



U.S. Department of Agriculture



Office of Inspector General
Financial & IT Operations

Audit Report

Forest Service's Financial Statements for Fiscal Years 2005 and 2004

Report No. 08401-6-FM
December 2005



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



December 21, 2005

REPLY TO

ATTN OF: 08401-6-FM

TO: Dale Bosworth
Chief
Forest Service

ATTN: Sandy Coleman
Agency Liaison Officer
Forest Service

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

SUBJECT: Forest Service's Financial Statements for Fiscal Years 2005 and 2004

This report presents the auditors' opinion on the Forest Service's (FS) principal financial statements for the fiscal years ending September 30, 2005 and 2004. The report also includes an assessment of FS' internal control structure and compliance with laws and regulations.

KPMG LLP, an independent certified public accounting firm, conducted the audits. KPMG is responsible for the auditors' report dated December 19, 2005. We monitored the progress of the audit at all key points, reviewed KPMG's report, reviewed selected working papers, and performed other procedures, as we deemed necessary. We determined the audits were conducted in accordance with generally accepted auditing standards, Government Auditing Standards (issued by the Comptroller General of the United States), and the Office of Management and Budget Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In its report dated November 10, 2005, KPMG expressed a qualified opinion on the FS' financial statements as of and for the year ended September 30, 2005, as the FS was not able to timely provide sufficient evidential matter to substantiate the presentation of certain line items within the fiscal year 2005 Consolidated Statement of Financing. Subsequently, the FS provided sufficient evidential matter to substantiate the fair presentation of these line items. Accordingly, KPMG's opinion on the fiscal year 2005 financial statements as presented herein, is different from that expressed in KPMG's previous report. Therefore, it is the opinion of KPMG, that the financial statements present fairly, in all material aspects, the FS' financial position as of

September 30, 2005 and 2004; and its net costs, changes in net position, budgetary resources, and reconciliation of net cost to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG's report on FS' internal control structure over financial reporting identified five material internal control weaknesses. Specifically, KPMG identified material weaknesses in FS':

- Financial management and reporting process (repeat material weakness);
- accountability for undelivered orders (repeat material weakness);
- yearend accrual methodology (repeat material weakness);
- controls in its purchasing applications over data access, input, integrity, and segregation of duties (repeat material weakness); and
- general controls environment (repeat material weakness).

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

As discussed in exhibit I of KPMG's report, the FS centralized and consolidated its financial operations in Albuquerque, New Mexico, implemented several new information systems and reorganized its Information Resources Management Division. Simultaneous with this centralization and consolidation, the FS began a comprehensive reengineering and redesign of its key business processes which is still ongoing. These parallel projects that were initiated in fiscal year 2005, presented an extreme challenge during the fiscal year and had a negative impact on the overall internal control environment. However, these efforts should result in positive improvements over the longer term.

Please note that the recommendations contained herein have not changed from KPMG's report dated November 10, 2005. Therefore, a reply is still due within 60 days of KPMG's previous report describing the corrective actions taken or planned, including the timeframes, on the recommendations in that report.

**United States Department of Agriculture
Forest Service**

For the Years Ended September 30, 2005 and 2004

Table of Contents

<u>Report Area</u>	<u>Page</u>
Independent Auditors' Report	1
Exhibit I – Material Weaknesses.....	8
Exhibit II – Reportable Conditions.....	23
Exhibit III – Status of Prior Year’s Reportable Conditions/Material Weaknesses.....	33
Exhibit IV – Compliance and Other Matters.....	42
Exhibit V – Status of Prior Year’s Non-Compliance Findings and Other Matters.....	45
Exhibit VI - Management Response.....	46
Consolidated Financial Statements	
Management’s Discussion and Analysis (Unaudited).....	A-1
Consolidated Financial Statements.....	B-1
Notes to the Consolidated Financial Statements.....	B-6
Required Supplementary Information (Unaudited)	
Deferred Maintenance.....	C-1
Combining Statements of Budgetary Resources.....	C-4
Working Capital Fund Segment Information.....	C-6
Required Supplementary Stewardship Information (Unaudited)	
Stewardship Property, Plant and Equipment.....	D-1
Stewardship Land.....	D-2
Stewardship Investments.....	D-4

