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Office of Inspector General
Western Region
Audit Report

REVIEW OF FOREST SERVICE'S
ENTERPRISE PROGRAM
PACIFIC SOUTHWEST REGION
VALLEJO, CALIFORNIA



Report No.
08601-25-SF
June 2001



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington D.C. 20250



DATE: June 22, 2001

REPLY TO
ATTN OF: 08601-25-SF

SUBJECT: Review of Forest Service's Enterprise Program

TO: Dale Bosworth
Chief
Forest Service

ATTN: Linda Washington
Agency Liaison Officer

This report presents the results of our review of the Forest Service's (FS) Enterprise Program. The FS' written response to the draft report is included as exhibit F with excerpts and the Office of Inspector General's (OIG) position incorporated into the relevant sections of the report.

We have accepted your management decision for all recommendations except for Recommendations Nos. 4, 7, 8, 9, and 10. We will be able to accept your management decision for the remaining recommendations when you provide us with additional information as outlined in the OIG Position section of the report.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframe for implementation of the recommendations for which a management decision has not yet been reached. Please note that the regulation requires a management decision to be reached on all recommendations within a maximum of 6 months from report issuance. Follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the assistance your staff provided to our auditors during our review.

/s/
RICHARD D. LONG
Assistant Inspector General
for Audit

EXECUTIVE SUMMARY

REVIEW OF FOREST SERVICE'S ENTERPRISE PROGRAM PACIFIC SOUTHWEST REGION VALLEJO, CALIFORNIA

REPORT NO. 08601-25-SF

RESULTS IN BRIEF

The overall intent of the Forest Service (FS) enterprise concept is to improve management efficiencies through the use of independent, self-sufficient internal business units. The FS

Pacific Southwest Region (Region 5) was selected to develop the Enterprise Program and was authorized to establish it as a new activity within the FS Working Capital Fund (WCF). FS units requesting Enterprise Program services transfer funds to the WCF, which in turn pays the business unit for the cost of the services. The FS Washington Office planned to expand the program agencywide and had formed a Quality Council in April 2000 to assist in its implementation.

Our audit survey objectives were to: (1) become familiar with FS regulations, procedures, and policies regarding the Enterprise Program; (2) identify key internal controls pertaining to the FS' administration of the Enterprise Program and perform a limited review of the controls; and (3) determine areas that warrant future audit coverage. During our survey, we found reportable conditions to warrant an audit report without further audit coverage. Our survey concluded the FS needs to address the following critical areas before expanding the Enterprise Program agencywide.

Need to Protect Program Integrity

The FS has not protected the integrity of the Enterprise Program by proving its overall value to the Government. As limited resources of the FS are transferred to enterprise units, it is imperative that the FS have measurable goals to gauge the benefits derived from the Enterprise Program. Without a system in place, the FS does not have the information to determine if the Enterprise Program is fulfilling its objective of improving the effectiveness, efficiency and accountability of FS programs.

Need To Establish Financial Integrity

Our survey found serious weaknesses in the financial operations of the Enterprise Program. Unless the FS takes immediate steps to correct the following conditions, the financial health and stability of the Enterprise Program cannot be assured.

- The FS does not have a reliable accounting system that can provide accurate and timely financial statements to the Enterprise Development Bank and enterprise units. As a result, the financial condition of the Bank and the enterprise units cannot be easily determined.
- Guidelines for limiting losses and terminating enterprises that are not financially viable have not been developed and the Enterprise Development Bank had not maintained cash reserves to absorb financial losses resulting from enterprise failures.

Need to Maintain Legal Integrity

The FS needs to ensure that the Enterprise Program meets the legal requirements for using funds from the WCF. We found that some of the program's activities needed legal guidance. In one case, the legal guidance provided was not adhered to.

- The Reinvention Laboratory needs to reimburse the WCF \$2.6 million to fully comply with the law as interpreted by the Office of the General Counsel (OGC) in its legal opinion regarding the use of WCF funds to finance startup costs. The FS obtained the opinion prior to the commencement of the Enterprise Program. We found that the Reinvention Laboratory received funding of over \$3.7 million from the WCF Fleet Activity that did not meet the requirements of the law as expressed in the OGC opinion, which limited what could be used as startup funding. At the time of our survey, the Reinvention Laboratory still needed to pay back \$2.6 million of the \$3.7 million it received from the WCF Fleet Activity, but it missed the first installment payment scheduled for February 1, 2000. The Reinvention Laboratory had already refunded \$1.1 million to benefiting appropriations (i.e., to the programs that contributed to the WCF surplus) prior to our survey.
- A standard had not been established to limit the amount of enterprise services that could legally be provided to non-FS sources. Although the WCF was established by law to supply equipment and services in support of FS programs, enterprise businesses provide services to both FS and non-FS sources.

- The FS needs to develop policies and procedures if the Enterprise Program is expanded nationwide. Without such procedures, the FS cannot ensure that the program will operate according to regulations. In addition, the FS needs to obtain an updated opinion from OGC to ensure that the expanded operations of the Enterprise Program still meet the intent of the Congressional Act establishing the WCF.

KEY RECOMMENDATIONS

To protect program integrity, the FS needs to limit expansion of the Enterprise Program until the program's overall value to the Government has been proven.

To establish financial integrity over the program, the FS needs to 1) develop a comprehensive plan to fix the accounting problems associated with its new accounting system so that the Enterprise Development Bank can provide reliable and timely financial statements to the enterprise units, 2) develop guidelines for limiting financial losses and terminating enterprise units that are not financially viable, and 3) establish sufficient cash reserves at the Enterprise Development Bank to absorb enterprise failures.

To maintain the legality of the program, the FS needs to 1) strictly adhere to the law as interpreted by OGC relating to startup costs and reimburse the WCF for the remaining \$2.6 million that was advanced, 2) establish a standard on limiting enterprise services to non-FS sources, and 3) develop policies and procedures to ensure consistent application among regions and request OGC to review the operational and expansion plans of the program.

AGENCY RESPONSE

In its written response to the draft report, dated June 12, 2001, the FS generally concurred with the audit findings and recommendations. The response also stated

that until the FS has adequately addressed the concerns raised by OIG, and proven the enterprise program's overall value to the government including completing all the recommended actions noted in the report, the FS will refrain from full expansion of the program nationally.

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INTRODUCTION

BACKGROUND

The Government Performance and Results Act requires Government agencies to become more efficient, effective, and much more accountable. The National Performance

Review,¹ in implementing this act, seeks to create “a government that works better and costs less,” and suggests using “market mechanisms” to do so. In August of 1997, as part of the Presidential Initiatives under the National Performance Review, the Forest Service (FS) Pacific Southwest Region and the FS Research Station were designated as a Reinvention Laboratory for the term of 5 years to test the concept of using internal enterprise units in the FS. The objectives of the enterprise units were to enable the FS to: (1) improve service to the public and the efficiency of operations; (2) enhance the work environment for employees; and (3) increase the quality of management of our public lands. The FS Washington Office plans to expand the Enterprise Program to other regions if the concept is successful.

The Region 5 Enterprise Program is operated under the FS Working Capital Fund (WCF) to finance the business operations of the enterprise units. The WCF was established by the Department of Agriculture Organic Act of August 3, 1956, as amended by the Act of October 23, 1962. It is a self-sustaining revolving fund that provides services to National Forests, Experiment Stations, Federal agencies, and as provided by law, to State and private cooperators. Users of WCF services pay the WCF what amounts to a user’s fee for the service. Rates are structured to allow the fund to recover operating and replacement costs.

