are an integral part of these statements.

AUDITED

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 868 administrative units functioning in 44 states, Puerto Rico, and the Virgin Islands. The Forest Service's mission includes the following activities:

- Protection and management of approximately 192 million acres of National Forest System land which includes 34.8 million acres of designated wilderness areas.
- Research and development of forestry and rangeland management practices to provide scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the Nation's 1.6 billion acres of forests and associated rangelands.
- Utilization of cooperative agreements with state and local governments, forest industries and private landowners to help protect and manage non-Federal forests and associated range land and watershed areas.
- Partnering with other nations and organizations in order to foster global natural resource conservation and sustainable development of the world's forest resources.
- Execution of human resource programs which 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 were 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.

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 in consolidation. No such eliminations have been made on the Statement of Budgetary Resources.

The Statement of Financing contains eliminations of proprietary intra-entity amounts. 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 both annual and multi-year appropriations that are used, within statutory limits, for operating and capital expenditures. Other funding sources are derived through reimbursements for services performed for other Federal agencies, sale of goods to the public, gifts from donors, and interest on invested funds.

Appropriations are recognized as revenues at the time the related programs or administrative expenses are incurred. Appropriations expended for property and equipment are recognized as expenses when an asset is consumed in operations. Other revenues are recognized when earned, 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 undeposited collections, imprest funds, and unrequited authorized appropriations.

E. GENERAL PROPERTY, PLANT AND EQUIPMENT

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

F. ADVANCES AND PREPAYMENTS

Payments in advance of the receipt of goods and services are recorded as Advances and Prepayments

at the time of collection and recognized as expenditures/expenses when the related goods and services are received.

G. LIABILITIES

Liabilities represent the amount of monies or other resources that are likely to be paid by the Forest Service as a result of a transaction or event that has occurred. However, the Forest Service cannot satisfy a liability without an appropriation. Liabilities for which there is no appropriation, and for which there is no certainty that an appropriation will be enacted, are classified as unfunded liabilities. The government, acting in its sovereign capacity, can abrogate liabilities.

H. COMMITMENTS AND CONTINGENCIES

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, Forest Service withholds 7.25% of their gross earnings. Forest Service matches the employees' contribution and the sum is transferred to CSRS. Forest Service does not report CSRS assets, accumulated plan benefits, or unfunded liabilities (if any) applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management. FERS became effective January 1, 1987 pursuant to Public Law 99-335. Most employees hired after December 31, 1983 are automatically covered by FERS and Social Security. For employees covered under FERS, Forest Service withholds, in addition to Social Security, 1% 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 TSP. Forest Service automatically contributes 1% 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 2% contributed, the Agency will match fifty cents per dollar contributed. CSRS employees may contribute up to 5% of their gross pay, but there is no matching contribution.

Ceilings for employee contributions to the TSP are established on a calendar year basis. The maximum amount that FERS employees can contribute to the TSP in calendar year 2000 is the lesser of \$10,500 or 10% of their gross pay. The maximum amount that CSRS employees can contribute to the plan in calendar year 2000 is the lesser of \$10,500 or 5% of their gross pay. The sum of employee and Agency contributions is transferred to the TSP, which is administered by the Federal Retirement Thrift Investment Board.

K. SYSTEM CONVERSION

During the fiscal year ending September 30, 2000, Forest Service completed the Agency-wide implementation of the Foundation Financial Information System (FFIS). All accounting information from the Forest Service's legacy Central Accounting System (CAS) was transferred to FFIS. Converted account balances without documentation and support were excluded from the financial statements. If further review of these balances reveals that they are supportable, Forest Service will make prior period adjustments to ensure that 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.

Fund balances as of September 30, 2000 consist of the following:

Fund Type	(In Thousands)		
	Entity	Non-Entity	Total
Trust Funds	\$ 435,958	\$ -	\$ 435,958
Revolving Funds	178,625	-	178,625
Appropriated Funds	1,814,553	20,342	1,834,895
Other Fund Types	215,956	-	215,956
Total	<u>\$ 2,645,092</u>	<u>\$ 20,342</u>	<u>\$ 2,665,434</u>

Cash and Other Monetary Assets amounting to approximately \$61,387 as of September 30, 2000, consist of undeposited collections, imprest funds, and unrequisioned authorized

appropriations.