INDEPENDENT AUDITORS' REPORT



KPMG LLP
2001 M Street, NW
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Independent Auditors' Report

Chief, USDA Forest Service and
Inspector General, United States Department of Agriculture:

We have audited the accompanying consolidated balance sheets of the United States Department of Agriculture (USDA) Forest Service as of September 30, 2005 and 2004 and the related consolidated statements of net costs, changes in net position, and financing, and combined statements of budgetary resources for the years then ended, hereinafter referred to as the "financial statements." The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered the USDA Forest Service's internal control over financial reporting and tested the USDA Forest Service's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

SUMMARY

In our report dated November 10, 2005, we expressed a qualified opinion on the USDA Forest Service's financial statements as of and for the year ended September 30, 2005, as the USDA Forest Service was not able to timely provide sufficient evidential matter to substantiate the fair presentation of certain line items within the Consolidated Statement of Financing (SOF). Subsequently, the USDA Forest Service provided sufficient evidential matter to substantiate the fair presentation of these line items, after certain reclassifications described in Note 16. Accordingly, our opinion on the fiscal year (FY) 2005 financial statements, as presented herein, is different from that expressed in our previous report. We conclude that the USDA Forest Service's financial statements as of and for the years ended September 30, 2005 and 2004, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions. The first five are considered material weaknesses.

- The USDA Forest Service Needs to Continue to Improve its Financial Management and Reporting Process (*Repeat Condition*)
- Accountability for Undelivered Orders (UDOs) is Lacking (*Repeat Condition*)
- Implementation of the USDA Forest Service Accrual Methodology Needs Strengthening (*Repeat Condition*)
- Controls Over the Purchase Order Normal Tracking and Inventory System (PONTIUS) and the Purchase Order System (PRCH) Data Access, Input, Integrity, and Segregation of Duties Need Improvement (*Repeat Condition*)



- The USDA Forest Service Needs to Improve Its General Controls Environment (*Repeat Condition*)
- Controls Related to Physical Inventories of Capital Assets Need Improvement
- A Segregation of Duties Policy related to Electronic Data Processing Must be Fully Implemented (*Repeat Condition*)
- The Compilation of Performance Measures Needs Improvement
- The Review of Purchase Card Transactions and Monitoring of the Program Needs Improvement (*Repeat Condition*)
- The Internal Controls Related to Recording, Classification and Accounting for Information Related to Leases Need Improvement (*Repeat Condition*)
- The Design and/or Implementation of Controls Related to the Accurate Recording of Revenue-Related Transactions Need Improvement (*Repeat Condition*)
- The USDA Forest Service Needs to Continue to Improve its Internal Controls over its Reconciliation and Management of Fund Balance with Treasury (*Repeat Condition*)
- The Design and/or Implementation of Controls Related to the Accurate Recording of Personal Property Transactions Need Improvement (*Repeat Condition*)
- The Posting of Certain Transactions Needs to Contain the Proper Reference Data to Link Related Transactions (*Repeat Condition*)
- The Compilation of the USDA Forest Service's Required Supplementary Information and Required Supplementary Stewardship Information Needs Improvement (*Repeat Condition*)
- The USDA Forest Service Application System Controls Need Improvement (*Repeat Condition*)

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*:

- The USDA Forest Service Does Not Obligate all Transactions Required by Appropriations Law (Repeat Instance)
- The USDA Forest Service May Not be in Compliance with 31 USC 1517
- The USDA Forest Service's Systems Do Not Comply with the Federal Financial Management Improvement Act (FFMIA) (Repeat Instance)

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



OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the USDA Forest Service as of September 30, 2005 and 2004 and the related consolidated statements of net costs, changes in net position, and financing, and combined statements of budgetary resources for the years then ended.