At the end of fiscal year (FY) 1999, the volume of business for major WCF activities totaled over \$175 million of which approximately \$6 million was attributed to the enterprise services activity (see Exhibit B). The FS estimates that the volume of business for enterprise services will increase to \$8 million in FY 2001. There are currently 19 enterprise units operating in Region 5 with more new enterprises expected to begin operations in March 2001. Most of the 19 enterprises went into business on either July 6, 1998, or approximately one year later on August 8, 1999 (see Exhibit C). There are 56 FS employees currently working for enterprise units.

The Reinvention Laboratory, as an operating unit within the Pacific Southwest Region consists of 3 full-time FS employees and a steering

¹ Formerly known as the National Partnership for Reinventing Government.

committee composed of the Director of the Reinvention Laboratory and an interdisciplinary team of 15 FS management officials representing every Forest and function within the region. The Director of the Reinvention Laboratory is the most active manager of the Enterprise Program. The Director advertises the program, recruits for it, monitors existing enterprises, assists those enterprises needing help, and along with the other steering committee members, approves proposed enterprises and establishes program policy.

The process to develop an enterprise begins with the Reinvention Laboratory. The Laboratory accepts business proposals from FS employees or groups of employees who want to operate their own businesses (defined as enterprise units). All business proposals must have a sponsor (who is generally a Forest Supervisor, Assistant Regional Forester, Assistant Station Director, Project Leader, or the Reinvention Laboratory Director) also known as the enterprise unit's supervisor of record responsible for approving payroll, travel, and other related activities involving the enterprise unit. The sponsor is also responsible for counseling the enterprise unit's employees as well as assisting the enterprise unit in marketing its products and services.

The steering committee reviews each proposal to make sure that it is within the agency's mission and is not in direct competition with the private sector. Once approved, enterprise applicants attend Reinvention Accelerator Training, a 45-day training course, in which they learn basic business skills in order to effectively manage their enterprises. At the end of the training, enterprisers produce full-fledged business plans, which they present to the steering committee. In the business plan, the enterprise unit outlines its products and services, financial and marketing strategies, and growth potential. The steering committee scrutinizes each plan for financial viability and only approves those that have a high potential for financial success. Currently only 19 of the 33 business plans submitted to the steering committee have been approved. All approved enterprise units are organizationally assigned to the Reinvention Laboratory.

Once the business plan is approved, the enterprise unit is issued a business license by the Enterprise Development Bank. The bank, established by the Reinvention Laboratory, consists of four full-time FS staff (a comptroller, an accountant, and two financial analysts) and is organizationally under the Region's financial management division headed by the Chief Financial Officer. The bank has primary responsibility for maintaining the financial records of the enterprises and for tracking the funding requirements and cash balances of each enterprise unit. The bank collects an annual license fee of \$7,500 per enterprise plus 1.5 percent of the enterprise unit's gross revenue. The fees are used to pay for administrative support and for financial record keeping services. If an

enterprise unit experiences a cash deficit, the bank will provide the necessary loan at a 10 percent interest rate.

As noted above, the Reinvention Laboratory also provides assistance to enterprise units experiencing financial difficulties. For example, if the enterprise unit cannot cover its costs, the Reinvention Laboratory works with the unit to restructure its offering. If that doesn't work, the Reinvention Laboratory will either merge the faltering enterprise with a financially stronger enterprise or terminate the enterprise unit.

Upon receiving their license, enterprise units can market their services and products to customers inside and outside the FS for predetermined fees aimed at recovering their cost of doing business. Enterprise unit employees retain their civil service status with all associated rights and benefits. Enterprises report to the steering committee annually to present the status of their businesses. Those businesses that are proving unsuccessful may be disbanded. Contingency plans allow enterprise employees of an unsuccessful or disbanded enterprise to return to the traditional FS workforce.

Prior to using the WCF for its enterprise services, the FS solicited a legal opinion from the Office of the General Counsel (OGC) concerning the legality of using the WCF for enterprise services. On May 18, 1998, OGC issued a legal opinion which stated that

- WCF funds may be used for startup costs, but careful monitoring and accounting will be required to ensure the orderly distribution of the costs of these service operations between the various FS programs and the appropriations that are made available;
- WCF may advance payments to the enterprise activities, but only if payments in excess of charges are returned to the appropriations from which they originated;
- WCF advances must be related directly to a firm order; and
- enterprise services using the WCF must be charged on the basis of the cost of performance. Enterprise services are prohibited from earning profits or excess income over expenses.

The FS Washington Office completed a review of the Enterprise Program in February 2000 and recommended FS management delay expansion plans until the program's benefit to the Government is proved. In April 2000, Region 5 contracted with public accounting firm PricewaterhouseCoopers to develop a measurement plan to determine the Enterprise Program's overall value to the FS.

PricewaterhouseCoopers issued its report to the FS in October 2000. In its report, PricewaterhouseCoopers concluded that some of the program's objectives, such as improved customer service and job satisfaction, were being met. However, due to a lack of data, PricewaterhouseCoopers was unable to successfully measure those objectives that were quantitative, such as the efficiency of the program's operations. PricewaterhouseCoopers concluded that the program's greatest weakness was that there had been little systematic and fact-based reporting of the program's efficiency and effectiveness. As a result, it was difficult to obtain benchmarking data to evaluate the performance of the program.

OBJECTIVES

The objectives of our survey were to: (1) become familiar with FS regulations, procedures, and policies regarding the Enterprise Program; (2) identify key internal controls pertaining to the FS' administration of the Enterprise Program and perform a limited review of the controls; and (3) determine areas that warrant future audit coverage.

SCOPE

We performed our survey work at the FS' Pacific Southwest Regional Office in Vallejo, California. Our survey primarily covered operations when the Enterprise Program was first created to September 2000. We conducted our fieldwork from May to September 2000.

The survey was conducted in accordance with general accepted government auditing standards.

METHODOLOGY

To accomplish our survey objectives, we performed the following steps and procedures:

- We consulted with OGC to determine the legal basis for including the Enterprise Program in the WCF. We also discussed other legal issues with OGC pertaining to the program, such as (1) the employment status of enterprise employees and their liability for the services their enterprise businesses render, (2) the degree to which enterprise businesses can have non-FS customers, and (3) any limitations imposed on the Enterprise Program by OMB Circular A-76, Performance of Commercial Activities.
- We met with the consulting team at PricewaterhouseCoopers to discuss their project to review the Enterprise Program and obtained a copy of their report on the program dated October 2000.

- We interviewed staff at both the FS Washington Office and Pacific Southwest Regional Office to determine their involvement in the creation of the Enterprise Program as well as their responsibilities for overseeing the program. We also identified all applicable laws and regulations pertaining to the Enterprise Program.
- At the Reinvention Laboratory, we interviewed the director and his staff to determine the Laboratory's responsibilities for administering the Enterprise Program. We also identified the services the Reinvention Laboratory provides the enterprise businesses, as well as obtained and reviewed key documents such as the Reinvention Laboratory's Strategic Plan for expanding the Enterprise Program agencywide.
- At the Enterprise Development Bank, we interviewed all bank employees regarding their background, experience, and responsibilities pertaining to the Enterprise Program. We also interviewed the Enterprise Development Bank's Comptroller to determine the financial controls established by the Enterprise Development Bank.
- We interviewed all Enterprise Program Steering Committee Members to determine (1) their responsibilities pertaining to the Enterprise Program, (2) their qualifications for serving on the steering committee, and (3) the criteria they used to evaluate an enterprise applicant's business proposal and business plan prior to approving the business for operation.
- We selectively interviewed 12 of the 19 enterprise business owners to (1) obtain general information about their businesses, (2) determine their qualifications for running their own enterprise businesses, and (3) identify any comments or concerns they had about the Enterprise Program.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	FS NEEDS TO PROTECT PROGRAM INTEGRITY BY PROVING THE ENTERPRISE PROGRAM'S VALUE TO THE GOVERNMENT
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FINDING NO. 1

The FS has not protected program integrity over the Enterprise Program by first proving its overall value to the Government. A recent attempt to measure this value failed. The Reinvention Laboratory contracted with a

consulting firm to quantify the value of the program by comparing its results to its measurable objectives, such as efficiency of operation. However, due to a lack of data, the consulting firm was unable to successfully measure the quantitative objectives of the program. As limited resources of the FS are transferred into enterprise units, it is imperative that the FS have measurable (quantifiable) goals to gauge the benefits derived from the Enterprise Program and a system of assessing the success (or failure) in reaching those goals. Without a system in place, the FS is not only unable to determine if the Enterprise Program is fulfilling its objective of improving the effectiveness, efficiency and accountability of FS programs, but whether the value derived from the Enterprise Program warrants agencywide expansion.