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

NOTE 3. INVESTMENTS

As of September 30, 2000, Forest Service retained \$2,795,000 in other investments that consist of securities deposited in the Federal Reserve System by timber purchasers on behalf of the Forest Service in lieu of furnishing sureties on bid, performance, and payment bonds.

NOTE 4. 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 of fire prevention and suppression funds. Under joint agreements with the states, Forest Service invoices for firefighting-related services it performs.

Non-Entity Accounts Receivable, Intragovernmental: These receivables 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. 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 receivables 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 and other programs.

Governmental non-timber related receivables are reduced by an allowance for doubtful accounts of 20%. 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 \$36.5 million as of September 30, 2000.

Accounts Receivable, Net as of September 30, 2000, consists of the following:

	(In Thousands)		
	Gross Accounts Receivable	Allowance	Net Accounts Receivable
ENTITY			
Intragovernmental	\$ 61,102		\$ 61,102
Governmental	180,929	(32,916)	148,013
Total Entity	<u>242,031</u>	<u>(32,916)</u>	<u>209,115</u>
NON-ENTITY			
Intragovernmental	26		26
Governmental	4,879	(793)	4,086
Total Non-Entity	<u>4,905</u>	<u>(793)</u>	<u>4,112</u>
TOTAL	<u><u>\$ 246,936</u></u>	<u><u>\$ (33,709)</u></u>	<u><u>\$ 213,227</u></u>

NOTE 5. INVENTORY AND RELATED PROPERTY, NET

As of September 30, 2000, Inventory and Related Property, Net consists of the following:

Description	Amount (In Thousands)
Working Capital Fund	\$ 20,769
Materials for Agency Use	11,573
Fire Caches	43,306
Total	<u><u>\$ 75,648</u></u>

Inventory and Related Property is comprised of (1) Working Capital Fund (WCF) materials and supplies; (2) materials and supplies for Agency operations; and (3) fire caches. WCF materials and supplies (i.e. 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 and 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

The accompanying notes are an integral part of these statements.

items will be returned and consumed items will be replaced or paid for as determined by the current General Services Administration (GSA) price.

Valuation Methods: Inventories in the WCF and Materials for Agency Use are valued based on the cost-basis method. In February 1999, the Forest Service changed from a weighted average method to a standard pricing system for fire cache based on GSA pricing. Effective fiscal year 1999, fire cache inventory units were valued from the GSA catalog dated 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 6. PROPERTY, PLANT AND EQUIPMENT, NET

General Property, Plant and Equipment (PP&E), Net, consists of the following at September 30, 2000 (in thousands):

Asset Class	Net Service Life	Acquisition Value	Accumulated Depreciation	Book Value
Land	-	\$ 51,595	\$ -	\$ 51,595
Improvements to Land	10	4,588,342	(2,015,361)	2,572,981
Buildings	30	809,066	(425,401)	383,665
Other Structures, Facilities, and Leasehold Improvements	10 - 50	3,114,395	(1,670,112)	1,444,283
ADP Software	8	43,372	(15,928)	27,444
Equipment	5 - 15	694,074	(376,079)	317,995
Other	-	-	-	-
Total		\$ 9,300,844	\$ (4,502,881)	\$ 4,797,963

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

To address previously reported documentation deficiencies, Forest Service issued property inventory instructions that provided detailed direction for the physical verification of assets and the verification of accounting data to the supporting documentation. The Forest Service also revalued its road prisms, which represent land that has been leveled or filled to fit the contour of the earth to prepare for

construction of a road. This revaluation was performed in accordance with Federal Accounting Standards Advisory Board guidance.

Additionally, the Forest Service, in conjunction with the Office of Inspector General (OIG), developed a methodology to value roads constructed or reconstructed prior to FY 1995. Forest Service completed the implementation of this methodology. The cumulative increase of \$2 billion associated with road prisms, physical inventory verification, and road revaluation flows into Improvements to Land.