In our report dated November 10, 2005, we expressed a qualified opinion on the USDA Forest Service's financial statements as of and for the year ended September 30, 2005 as the USDA Forest Service was not able to timely provide sufficient evidential matter to substantiate the fair presentation of the line items entitled *Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations, Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations and Allocation of Transfers and Other* stated at (\$65,000,000), \$202,000,000 and \$93,000,000, respectively, within the FY 2005 SOF. OMB required that federal agencies submit audited financial statements by November 15, 2005. It was not practicable to extend our auditing procedures sufficiently to satisfy ourselves as to the fair presentation of these line items. Subsequently, the USDA Forest Service provided sufficient evidential matter to substantiate the fair presentation of these line items, after certain reclassifications described in Note 16. Accordingly, our opinion on the FY 2005 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the USDA Forest Service as of September 30, 2005 and 2004, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the USDA Forest Service's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



In our fiscal year 2005 audit, we noted certain matters, described in Exhibits I and II, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the 5 reportable conditions presented in Exhibit I are material weaknesses. Exhibit II presents the other reportable conditions.

In its FY 2005 *Federal Managers Financial Integrity Act of 1982* report, the USDA Forest Service reported no material weaknesses.

A summary of the status of prior year reportable conditions, including those open conditions on which we are making no further recommendations in this report, is included as Exhibit III.

We also noted other matters involving internal control over financial reporting and its operation that we will report to the management of USDA Forest Service in a separate letter.

INTERNAL CONTROL OVER REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION AND PERFORMANCE MEASURES

We noted certain significant deficiencies in internal control over Required Supplementary Stewardship Information that, in our judgment, could adversely affect the USDA Forest Service's ability to collect, process, record, and summarize Required Supplementary Stewardship Information. Specifically, controls have not been effectively designed to ensure the accuracy, completeness, and timeliness of heritage assets and stewardship land.

With respect to the design of internal controls relating to existence and completeness assertions over performance measures determined by management to be key and reported in the Management Discussion and Analysis section, we noted certain significant deficiencies, discussed in Exhibit II, in internal control over reported performance measures that, in our judgment, could adversely affect the USDA Forest Service's ability to collect, process, record, summarize, and report performance measures in accordance with management's criteria.

COMPLIANCE AND OTHER MATTERS

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed instances of noncompliance with appropriation law and an instance of potential noncompliance with 31 USC 1517, described in Exhibit IV, that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed instances, described in Exhibit IV, where the USDA Forest Service's financial management systems did not substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, or the United States Standard General Ledger at the transaction level.

RESPONSIBILITIES

Management's Responsibilities

The Government Management Reform Act of 1994 (GMRA) requires each agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. GMRA also authorizes the Office of Management and Budget to identify additional agencies to prepare financial statements. To meet the GMRA reporting requirements, the USDA Forest Service prepares and submits annual financial statements in accordance with Part A of OMB Circular A-136.



Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining internal controls over financial reporting; and
- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2005 and 2004 financial statements of the USDA Forest Service based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the USDA Forest Service's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2005 audit, we considered the USDA Forest Service's internal control over financial reporting by obtaining an understanding of the USDA Forest Service's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on USDA Forest Service's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

OMB Bulletin No. 01-02 requires us to consider the USDA Forest Service's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the USDA Forest Service's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. We did not perform these procedures over the Required Supplementary Stewardship Information because preparation controls have not been effectively designed to ensure the completeness, accuracy and timeliness of the reported information.



As further required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis section, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the USDA Forest Service's fiscal year 2005 financial statements are free of material misstatement, we performed tests of the USDA Forest Service's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the USDA Forest Service. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the USDA Forest Service's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

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

KPMG LLP

December 19, 2005

INTRODUCTION

In FY 2004, the USDA Forest Service began a major transformation of business operations throughout the agency, beginning with two business functions. The first involved its Information Resources Management organization for which some segments were offered for competitive bid under Office of Management and Budget (OMB) Circular No. A-76, *Performance of Commercial Activities*. Government employees in the USDA Forest Service were the successful bidders which resulted in a realignment of both organization and operations. The second was the effort to consolidate its finance and accounting operations from 153 accounting centers to the Albuquerque Service Center (ASC) in New Mexico.