The objective of the Reinvention Laboratory was to experiment with innovative methods to accomplish the business of the FS in a way that would lead to more businesslike and ecological approaches in operating the National Forests. The Enterprise Program was the first innovative method developed by the Reinvention Laboratory.

The Washington Office concluded in its recent review of the Enterprise Program that the program should not be expanded until it had demonstrated a measurable benefit to the FS.² In its report, the Washington Office noted that there was ample evidence that some of the stated objectives of the Enterprise Program—those relating to enhancement of employees' work environment and career development—were being met. However, the Washington Office also concluded that

² The Chief Financial Officer requested the review to ensure that there were no significant problems with the Enterprise Program before it was expanded.

there was little or no evidence of the accomplishment of other Enterprise Program objectives, such as increased efficiency of operations and increased cost effectiveness. The Washington Office noted that, while there were many assumptions that services being provided by the enterprise businesses were more cost-effective, of a higher quality, and more timely delivered than identical or similar work accomplished by other means, there existed no data to support any of those assumptions. The report also noted that the Reinvention Laboratory had not established a monitoring program to assess the tangible and quantifiable benefits accruing to the FS as a result of the Enterprise Program. The Washington Office recommended that the laboratory implement such a monitoring program and measure such tangible benefits as reduced program costs, increased program production, and reduced manpower needs.

In response to the Washington Office report, the Reinvention Laboratory contracted with the consulting firm of PricewaterhouseCoopers in April 2000 to develop and execute a measurement plan that would compare results of the Enterprise Program to date to its identified objectives. PricewaterhouseCoopers issued its report to the FS in October 2000. In its report, PricewaterhouseCoopers concluded that many of the Enterprise Program's qualitative objectives—such as improved customer service and job satisfaction—were being met. However, due to a lack of data, PricewaterhouseCoopers was unable to successfully measure the quantitative objectives of the program, such as efficiency of operations. PricewaterhouseCoopers had concluded in its report that the program's greatest weakness was that there was not a performance measurement regime in place. Consequently, there had been little systematic and fact-based reporting of the efficiency and effectiveness of the program, making it difficult to obtain benchmarking data for evaluating the program's performance.

The Reinvention Laboratory director placed a higher priority on expanding the Enterprise Program because he believed that timely expansion of the program was necessary for its survival, not only to keep interest in it alive, but also to increase savings to the Government through economies of scale. We believe that the FS needs to first collect the necessary data to quantify the program's overall value to the Government before a decision is made on whether the program should be expanded agencywide. Such a quantification would not only provide the Reinvention Laboratory with the evidence it needs to justify further expansion of the program, it would also likely increase support for the program.

RECOMMENDATION NO. 1

Collect the necessary data to quantify the Enterprise Program's overall value to the Government.

Agency Response

In its written response to the draft report, dated June 12, 2001, the FS stated that it would perform the following and report the results by December 1, 2001. Using the Region 5 program of work, in areas where Enterprise Teams provide services, the FS will perform simple comparisons and analyses. For FY's 2000 and 2001, the following two areas will be analyzed: 1) Pricing of Enterprise Team services vs. mainstream FS employees; and 2) Source and number of human resources (i.e., FS full time equivalents, Enterprise Teams, and contractors) product lines of Enterprise Teams. According to the FS, the second area should provide the agency with information about whether Region 5 reduced human resources in each Enterprise Team service area due to the efficiencies gained through the Enterprise Program.

OIG Position

We accept the FS' management decision on this recommendation.

RECOMMENDATION NO. 2

Limit expansion of the Enterprise Program until the program's overall value to the Government has been proven.

Agency Response

In its written response to the draft report, dated June 12, 2001, the FS stated that it would proceed with the experiment at a limited rate, adding a few new Enterprise Teams, including some in Regions 5 and 6. According to the FS, this will allow them to test the value of the program to the government with diverse organizational and financial systems being added to the experiment.

OIG Position

We accept the FS' management decision on this recommendation.

CHAPTER 2

FS NEEDS TO ESTABLISH FINANCIAL INTEGRITY IN THE ENTERPRISE PROGRAM

Our review found serious weaknesses in the financial operations of the Enterprise Program. These weaknesses affect the Enterprise Development Bank in its timely knowledge of the financial health of program enterprises and in its control over program losses.

First, the FS does not have a reliable accounting system to provide the Enterprise Development Bank and enterprise units with accurate and timely financial statements in accordance with generally accepted accounting principles (GAAP). As a result, enterprise owners are not provided the basic and necessary financial tools to manage their businesses. More importantly, the Enterprise Development Bank does not have the ability to determine its own financial status.

Second, the FS has not established standards to limit the amount of losses incurred by enterprise units and guidelines to terminate enterprise units that are not financially viable. In essence, there are no specific controls to prevent the accumulation of losses that could have a detrimental impact on the financial condition of the Enterprise Development Bank. The Enterprise Development Bank also has not established cash reserves to absorb the losses sustained by enterprise units. Unless the FS takes immediate steps to establish the financial integrity of the program, it cannot have total assurance that the program will be financially sound.

FINDING NO. 2

RELIABLE ACCOUNTING SYSTEM NEEDED FOR ENTERPRISE DEVELOPMENT BANK AND ENTERPRISE UNITS

The FS does not have a reliable accounting system that can provide accurate and timely financial statements to the Enterprise Development Bank and enterprise units. The FS thought that its principal accounting system, formerly the Central Accounting System (CAS) and now the Foundation Financial Information System (FFIS), needed to be enhanced in order to provide reliable financial statements for the Enterprise Program that met GAAP. Instead of using its

principal accounting system, the FS purchased "QuickBooks" an over-the-counter accounting software system and then ultimately had to develop an Oracle database program to download the accounting data in the principal accounting system into QuickBooks. As a result, there were significant

delays in creating the financial statements for the enterprise owners and the Enterprise Development Bank and there were material errors in the financial statements that were finally produced.

The Enterprise Development Bank's Strategic Plan, dated October 14, 1999, states that it will provide monthly or quarterly financial statements (i.e., an income statement, balance sheet, and cash flow analysis statement) to the enterprise business owners and that the financial reporting will be based on a full cost accounting system in accordance with GAAP as required by FS Manual 6585. Furthermore, the Plan states that the Enterprise Development Bank will provide the enterprise businesses financial analysis and consultation on the financial reports as well as perform financial reviews and analysis of the enterprise businesses in order to assess their performance. The Plan noted that in order to keep the enterprise initiative on track, it was essential that the steering committee take immediate action to correct any deficiencies noted by the Enterprise Development Bank.