NOTE 7. UNEARNED REVENUE, GOVERNMENTAL

The components of the Unearned Revenue, Governmental account, as of September 30, 2000 are as follows:

Description	Amount (In Thousands)
Purchaser Road Credit related	\$ 13,638
Advances From Others, Public	15,731
Total	\$ 29,369

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

The amount of the purchaser road credit (PRC) granted to contractors in connection with pre-April 1999 contracts 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 Property, Plant and Equipment) and a liability (Unearned Revenue, Governmental) are recorded for the amount of the PRC established.

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

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

Advances from Others, 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, consists primarily 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, Governmental: consists of the following amounts as of September 30, 2000:

Description	Amount
	(In Thousands)
Accrued Payroll and Benefits	\$ 86,905
Payments to States and Counties	76,467
Other accrued program liabilities	34,950
Total	\$ 198,322

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. § 535d) 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, which 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. The amount to be repaid to the K-V

The accompanying notes are an integral part of these statements.

fund fluctuates depending on the severity of the fire season in a given fiscal year. As a result of the record fire year in FY 2000, approximately \$200 million was transferred to the Wildland Fire Management from the K-V fund to pay for expenses incurred but not funded by appropriations. However, in the current fiscal year, the Forest Service repaid \$60 million of prior year advances. As of September 30, 2000, the trust fund has not been reimbursed \$608.5 million. This amount will not be

recognized until such time as Congress authorizes supplemental funding to repay the trust fund loan.

NOTE 10. OTHER LIABILITIES

The components of Other Liabilities as of September 30, 2000 consists of the following:

Description	Amount (In Thousands)
Covered by Budgetary Resources, Intragovernmental	
Accrued Liabilities	\$ 205,523
Other	31,966
Total	\$ 237,489
Covered by Budgetary Resources, Governmental	
Other actuarial liabilities	\$ 4,432
Other	97,745
Total	\$ 102,177
Not Covered By Budgetary Resources, Intragovernmental	
Custodial Liability	\$ 168,807
Not Covered by Budgetary Resource, Governmental	
Custodial Liability	\$ 78,828

Custodial Liability consists of amounts held in special receipt accounts that belong to non-Forest Service entities. Refer to Note 17 for more discussion on custodial liability.

Additionally, the Forest Service lease agreements as of September 30, 2000 are as follows:

A. Forest Service as Lessee:

Capital Leases: None exist.

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

Fiscal Year	Amount (In Thousands)
2001	\$ 75,250
2002	77,275
2003	79,350
2004	81,500
2005	83,700
2006 and Thereafter	1,563,950
Total Future Lease Payments	\$ 1,961,025

B. Forest Service as Lessor:

Capital Leases: None exist

Operating Leases: None exist

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

Liabilities under the Federal Employees' Compensation Act (FECA) are incurred as a result of workers' compensation benefits that have accrued to employees, but have not yet been paid by the Forest Service. Workers' compensation benefits include the current and expected future liability for death, disability, medical and other approved costs. The U.S. Department of Labor (DOL) actuarially determines the current and expected future liability for the U.S. Department of Agriculture (USDA) 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. Payments to the DOL are recognized as an expense in the Statement of Net Cost. The amounts of unpaid FECA billings constitute the accrued FECA payable.

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

The total annual leave and components of accrued FECA payable as of September 30, 2000 are as follows:

Description	Amount (In Thousands)
Not Covered By Budgetary Resources, Intragovernmental	
Current Liability for FECA	\$ 63,202
Expected Future Liability for FECA	338,679
Total	\$ 401,881
Not Covered By Budgetary Resources, Governmental	
Annual Leave	\$ 154,304

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 for sites on National Forest lands to be \$2.5 billion. Of this amount, approximately \$1.8 billion relates to abandoned mine lands and \$200 million relates to landfills and miscellaneous sites. The remaining \$500 million is attributed to costs relating to RCRA.

These estimates are sensitive to changes in remedy standards and new technology. The site discovery and assessment process will continue for several more years. The actual number of sites discovered and 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 indeterminable. There is a reasonable possibility, however, that parties other than the Forest Service will pay some of the clean-up costs.

NOTE 13. CONTINGENCIES AND COMMITMENTS

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. Absent a specific statutory requirement, the Forest Service is not required to record a liability or reimburse the Judgment Fund for payments for tort 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 from torts claims for FY 2000 amounted to \$2,237,406.