Financial Statements Were Not Timely

During FY 2000, enterprise units did not receive monthly financial statements from the Enterprise Development Bank until August 2000, over 10 months after the start of the fiscal year. Due to the lack of financial data, most of the enterprise business owners we interviewed did not know the current financial condition of their enterprise businesses—what their cash balance was or whether they had operating profits or losses.

Financial Statements Were Not Reliable

The financial statements that enterprise units ultimately received from the Enterprise Development Bank in August 2000 were not reliable. Subsequent to their issuance, the Enterprise Development Bank's comptroller discovered that they contained a number of errors. For example, the comptroller discovered that expenditures were inaccurately stated in the financial statements because payroll costs for several of the pay periods were duplicated. In addition, expenditure amounts were not properly downloaded from FFIS into QuickBooks through the Oracle program. These errors adversely affected both the cash account on the balance sheet and net income on the income statement. In addition to the above errors, we noted that the income statement was prepared on a cash basis, as opposed to an accrual basis, which was not in accordance with GAAP.

Without complete, accurate, and timely financial statements, the enterprise business owners had no way to adequately monitor the

financial condition of their enterprise businesses. In addition, the Enterprise Development Bank was unable to easily determine its financial condition. This is especially critical for the Enterprise Development Bank since it cannot determine if it has sufficient working capital to finance existing enterprise units and to pay its current obligations to the WCF (see audit finding no. 4).

The Enterprise Development Bank has since learned that its current accounting system FFIS contains most, if not all, of the information needed to generate financial statements for the Enterprise Program, in accordance with GAAP, and that the FS should eventually be able to produce separate accrual-based financial statements for each enterprise business without the use of QuickBooks.

According to the Reinvention Laboratory's business support specialist, the laboratory had developed a preliminary plan to assess whether FFIS was capable of producing the type of financial statements that the Enterprise Program needed, and if not, what enhancements to FFIS were needed. The Business Support Specialist stated that the laboratory had completed some of the items in the plan, but no timeframe had been established for completing the preliminary plan and developing a more comprehensive plan specifying the actions needed to fix the problems identified.

Considering the severity of the accounting problems described above and their impact on the Enterprise Program, we believe that the FS needs to take immediate action to address them, particularly before expanding the Enterprise Program agencywide. A comprehensive plan with timeframes needs to be developed specifying the actions needed to fix the problems identified. In the interim, the FFIS accounting system needs to be reconciled to the data currently in the QuickBooks financial statements, the Oracle database, and source documents. Finally, the FS should postpone further plans for expansion and/or for approving new enterprise units until the Enterprise Development Bank is able to provide complete, accurate, and timely financial statements.

RECOMMENDATION NO. 3

Develop a comprehensive plan with timeframes for the Enterprise Development Bank to provide complete, accurate, and timely financial statements.

Agency Response

In its written response to the draft report, dated June 12, 2001, the FS stated that the Enterprise Development Bank has been able to provide complete, accurate, and timely financial statements to Enterprise businesses since January 1, 2001. According to the FS, it will further

streamline and enhance the FFIS system capabilities by a review and reconciliation of the cash balances brought forward from CAS to FFIS during conversions, which was completed during late April and early May. The FS stated that the needed adjustments have been identified and will be completed by July 31, 2001.

OIG Position

We accept the FS' management decision on this recommendation.

RECOMMENDATION NO. 4

Ensure the FFIS accounting system reconciles with the data currently in the QuickBooks financial statements, the Oracle database, and source documents.

Agency Response

In its written response to the draft report, dated June 12, 2001, the FS stated that its reconciled statements would be available after it completed the actions in its response to Recommendation No. 3 and can more easily provide standard FFIS financial statements for each Enterprise Team, as well as for the Enterprise Program as a whole.

OIG Position

To reach management decision on this recommendation, the FS needs to provide the timeframe for completing the reconciliation.

RECOMMENDATION NO. 5

Postpone further approval of new enterprises until all actions in the comprehensive plan have been completed and the Enterprise Development Bank is able to provide complete, accurate, and timely financial statements.

Agency Response

In its written response to the draft report, dated June 12, 2001, the FS stated that further approval of new enterprises would not take place until the completion of the actions outlined in their response to Recommendation Nos. 3 and 4.

OIG Position

We accept the FS' management decision on this recommendation.

FINDING NO. 3

**GUIDELINES NEEDED TO
LIMIT LOSSES; CASH
RESERVES NEEDED TO
ABSORB FAILURES**

The FS has not established guidelines to limit losses sustained by enterprise businesses and to terminate enterprise businesses that are not financially viable. Also the Enterprise Development Bank does not have cash reserves to absorb potential losses from enterprise business failures. The Reinvention Laboratory had recognized the issue relating to losses and business failures, but no decision has been made to address it.

However, like all businesses in the private sector, there are no guarantees that all enterprise businesses approved by the steering committee will be a financial success. It is just as important for the FS to quickly recognize enterprise businesses that are in financial distress so that losses are minimized and the financial condition of the remaining enterprises are not jeopardized.

Guidelines Needed to Determine When Enterprise Businesses That Sustain Losses Should Be Terminated

The Department of Agriculture Organic Act of August 3, 1956, as amended by the Act of October 23, 1962, requires that each activity within the WCF be self-supporting (i.e., each activity in the fund must recover the cost of doing business and bill at rates approximately equal to the cost of providing the service.)

The latest data furnished by the Enterprise Development Bank showed that as of September 30, 2000, 7 of the 19 enterprise businesses had net losses (see Exhibit D). Furthermore, 5 of the 19 enterprise businesses had cash deficits (see Exhibit E).

The Reinvention Laboratory's director noted that the laboratory staff monitors the losses of the enterprise businesses. The director stated that if, for example, an enterprise's financial statements show the business had a net loss of more than \$1,000, laboratory staff would follow up with the enterprise business owner to determine whether the business had a plan for recovering the loss. If the plan were ultimately unsuccessful, then the steering committee would generally get involved. However, there was no guideline for how large of a loss the enterprise business could sustain before the Reinvention Laboratory required that the business be terminated.

Establishing guidelines for limiting losses and for terminating enterprises that are not financially viable is critical to ensure that procedures are applied consistently to all enterprise units and that enterprise owners are motivated to expeditiously improve the financial health of their businesses.

A Reserve Is Needed at the Enterprise Development Bank To Absorb Enterprise Business Failures

According to the Reinvention Laboratory director, Region 5 (not the Reinvention Laboratory's Enterprise Development Bank) is currently responsible for covering any losses incurred by the enterprise businesses should they fail. The director did note, however, that for the two enterprise businesses operating outside of Region 5 (i.e., Fire Visions and Forest Inventory Research), it is the host unit that is responsible for covering the losses.³

Since enterprise losses are unforeseen events, it is difficult if not impossible for regions to budget for these losses, and the financial effect will be detrimental if the losses are significant. Appropriated FS programs may have to absorb the losses by reducing services to the public or implementing other cost saving measures.

We believe that the Enterprise Program should be responsible for absorbing the losses of the enterprise businesses that it has originally approved. As was previously mentioned, the law requires that each activity within the WCF be self-supporting. To comply with the law, the Enterprise Program needs to plan for and cover the losses of its enterprise businesses. To accomplish this, the Enterprise Development Bank needs to establish sufficient cash reserves based on reasonable estimates of enterprise business losses. The estimates can be derived using the guidelines mentioned previously. The Enterprise Development Bank should fund the reserve account from the fees that it collects from the enterprise businesses. Since the fees will be based on a percentage of annual income, financially healthy enterprise units will bear some responsibility to absorb the losses incurred by other enterprise units. Sufficient cash reserves will also protect the financial stability of the Enterprise Development Bank to meet its current financial obligations.

As the number of enterprise businesses grows during the expansion of the Enterprise Program, the potential risk for business failures also increases. It is therefore important that the Reinvention Laboratory be adequately prepared for such a contingency in order to ensure the Enterprise Program's success.

³ According to the Reinvention Laboratory's draft "Guide To Enterprising," dated December 1999, upon a business' dissolution, an accounting of the business will be made by the Enterprise Development Bank. If the enterprise business has a negative balance at the time of dissolution, the host unit will transfer funds to the Reinvention Laboratory's account, or approve transfer by the Enterprise Development Bank, to cover deficit funds in the Reinvention Laboratory within 90 days of dissolution. The host unit may request financial statements from the Enterprise Development Bank and be entitled to review the enterprise business' financial position at any time.

RECOMMENDATION NO. 6

Establish guidelines that limit the amount of the enterprise loss before the enterprise business is ultimately terminated from the Enterprise Program.

Agency Response

In its written response to the draft report, dated June 12, 2001, the FS stated that it would accomplish the following by December 30, 2001. The Enterprise Steering Committee will review the Probation Plan strategy and further develop thresholds and tolerance levels of negative financial trends of Enterprise Teams and develop Transition Plans for termination of continuously non-financially viable Enterprise Teams that have not been able to recover utilizing the strategies within their team's Probation Plan.

OIG Position

We accept the FS' management decision on this recommendation.

RECOMMENDATION NO. 7

Establish at the Enterprise Development Bank a reserve account sufficient to cover potential losses sustained by enterprises.

Agency Response

In its written response to the draft report, dated June 12, 2001, the FS stated that by June 30, 2001, the Region 5 Financial Management staff would seek direction from the Washington Office on the basis and limitations of such a reserve account and the process for establishing a reserve account.

OIG Position

To accept management decision on this recommendation, the FS needs to provide a timeframe for establishing the reserve account.

CHAPTER 3

FS NEEDS TO MAINTAIN THE LEGAL INTEGRITY OF THE ENTERPRISE PROGRAM

It is essential that the FS maintain the legality of the Enterprise Program in order to ensure its future success. Since the Enterprise Program uses only nonappropriated WCF funds, it is vulnerable to legal challenges from Congress and private businesses that may be competing with FS enterprises for the same services. The FS must adhere to the guidelines set forth in OGC's legal opinion dated May 18, 1998, and return all funds to the WCF that were advanced to the Enterprise Program contrary to the law as interpreted by OGC. In addition, the FS, in consultation with OGC, needs to establish standards that would limit the amount of resources that enterprise businesses would be allowed to devote to non-FS customers so that the FS mission is not compromised.

The FS plans to make the Enterprise Program available to all its other regions. We concluded that before it expands the Enterprise Program agencywide, the FS should formalize its policies and procedures to ensure the program's consistent application. Furthermore, considering the significant impact that the Enterprise Program will have on the way the FS does business in the future, the FS needs to submit its expansion and operational plans to OGC to review for legal support. Such a review was also recommended by PricewaterhouseCoopers during its recent review of the Enterprise Program.

FINDING NO. 4

WCF FUND ADVANCE DID NOT COMPLY WITH THE LAW AS INTERPRETED BY OGC

The FS advanced funds to the Enterprise Program from the WCF that did not comply with the law as interpreted by OGC. Notwithstanding the legal opinion the FS obtained from OGC, FS regional management stated that the advances were allowable as long as the funds were returned to the WCF. However, the law, as interpreted by OGC, required that advances must be supported by orders from customers who were due refunds from the WCF. Our review of the advance showed that it was not supported by customer orders. As a result, we questioned the propriety of the \$3.7 million advance to the Enterprise Program, of which \$2.6 million has not yet been repaid to the WCF.

Prior to the establishment of the first enterprise businesses on July 6, 1998, Region 5 sought OGC's opinion on whether funds could be

transferred or donated from benefiting appropriations to the WCF's Enterprise Program to finance its enterprise businesses' startup costs. On May 18, 1998, OGC issued its opinion which concluded that "although the enabling legislation authorizes the Secretary of Agriculture to transfer to the fund, without reimbursement, receivables, inventories, equipment and other assets, there is no authority to transfer or donate appropriations to a WCF activity unless it is related to an order for services."⁴

By the end of FY 1998, the WCF Fleet Activity in Region 5 had generated approximately \$9.2 million in excess cash.⁵ The Region advanced \$3.7 million of the surplus cash to the Enterprise Program to fund its enterprise businesses' startup costs. According to the Deputy Regional Forester for Operations, the Region believed that the OGC opinion allowed the advance because the funds would be paid back (i.e., the funds were neither transferred without reimbursement nor donated to the Enterprise Program.)

We interviewed the director of the Reinvention Laboratory, who stated that the laboratory did not originally plan to repay the WCF Fleet Activity for the advance. The Reinvention Laboratory viewed the funding as an advance payment from those customers of the WCF Fleet Activity that would also be ordering services from the Enterprise Program. According to the director, if the WCF Fleet Activity had refunded the \$3.7 million directly to the programs that contributed to the WCF surplus, these programs would in turn have had to advance the funds to the Enterprise Program for payment of future services. However, we could not verify this statement since no documentation existed to show that the programs who were customers of the WCF Fleet Activity that were due refunds had actually ordered services from enterprise businesses valued at \$3.7 million in order to justify the advance to the Enterprise Program.

According to the OGC opinion, "to the extent that the WCF used customer advances to cover operating costs that are not related directly to a firm order, the WCF would violate government accounting principles prohibiting the use of advance funds until they are earned."

⁴ According to the Department of Agriculture Organic Act of August 3, 1956, as amended by the Act of October 23, 1962, "the Secretary of Agriculture is authorized to transfer to the fund, without reimbursement, and to capitalize in the fund at fair and reasonable values, such receivables, inventories, equipment, and other assets as he may determine, and assume the liabilities in connection with such assets: *Provided*, That the fund shall be credited with advance payments in connection with firm orders and reimbursements from appropriations and funds of the Forest Service, other departmental and Federal agencies, and from other sources, as authorized by law, at rates approximately equal to the cost of furnishing the facilities and service."

⁵ The region is considered to have excess cash if its cash balance exceeds the cash management standard established for the WCF.

Prior to our survey, the region paid back \$1.1 million of the \$3.7 million advanced from the WCF Fleet Activity as follows: \$549,764 was paid back after the Washington Office informed the Region that this was an improper use of the Permanent and Trust Funds and \$599,013 was paid back to the Emergency Fire Suppression Funds after the Washington Office expressed similar concerns in another review. This left a remaining balance of \$2.6 million that still needed to be paid back to the WCF unless the FS could show that it related to an actual or anticipated order for services (see Exhibit A).

In a letter dated September 24, 1999, the regional forester directed the Reinvention Laboratory's director to return the balance owed to benefiting appropriations (i.e., to the programs that contributed to the WCF surplus) in three equal installments, one due by February 1 of each fiscal year beginning in FY 2000. However, the first installment due February 1, 2000, had not been paid as of January 23, 2001, almost a year later. The Reinvention Laboratory's director stated that until the financial status of the Enterprise Program is clear (see Chapter 2 of this report), he is unable to determine if the Enterprise Program can afford to make the installment payments to the WCF.

RECOMMENDATION NO. 8

Repay the \$2.6 million advanced by the WCF Fleet Activity.

Agency Response

In its written response to the draft report, dated June 12, 2001, the FS stated that by August 1, 2001, the Region 5 Financial Management staff would work with the Enterprise Steering Committee and the Enterprise owners to develop a new repayment plan based on current financial information.