Litigation arising from contract disputes (such as from Timber Sales Contracts) is governed by The Contract Disputes Resolution Act (CDRA). Subsection 612(c) provides that CDRA payments made on behalf of Federal agencies by the Judgment Fund shall be reimbursed to the Fund. Consequently, the debtor Federal agency is required to record a payable to the Judgment Fund. Those amounts remain a receivable on Financial Management Service's (Department of Treasury) books and a payable on the debtor agency's books until reimbursement to the Fund is made by the agency. At September 30, 2000, the Department of Treasury indicated that the Forest Service is liable for \$168 million. This amount has been reported on the financial statements.

Pending Litigation and Unasserted Claims: As of September 30, 2000, 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. This amount has been reported on the financial statements.

The Forest Service has other pending legal actions for which the likelihood of adverse outcomes is reasonably possible. The potential loss is estimated at \$130.1 million.

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 (in thousands)
Unobligated Balances	
Available	557,883
Unavailable	87,383
	645,266
Undelivered Orders	920,843
Total Unexpended Appropriations	1,566,109

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

FY 2000 net position-beginning balance decreased compared to FY 1999 net position-ending balance. This is attributable to a write-off of unsubstantiated amounts related to conversion from the Central Accounting System to Foundation Financial Information System.

NOTE 15. SUPPORTING SCHEDULES FOR THE STATEMENT OF NET COST

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

The supporting schedules are presented on the following pages.

**U. S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
SUPPORTING SCHEDULE BY PROGRAM
NATIONAL FOREST AND GRASSLANDS RESPONSIBILITY SEGMENT**

**For the Year Ended September 30, 2000
(In Thousands)**

	Recreation	Wildlife and Fish	Range	Forest Managemen nt	Soil, Water and Air	Mineral	Land Ownership and Protection	Total
PROGRAM COSTS								
Intragovernmental	\$ 69,782	\$ 108,102	\$ 15,770	\$ 486,699	\$ 14,041	\$ 14,973	\$ 18,138	\$ 727,505
Governmental	307,790	398,585	74,325	589,868	68,626	38,710	252,327	1,730,231
Total Program Costs	377,572	506,687	90,095	1,076,567	82,667	53,683	270,465	2,457,736
Less: Earned Revenues	110,490	(10,993)	25,035	530,239	2,325	56,079	20,749	733,924
Excess Production Costs Over Revenue	267,082	517,680	65,060	546,328	80,342	(2,396)	249,716	1,723,812
NON-PRODUCTION COSTS								
Acquisition Costs of Stewardship Assets	-	-	-	-	-	-	181,208	181,208
Net Program Costs	267,082	517,680	65,060	546,328	80,342	(2,396)	430,924	1,905,020
NET COST OF OPERATIONS	\$ 267,082	\$ 517,680	\$ 65,060	\$ 546,328	\$ 80,342	\$ (2,396)	\$ 430,924	\$ 1,905,020

The accompanying notes are an integral part of these statements.

AUDITED

**U. S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
SUPPORTING SCHEDULE BY PROGRAM
STATE AND PRIVATE FORESTRY RESPONSIBILITY SEGMENT**

**For the Year Ended September 30, 2000
(In Thousands)**

	Forest Health Protection	Fire and Aviation Management	Cooperativ e Forestry Manageme nt	Total
PROGRAM COSTS				
Intragovernmental	\$ 15,463	\$ 99,515	\$ 7,704	\$ 122,682
Governmental	92,650	1,573,726	101,410	1,767,786
Total Program Costs	108,113	1,673,241	109,114	1,890,468
Less: Earned Revenues	413	(78,618)	608	(77,597)
Excess Production Costs Over Revenue	107,700	1,751,859	108,506	1,968,065
NON-PRODUCTION COSTS				
Acquisition Costs of Stewardship Assets	-	-	-	-
Net Program Costs	107,700	1,751,859	108,506	1,968,065
NET COST OF OPERATIONS	\$ 107,700	\$ 1,751,859	\$ 108,506	\$ 1,968,065

The accompanying notes are an integral part of these statements.