OIG Position

To accept management decision on this recommendation, the FS needs to provide the timeframe for repaying the \$2.6 million advance.

FINDING NO. 5

**ENTERPRISE PROGRAM
NEEDS TO LIMIT SERVICES
DEVOTED TO NON-FS
CUSTOMERS**

The FS has not set guidelines on the amount of resources enterprise businesses can devote to non-FS customers. The current objectives of the Enterprise Program encourage revenues generated from outside sources. This is in conflict with the laws establishing the WCF, which provides that the primary purpose of the WCF is to furnish supply and equipment services in support of the FS mission. Lack of guidelines could

result in enterprise units devoting a majority of their resources to non-FS customers, which could have an adverse effect on accomplishing the FS mission.

According to the Department of Agriculture Organic Act of August 3, 1956, as amended by the Act of October 23, 1962, the WCF “shall be available without fiscal year limitations for expenses necessary...*for furnishing supply and equipment services in support of programs of the Forest Service* [emphasis added].” The Act further states that “the fund shall be credited with advance payments in connection with firm orders and reimbursements from appropriations and funds of the Forest Service, *other departmental and Federal agencies, and from other sources, as authorized by laws* [emphasis added], at rates approximately equal to the cost of furnishing the facilities and service.”⁶

Although the law pertaining to the WCF allows WCF activities to have non-FS customers as authorized by law, it sets no limit on the number of non-FS customers that a WCF activity can have in relationship to FS-customers. An OGC attorney we interviewed agreed that a standard might be needed in order to ensure that FS employees do not end up working primarily for their non-FS customers while neglecting the critical program missions of the FS. The PricewaterhouseCoopers report also raised a concern that as enterprise businesses grow and increase their market share, there is a risk that the businesses could be seen as competing with private commercial organizations, thereby attracting special attention. This would be especially true if FS enterprise units compete for customers outside of the Federal Government. It is therefore our opinion that the FS needs to establish a standard that limits the

⁶ According to the explanatory notes from the hearings held on June 27, 1956, before the Committee on Agriculture on the Organic Act of 1956, “the services financed by the fund may also be made available when necessary, to other departmental and Federal agencies, and as provided by law to State and private agencies and persons who cooperate with the Forest Service in fire control and other authorized programs.” It is therefore FS policy to make the services financed by the WCF available, on an optional basis and as provided by law, to other Federal, State, and private agencies, or to persons who cooperate with the FS.

amount of resources that enterprise businesses can devote to their non-FS customers so that the FS mission is not compromised.

RECOMMENDATION NO. 9

In consultation with OGC, establish a standard that limits the use of Enterprise Program resources devoted to non-FS customers.

Agency Response

In its written response to the draft report, dated June 12, 2001, the FS stated that it would develop a set of standards to be used to limit the use of Enterprise Program resources devoted to non-FS customers, working with OGC to ensure compliance, while continuing to ensure that partnership agreements are reviewed by Grants and Agreements Specialists.

OIG Position

To reach management decision on this recommendation, the FS needs to provide the timeframe for developing the standards.

FINDING NO. 6

FORMALIZED POLICIES AND PROCEDURES NEED TO BE ESTABLISHED AND EXPANSION PLANS REVIEWED BY OGC

The FS has not established formalized policies and procedures for the Enterprise Program nor has it submitted its expansion plan to OGC for approval. At the initiation of the Enterprise Program, the FS obtained a waiver signed by then Vice-President Gore, authorizing the FS Chief to waive internal FS rules and regulations to promote the enterprise concept. The initial waiver was helpful in promoting creativity and interest

within the FS. However, without a formalized set of policies and procedures, there is no assurance that legal, financial, and program standards will be consistently maintained and applied nationwide once the Enterprise Program is expanded. Furthermore, to ensure that an expanded Enterprise Program will comply with all applicable laws and regulations, OGC needs to review and approve the FS' expansion plan.

The Reinvention Laboratory had developed a Business Plan, which proposed that the approach taken to the expansion be a centralized one in that the Reinvention Laboratory, Enterprise Development Bank, and Steering Committee would all become national in scope and manage the agencywide expansion. However, according to the Reinvention

Laboratory director, neither the regional forester nor the FS Washington Office approved their original proposal because they favored a decentralized approach: each region would establish its own Reinvention Laboratory, Enterprise Development Bank, and Steering Committee and manage its own Enterprise Program. Under this plan, Region 5's Reinvention Laboratory and Enterprise Development Bank staff could provide oversight to the enterprise programs in other regions.

We recognize that a centralized approach could result in cost savings and ensure consistency in application. However, should the Washington Office decide to decentralize the Enterprise Program, establishing formalized policies and procedures with minimum standards and guidelines can provide an assurance of consistency.

In its recent report on the Enterprise Program, PricewaterhouseCoopers advocated only centralizing the program oversight function while allowing regions autonomy in implementing their enterprise programs. According to the PricewaterhouseCoopers report, the Quality Council⁷ would resolve any disputes between the regions and enterprise program management. Again, establishing formalized policies and procedures would minimize the likelihood of disputes occurring between regions and enterprise program management.

Finally we believe the FS also needs to submit its expansion plan to OGC for approval, considering the impact the Enterprise Program will likely have on the way the FS does business in the future. For example, in Region 5 alone, it is projected in the Enterprise Development Bank's Strategic Plan, dated October 14, 1999, that approximately 25 percent of the region's workforce will eventually be involved in an enterprise operation of some kind. The Strategic Plan also projects that a sizable portion of the region's budget will be channeled through the Enterprise Program. In its recent report on the Enterprise Program, PricewaterhouseCoopers agreed that the expansion plan needed to be reviewed by OGC and noted that although the OGC opinion dated May 18, 1998, supports the initial development of the Enterprise Program, a material change in scope of business operations or size will warrant further legal opinions.

⁷ The Quality Council, established on April 24, 2000, is responsible for among other things overseeing agencywide implementation of FS reinvention programs like the Enterprise Program. Members of the Quality Council include the FS' Chief Operating Officer (who is also the Council's Chairman) and the Chief Financial Officer.

RECOMMENDATION NO. 10

Establish formalized policies and procedures with minimum standards and guidelines for the Enterprise Program.

Agency Response

In its written response to the draft report, dated June 12, 2001, the FS stated that the Washington Office would use the standards and guidelines developed in the Region 5 pilot experiment as a basis for developing the same for the agency. According to the FS, this will be completed prior to agency-wide expansion and will be included as an action item in the Expansion Plan.

OIG Position

To reach management decision on this recommendation, the FS needs to provide the timeframe for developing the agencywide standards and guidelines.

RECOMMENDATION NO. 11

Submit the Enterprise Program expansion plan, including its policies and procedures, to OGC for its review and approval.

Agency Response

In its written response to the draft report, dated June 12, 2001, the FS stated that it would consult with OGC where legal interpretation or opinion is needed to ensure compliance with all applicable laws (i.e., use of WCF, etc.), during the development phase, and prior to completion of the expansion plan.

OIG Position

We accept the FS' management decision on this recommendation.

EXHIBIT A – SUMMARY OF MONETARY RESULTS

RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
8	WCF Advance To Enterprise Program	\$2.6 million	Questioned Costs, Recovery Recommended

EXHIBIT B – VOLUME OF BUSINESS FOR MAJOR WCF ACTIVITIES

WCF ACTIVITY	VOLUME OF BUSINESS		
	FY 1999 (ACTUAL)	FY 2000 (ESTIMATED)	FY 2001 (ESTIMATED)
Equipment Services	\$106,711,000	\$105,000,000	\$106,000,000
Aircraft Services	\$7,194,000	\$7,300,000	\$7,500,000
Supply Services	\$1,995,000	\$1,900,000	\$1,800,000
Tree Nursery Services	\$9,854,000	\$8,000,000	\$7,000,000
Computer Services	\$43,337,000	\$45,000,000	\$48,000,000
Subtotal	\$169,091,000	\$167,200,000	\$170,300,000
<i>Enterprise Services</i>	<i>\$6,046,000</i>	<i>\$7,000,000</i>	<i>\$8,000,000</i>
Total	\$175,137,000	\$174,200,000	\$178,300,000

EXHIBIT C – CURRENT LISTING OF ENTERPRISE PROGRAM BUSINESSES

ENTERPRISE NAME	NUMBER OF EMPLOYEES	DESCRIPTION OF SERVICES	DATE OPERATIONAL
Adaptive Management Service	10	Ecosystem analysis; research, design and implementation monitoring	July 6, 1998
Asbestos Crew Services	1	Asbestos inspection, treatment and removal	July 6, 1998
Compensation Resolution Brokers	6	Resolution of workers' compensation cases	July 6, 1998
Creative Conflict Resolution	1	Mediation and conflict resolution	July 6, 1998
Mountain Heritage Associates	7	Assessment, recovery and development of public use of archeological sites; research	July 6, 1998
Grant Strategists	1	Assistance in finding and winning grant money for projects	July 6, 1998
Incident Financial Services	6	Centralized fire billing and payments and trespass documentation; legal liaison	July 6, 1998
Quest	2	Training and organizational and employee development	July 6, 1998
Streamline	1	Environmental analysis training, coaching, team leading	July 6, 1998
Timber Expert Measurement Services	2	Timber value assessment	July 6, 1998
Knowledge Connection	4	Library services, literature searches, bibliographies	January 1, 1999
Recreation Solutions	4	Trail Development; routing of scenic byways; assistance with environmental impact documentation, appeals, tourism, grants and community development	January 3, 1999
ACT 2	2	Environmental analysis, contract preparation, technical writing, publishing	August 8, 1999
Computer Professionals.com	1	Office automation software training, Web page design	August 8, 1999
Digital Visions	4	Information management using geographic information systems and Oracle database management system	August 8, 1999
Fire Visions	1	Fire management, documentation, implementation, training	August 8, 1999
Forest Inventory Research	1	Research to broaden uses and application of forest inventory data, wildlife habitat, ecological indicators and other non-timber uses	August 8, 1999
Trails Unlimited	1	Training, consultation, construction for non-wilderness and motorized trails	August 8, 1999
Vegetation Management Solution	1	Provides advanced technology for ecosystem management in the form of GIS, data analysis, and modeling	December 5, 1999
TOTAL	56		


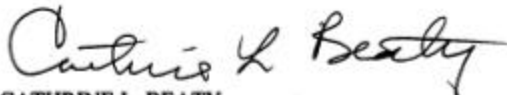


EXHIBIT D – FINANCIAL CONDITION OF ENTERPRISE PROGRAM BUSINESSES AS OF SEPTEMBER 30, 2000 (BASED ON UNAUDITED FS DATA)

Business Name	Revenues	Expenditures	Net Income	Cash
Act 2	379,164.51	298,734.20	80,430.31	(13,662.61)
Adaptive Management Services	889,041.36	922,825.74	(33,784.38)	(562,014.97)
Asbestos Crew Services	59,324.00	73,413.23	(14,089.23)	(61,939.73)
Compensation Resolution Brokers	483,871.39	542,655.87	(58,784.48)	(797,110.53)
Computer Professionals.com	88,867.26	92,409.00	(3,541.74)	(24,912.94)
Creative Conflict Resolution	144,605.26	128,649.68	15,955.58	(47,713.22)
Mountain Heritage Associates	481,897.17	464,159.03	17,738.14	(141,613.59)
Digital Visions	631,072.60	601,647.23	29,425.37	269,438.63
Fire Vision	182,959.49	109,476.65	73,482.84	56,138.30
Forest Inventory Research	101,725.00	97,115.54	4,609.46	(98,670.65)
Grant Strategists	75,266.59	143,161.23	(67,894.64)	(32,751.65)
Incident Financial Services	565,910.32	497,299.81	68,610.51	428,188.75
Knowledge Connection	425,050.00	350,952.17	74,097.83	(50,179.67)
Quest	259,242.90	274,587.13	(15,344.23)	(49,678.95)
Recreation Solutions	1,207,494.16	1,002,890.72	204,603.44	(50,239.52)
Streamline	162,016.00	117,075.69	44,940.31	69,834.80
Timber Expert & Measurement Services	753,179.70	917,346.34	(164,166.64)	(242,115.73)
Trails Unlimited	125,053.80	122,913.21	2,140.59	(24,629.44)
Vegetation Management Solutions	123,482.02	92,727.84	30,754.18	37,686.47
Total Enterprise Businesses	7,139,223.53	6,850,040.31	\$289,183.22	(\$1,335,946.25)
Enterprise Development Bank	1,167,173.51	715,767.56	451,405.95	2,137,829.12
Total Enterprise Program	8,306,397.04	7,565,807.87	\$740,589.17	\$801,882.87

EXHIBIT E – REVISED CASH BALANCES AS OF SEPTEMBER 30, 2000, IF ALL EARNED REVENUE WAS COLLECTED (BASED ON UNAUDITED FS DATA)

Business Name	Current Cash Balance	Uncollected Earned Revenue	Cash Balance If All Earned Revenue Collected
Act 2	(13,662.61)	129,297.65	115,635.04
Adaptive Management Services	(562,014.97)	847,457.39	285,442.42
Asbestos Crew Services	(61,939.73)	60,743.81	(1,195.92)
Compensation Resolution Brokers	(797,110.53)	833,518.79	36,408.26
Computer Professionals.com	(24,912.94)	24,484.00	(428.94)
Creative Conflict Resolution	(47,713.22)	116,393.61	68,680.39
Mountain Heritage Associates	(141,613.59)	380,319.50	238,705.91
Digital Visions	269,438.63	130,452.60	399,891.23
Fire Vision	56,138.30	49,706.60	105,844.90
Forest Inventory Research	(98,670.65)	111,137.50	12,466.85
Grant Strategists	(32,751.65)	22,858.00	(9,893.65)
Incident Financial Services	428,188.75	139,960.46	568,149.21
Knowledge Connection	(50,179.67)	292,768.00	242,588.33
Quest	(49,678.95)	35,475.72	(14,203.23)
Recreation Solutions	(50,239.52)	945,968.54	895,729.02
Streamline	69,834.80	38,600.00	108,434.80
Timber Expert & Measurement Services	(242,115.73)	177,855.75	(64,259.98)
Trails Unlimited	(24,629.44)	31,348.84	6,719.40
Vegetation Management Solutions	37,686.47	43,857.02	81,543.49
Total Enterprise Businesses	(\$1,335,946.25)	\$4,412,203.78	\$3,076,257.53
Enterprise Development Bank	2,137,829.12	587,992.60	2,725,821.72
Total Enterprise Program	801,882.87	5,000,196.38	5,802,079.25

EXHIBIT F – FOREST SERVICE RESPONSE TO DRAFT REPORT

	United States Department of Agriculture	Forest Service	Washington Office	14th & Independence SW P.O. Box 96090 Washington, DC 20090-6090
File Code: 1430		Date: JUN 12 2001		
Route To: (6500)				
Subject: Office of Inspector General Discussion Draft Audit Report, Forest Service Working Capital Fund Enterprise Program Report Audit Report No. 08601-25-SF				
To: Richard D. Long Assistant Inspector General for Audit USDA Office of Inspector General				
<p>We have completed our review of the Office of Inspector General (OIG) official draft Audit Report entitled Review of Forest Service's Enterprise Program Pacific Southwest Region Report No. 08601-25-SF, issued April 2001. Enclosed is our response to the report. We concur with most of the audit findings and recommendations and request management decision for recommendations #1-11. We also request the close out of recommendation no. 3, based on the information provided in this letter.</p> <p>If you have any questions, please contact the Agency External Audit Liaison, Linda Washington at (202) 205-3761.</p> <p> CATHRINE L. BEATY Acting Chief Financial Officer Deputy Chief, Office of Finance</p> <p>Enclosures</p>				
	Caring for the Land and Serving People			Printed on Recycled Paper 

**United States Department of Agriculture
Forest Service**

**Office of Inspector General (OIG)
Review of Forest Service's Enterprise Program May 2001
Report No. 08601-25-SF**

General Comments

The Office of Inspector General (OIG) audit of the Pacific Southwest Region Enterprise Program occurred May to September 2000 – eight months to a year ago.