AUDITED

**U. S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
SUPPORTING SCHEDULE BY PROGRAM
FOREST RESEARCH RESPONSIBILITY SEGMENT**

**For the Year Ended September 30, 2000
(In Thousands)**

	Forest Research
PROGRAM COSTS	\$ 16,279
Intragovernmental	283,630
Governmental	299,909
Total Program Costs	
Less: Earned Revenues	43,705
Excess Production Costs Over Revenues	256,204
NON-PRODUCTION COSTS	
Acquisition Costs of Stewardship Assets	-
Net Program Costs	256,204
NET COST OF OPERATIONS	\$ 256,204

The accompanying notes are an integral part of these statements.

AUDITED

**U. S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
SUPPORTING SCHEDULE BY PROGRAM
OTHER RESPONSIBILITY SEGMENT**

**For the Year Ended September 30, 2000
(In Thousands)**

	Working Capital Fund	USDA Agencies	Total
PROGRAM COSTS	\$ 78,307	\$ 34,321	#####
Intragovernmental	77,825	-	\$ 77,825
Governmental	156,132	34,321	190,453
Total Program Costs			
Less: Earned Revenues	156,132	-	#####
Excess Production Costs Over Revenues	-	34,321	34,321
NON-PRODUCTION COSTS			
Acquisition Costs of Stewardship Assets	-	-	\$ -
Net Program Costs	-	34,321	34,321
NET COST OF OPERATIONS	\$ -	\$ 34,321	\$ 34,321

The accompanying notes are an integral part of these statements.

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

Prior Period Adjustments for the fiscal year include the following:

Adjustments to real property relating to physical inventory and includes revaluation of assets	\$ 3,838,696
Correct accumulated depreciation associated with airplanes recorded in PROP	(4,255)
Reclassify PROP assets (airplanes) to Heritage assets	(1,814)
Correct accumulated depreciation in EMIS	(1,568)
Inventory and Related Property:	
Fire Cache inventory revaluation	3,800
Accounts Receivables:	
Corrections related to the allowance for uncollectible accounts and interest receivables	7,800
Federal Employees Compensation Act (FECA)	
Corrections to prior fiscal year (4th Quarter) expense	(19,612)
Conversion related revaluations	(364,993)
Other	43,337
TOTAL	<u><u>\$ 3,501,391</u></u>

NOTE 17. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

	<u>Net Amount</u>
Budgetary Resources Obligated for Undelivered Orders, End of Period	\$ 967,409
Available Borrowing and Contract Authority, End of Period	-0-

Description of Terms of Borrowing Authority Used:

Forest Service has the following major permanent indefinite appropriations:

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

Monies received under the above appropriations are appropriated and made available until expended by the 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.

**U.S. DEPARTMENT OF AGRICULTURE
FOREST SERVICE
STATEMENT OF BUDGETARY RESOURCES
FOR THE PERIOD ENDING SEPTEMBER 30, 2000
(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	\$ 1,929,738	\$ 247,463	\$ 241,561	\$ 722,324	\$ 473,288	\$ 252,184	\$ 67,669	\$ 3,934,227
Unobligated Balances - Beginning of Period	646,270	82,875	80,899	241,906	158,504	84,456	22,662	1,317,572
Spending Authority from Offsetting Collections	128,455	16,473	16,080	48,082	31,505	16,787	4,504	261,886
Adjustments	145,378	18,643	18,198	54,417	35,655	18,998	5,098	296,387
Total Budgetary Resources	2,849,841	365,454	356,738	1,066,729	698,952	372,425	99,933	5,810,072
Status of Budgetary Resources								
Obligations Incurred	2,562,211	328,569	320,733	959,066	628,408	334,837	89,847	5,223,671
Unobligated Balances - Available	157,728	20,227	19,744	59,039	38,684	20,612	5,531	321,565
Unobligated Balances - Not Available	129,902	16,658	16,261	48,624	31,860	16,976	4,555	264,836
Total Status of Budgetary Resources	2,849,841	365,454	356,738	1,066,729	698,952	372,425	99,933	5,810,072
Outlays								
Obligations Incurred	2,562,211	328,569	320,733	959,066	628,408	334,837	89,847	5,223,671
Less: Spending Authority from Offsetting Collections and Adjustments	(280,437)	(35,962)	(35,105)	(104,971)	(68,780)	(36,648)	(9,834)	(571,737)
Obligated Balance, Net Beginning of Period	414,493	53,153	51,886	155,150	101,658	54,167	14,535	845,042
Obligated Balance Transferred, Net	-	-	-	-	-	-	-	-
Less: Obligated Balance, Net End of Period	(732,468)	(93,929)	(91,689)	(274,172)	(179,645)	(95,721)	(25,685)	(1,493,309)
Total Outlays	\$ 1,963,799	\$ 251,831	\$ 245,825	\$ 735,073	\$ 481,641	\$ 256,635	\$ 68,863	\$ 4,003,667

The accompanying notes are an integral part of these statements.

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NOTE 18. CUSTODIAL ACTIVITY

The Forest Service, as of September 30, 2000, collected the following funds, of which portions are due to the U.S. Department of Treasury. These amounts are included in Other Liabilities as Custodial Liability:

Description		Amount
		(In Thousands)
<i>General Fund Receipts</i>		
Forfeitures of Unclaimed Money and Property	121060	\$ 5
Fines, Penalties and Forfeitures	121099	102
General Fund Proprietary Interest	121435	345
General Fund Proprietary Receipts	123220	9,616
Total		<u>\$ 10,068</u>
<i>Special Fund Receipts</i>		
Land and Water Conservation Fund	125005	\$ 1
National Forest Fund Receipts	125008	206,706
Recreation Facilities	125072	17
Land Exchanges	125216	82
Land Between the Lakes	125360	7,019
National Grasslands Receipts	125896	23,748
Total		<u>\$ 237,573</u>
TOTAL		<u>\$ 247,641</u>

Special Fund Receipts: 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 the 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. National Grassland 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 disbursed to Treasury.

The accompanying notes are an integral part of these statements.

Required Supplementary Stewardship Information

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

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

Stewardship Land

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

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

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.

Description		FY 1999 Ending Balance	FY 2000 Net Change (2)	FY 2000 Ending Balance	Condition (1)
1	National Forests	187,665,452	161,598	187,827,050	Varies
2	National Forest Purposes	144,260,930	263,231	144,524,161	Varies
3	National Forest Wilderness Areas	34,750,897	462	34,751,359	Varies
4	National Forest Primitive Areas	173,762		173,762	Varies
5	National Wild and Scenic River Areas	944,853	56	944,909	Varies
6	National Recreation Areas	2,739,859	(103,465)	2,636,394	Varies
7	National Scenic Areas	128,922	256	129,178	Varies
8	National Scenic - Research Areas	6,630	7	6,637	Varies
9	National Game Refuges and Wildlife Preserve Areas	1,218,990		1,218,990	Varies
10	National Monument Areas	3,267,693		3,267,693	Varies
11	National Monument Volcanic Areas	166,376	1,051	167,427	Varies
12	National Historic Areas	6,540		6,540	Varies
13	National Grasslands	3,831,371	6,753	3,838,124	Varies
14	Purchase Units	352,892	4,635	357,527	Varies
15	Land Utilization Projects	1,876		1,876	Varies
16	Research & Experiment Areas	64,871		64,871	Varies
17	Other Areas	130,210	(4,720)	125,490	Varies
18	Total NFS Acreage	192,046,672	168,266	192,214,938	

National Forest Purposes = National Forests - rows 3 through 12

Total NFS Acreage = National Forests + rows 2 through 17

(1) Condition of NFS Land: For the first time, the Forest Service has a comprehensive analysis of the condition of NFS lands. It indicates that more than half of the 140 million acres of forestland, out of the total 192 million acres of NFS lands, is at risk to future concerns posed by insects, disease, and fire. Whereas these areas are now producing valuable benefits (i.e. clean air, clean water, habitat for wildlife, and products for human use), in the future, some of these acres are at risk and may need treatment. We also have concerns about invasive species of insects, diseases and plants that impact our native system by causing mortality to, or displacement of, native vegetation. We are putting in place nationally standardized systems to inventory and monitor the condition of the forestland. Two such programs are the Forest Inventory and Analysis Program and the Forest Health Monitoring Program. There are currently 37 states in the annual monitoring program that includes a forest health component. Our National Fire Plan will step up our efforts to prevent and suppress future fires adequately and restore acres that are out of synch with their proper function and condition.