Many of the deficiencies identified by OIG auditors occurred in the midst of transition from the Central Accounting System (CAS) to the Foundation Financial Information System (FFIS). During the time of the OIG audit, the Forest Service as a whole was experiencing difficulty receiving complete, accurate, and timely financial information.

Since the audit, the Enterprise Program and Region 5 (R5) have initiated and completed a number of reforms to address the concerns raised by OIG focusing on the need for the delivery of complete, accurate, and timely financial statements to the Enterprise Teams.

The Forest Service believes that, as we evaluate the R5 Enterprise Program experience, we need to systematically add a reasonable number of new Enterprise Teams to continue to learn from this experiment. Until we have adequately addressed the concerns raised by the OIG and proven the overall value to the government and completed the action items in this report, we will refrain from full expansion of the program nationally.

OIG RECOMMENDATION NO. 1: Collect the necessary data to quantify the Enterprise Program's overall value to the Government.

FOREST SERVICE RESPONSE TO RECOMMENDATION NO. 1: We concur. Using the Region 5 program of work, only in the areas where Enterprise Teams provide services, the Forest Service will perform simple comparisons and analyses. This will be performed for FY 2000 and 2001. Two areas will be analyzed: 1) Pricing of Enterprise Team services vs. mainstream Forest Service employees; and 2) Source and number of human resources (i.e. Forest Service full time equivalents (FTE's), Enterprise Teams, contractors) product lines of Enterprise Teams. The second area should provide the agency with information about whether Region 5 reduced human resources in each Enterprise Team service area due to the efficiencies gained through the Enterprise Program. A report will be completed by December 1, 2001.

OIG RECOMMENDATION NO. 2: Limit expansion of the Enterprise Program until the program's overall value to the Government has been proven.

FOREST SERVICE RESPONSE TO RECOMMENDATION NO. 2: We concur. We will proceed with the experiment at a limited rate, adding a few new Enterprise Teams, including some Region 5 and 6. This will allow us to test the value of this program to the government with diverse organizational and financial systems being added to the experiment.

OIG RECOMMENDATION NO. 3: Develop a comprehensive plan with timeframes for the Enterprise Development Bank to provide complete, accurate, and timely financial statements.

FOREST SERVICE RESPONSE TO RECOMMENDATION NO. 3: We concur with the need to provide complete, accurate, and timely financial statements. The EDB has been able to provide complete, accurate, and timely financial statements to Enterprise businesses since January 1, 2001. We will further streamline and enhance the FFIS system capabilities by a review and reconciliation of the cash balances brought forward from CAS to FFIS during conversion which was completed during late April and early May. Needed adjustments have been identified and will be completed by July 31, 2001.

Job codes that do not identify the subunits in FFIS will be phased out. As a result, standard FFIS Financial Statements will be available for each Enterprise Team.

OIG RECOMMENDATION NO. 4: Ensure the FFIS accounting system reconciles with the data currently in the QuickBooks financial statements, the Oracle database, and source documents.

FOREST SERVICE RESPONSE TO RECOMMENDATIONS NO. 4: We concur with this recommendation. Our reconciled statements will be available, after we have completed the actions in our response to recommendation 3 and can more easily provide standard FFIS Financial Statements for each Enterprise Team, as well as for the Enterprise Program as a whole.

RECOMMENDATION NO. 5: Postpone further approval of new enterprises until all action in the comprehensive plan has been completed and the Enterprise Development Bank is able to provide complete, accurate, and timely financial statements.

FOREST SERVICE RESPONSE TO RECOMMENDATION NO 5: We concur. Further approval of new enterprises will not take place until the completion of the actions outlined above for recommendations 3 and 4

OIG RECOMMENDATION NO. 6: Establish guidelines that limit the amount of the enterprise loss before the enterprise business is ultimately terminated from the Enterprise Program.

FOREST SERVICE RESPONSE TO RECOMMENDATIONS NO. 6: We concur. The Enterprise Steering Committee will review the Probation Plan strategy (described in the April 24, 2001 letter) and further develop thresholds and tolerance levels of negative financial trends of Enterprise Teams. The Enterprise Steering Committee will also develop Transition Plans for termination of continuously non-financially viable Enterprise Teams that have not been able to recover utilizing the strategies within their team's Probation Plan. This will be accomplished by December 30, 2001

OIG RECOMMENDATION NO. 7: Establish at the Enterprise Development Bank a reserve account sufficient to cover potential losses sustained by enterprises.

FOREST SERVICE RESPONSE TO RECOMMENDATION NO. 7: We concur. By

June 30, 2001, the Region 5 Financial Management Staff will seek direction from the Washington Office on the basis and limitations of such a reserve account and the process for establishing a reserve account.

OIG RECOMMENDATION NO. 8: Repay the \$2.6 million advanced by the WCF Fleet Activity.

FOREST SERVICE RESPONSE TO RECOMMENDATION NO. 8: We concur. By August 1, 2001, the Region 5 Financial Management staff will work with the Enterprise Steering Committee, and the Enterprise owners to develop a new repayment plan based on current financial information.

OIG RECOMMENDATION NO. 9: In consultation with OGC, establish a standard that limits the use of Enterprise Program resources devoted to non-FS customers.

FOREST SERVICE RESPONSE TO RECOMMENDATION NO. 9: We do not concur. The current Enterprise process requires individual partnership agreements for work with non-FS customers to be reviewed by the Regional Grants and Agreements Specialist. This review validates that the proposed collaboration outlined within the agreement is aligned with the Forest Service Mission and legal authorities.

We will develop a set of standards to be used to limit the use of Enterprise Program resources devoted to non-FS customers, working with Office of General Counsel (OGC) to ensure compliance while continuing to ensure that partnership agreements are reviewed by Grants and Agreements Specialists.

OIG RECOMMENDATION NO. 10: Establish formalized policies and procedures with minimum standards and guidelines for the Enterprise Program.

FOREST SERVICE RESPONSE TO RECOMMENDATION NO 10: We concur. The Washington Office will use the standards and guidelines developed in the Region 5 pilot experiment as a basis for developing the same for the Agency. This will be completed prior to Agency-wide expansion and will be included as an action item in the Expansion Plan (see recommendation No. 11 below).

OIG RECOMMENDATION NO. 11: Submit the Enterprise Program expansion plan, including its policies and procedures, to OGC for its review and approval.

FOREST SERVICE RESPONSE TO RECOMMENDATION NO 11: We concur. We will consult with OGC where legal interpretation or opinion is needed to ensure compliance with all applicable laws (i.e., use of WCF, etc.), during the development phase, and prior to completion of the expansion plan.