(2) Net Change: Land Acquired through purchase is needed to protect critical wildlife habitat, cultural and historic values, congressionally designated areas, and outdoor recreation and conservation purposes.

Definitions

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

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

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

National Grasslands: A unit designated by the 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 for forest and range research experimentation.

Heritage Assets

We manage 155 national forests and 20 grasslands on more than 192 million acres of public land. This encompasses a number of cultural and heritage assets. Some are listed on the Nation's Register of Historic Places and some have been designated as National Historic Landmarks. Our cultural resource specialists and the 155 national forests maintain separate

lists of heritage assets. Prior to FY 1999, there was no requirement to consolidate them either at the regional or national levels.

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

We estimate that there are about 277,000 heritage assets on lands that we manage. The vast majority of these assets have no annual maintenance performed on them. We are formulating a long-term methodology to better assess the extent and condition of these assets.

Definitions

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

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

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

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

Human Capital - Job Corps Civilian Conservation Centers FY 2000 Net Cost of Operations \$94 million

In partnership with the Department of Labor, we operate 18 Job Corps Civilian Conservation Centers. Job Corps is the only Federal residential employment and education training program for economically challenged youth, ages 16 to 24. The purpose of the program is to provide young adults the skills necessary to become employable, independent, and productive citizens. Job Corps operates and is funded on a program year July 1, 1999 through June 30, 2000.

Established in 1964, we have trained and educated about 200,000 young people. The program is carried out in a structured, co-educational, residential environment that provides education, vocation and life skills training, counseling, medical care, work experience, placement assistance, recreational opportunities, and a cash allowance.

Job Corps students can choose from a wide variety of careers such as urban forestry, heavy equipment operation and maintenance, business clerical, carpentry, culinary arts, painting, cement and brick masonry, welding, auto mechanics, health services, building and apartment maintenance, warehousing, and plastering.

During FY 2000, there were 8,818 participants with 4,356 placements.

Research and Development - Forest and Rangeland Research FY 2000 Net Cost of Operations \$256 million

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

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

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

A representative summary of FY 2000 accomplishments include:

- Estimated 225 new interagency agreements and contracts
- About 65 interagency agreements and contracts continued
- Estimated 1,052 articles published in journals
- Estimated 1,452 articles published in all other publications
- 4 patents granted
- 6 rights to inventories 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 non-critical amounts of maintenance needed to return each class of asset to its acceptable operating condition.

FY2000 Deferred Maintenance Totals by Asset Class (\$ In Thousands)

Asset Class	Overall Condition (1)	Cost to Return to Acceptable Condition	Critical Maintenance (2)	Non-Critical Maintenance (3)
Buildings and Admin. Facilities	Varies	740,078	264,324	475,754
Dams	Varies	30,863	12,942	17,921
Heritage*	Varies	60,000	60,000	000
Range Improvements	Varies	334,880	330,139	4,741
Recreation Facilities	Varies	293,659	135,027	158,632
Roads and Bridges	Varies	4,511,752	1,552,452	2,959,300
Trails	Varies	151,817	54,479	97,338
Watershed Improvements**	Varies	5,000	1,000	4,000
Wildlife, fish, TES	Varies	26,014	16,771	9,243
Subtotal		6,154,063	2,427,134	3,726,929
Add 19% Overhead ***		1,169,272	461,155	708,117
Total		7,323,335	2,888,289	4,435,046

Total FS "system" road mileage = 381,000 miles as of a 11/8/2000 data pull from Infra, the FS integrated real property database, where Jurisdiction = FS, Status = existing, and system = FDR.

* Used the same Heritage values as last year.

**Used the same watershed values as last year.

*** Agency average supplied by the CFO Budget Staff

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

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

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

The Forest Service uses condition surveys to estimate deferred maintenance on all major classes of PP&E. There is no deferred maintenance on equipment because we have our fleet vehicles and computers in a working capital fund. We maintain each fleet vehicle according to schedule. We treat the remaining equipment as expensed. Therefore, there is no deferred maintenance on general equipment.

Condition of Administrative Facilities:

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

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

Condition of NFS Lands:

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

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