Significant work was accomplished in FY 2004 and 2005 to design and staff the new organization, re-engineer finance and accounting business processes, and migrate work from field locations. The USDA Forest Service believes that the long-term benefits of improved financial management, strengthened internal controls, and consistency of operations outweighs the short-term impacts of the disruption to operations during migration of both work and people to the ASC and that these changes should result in positive improvements over the longer term.

Although the USDA Forest Service has made some progress in correcting several prior year noted weaknesses, many of the organizational changes and new system implementations were not in place during a significant portion of the year or resulted in new internal control weaknesses. As a result, many of the prior year weaknesses continued to exist.

For each weakness identified, we believe we have performed appropriate substantive procedures as applicable to enable us to issue our opinion. In addition, we continue to recognize that certain recommended information technology (IT) control enhancements pertaining to the USDA Forest Service's operations cannot be implemented solely by the USDA Forest Service, because the USDA Forest Service's applications are in many cases hosted on USDA – managed systems. As a result, several IT control weaknesses identified in this report will require the combined effort of USDA and the USDA Forest Service management.

Exhibits I and II provide an update to prior year material weaknesses and reportable conditions, respectively, as of and for the year ended September 30, 2005, and include applicable new recommendations. Exhibit III summarizes the status of prior year recommendations. Exhibit IV provides an update of those instances of noncompliance with laws and regulations and other matters and applicable new instances of noncompliance. Exhibit V summarizes the status of prior year recommendations for noncompliance with laws and regulations. USDA Forest Service management's response is presented in Exhibit VI.

MATERIAL WEAKNESSES

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

Prior to FY 2005, the USDA Forest Service made extensive use of journal vouchers (JVs), which usually did not conform to Department of Treasury standard posting models, to correct general ledger (GL) account balances due to prior-period and posting logic errors and to facilitate the year-end closing and financial reporting process. During FYs 2003 and 2004, USDA Forest Service processed approximately 900 and 450 JVs, respectively. Often, personnel responsible for preparing and approving these JVs did not fully understand their impact. Therefore, the JVs often did not correct the errors and in fact created additional errors. As a result, the preparation of financial statements was not fully effective, often contained errors, and took a long period of time. In FY 2003 and 2004, USDA Forest Service had to restate prior period financial statements in part due to the processing of incorrect JVs.

During FY 2005 the USDA Office of the Chief Financial Officer (OCFO) instructed its agencies, including the USDA Forest Service, that JVs could no longer be processed. Instead, USDA agencies had to request that new accounting entry IDs (ACCTEIDs)¹ be established generally based on specific standard Treasury posting logic models. The USDA OCFO generally establishes these ACCTEIDs as standard vouchers (SVs) as SVs are generally used to correct errors, abnormal balances, and out-of-balance conditions.

Through the elimination of JVs and the consolidation effort discussed in the introduction section, the USDA Forest Service continues to make progress in improving its financial management and reporting activities. However, weaknesses continue to exist in the USDA Forest Service's ability to produce accurate and timely financial information. Specifically:

- The USDA Forest Service did not perform timely research to determine the reasons for abnormal general ledger account balances and out-of-balance conditions for certain GL account relationships (i.e., budgetary receivables and payables should equal the respective proprietary receivables and payables) and make corresponding corrections. The USDA Forest Service did not start processing correcting adjustments until June 2005 and most adjustments were not processed until September and October 2005. In total there were 177 adjustments made with an absolute value of about \$1.9 billion. Only 17 adjustments, totaling about \$112 million, were made in June and July 2005. Seventy-one adjustments, totaling \$1.0 billion, were made in September 2005 and the remaining 89 adjustments, totaling about \$813 million, were made in periods 13 and 14. Timely research and correction of abnormal balances and out-of-balance conditions is essential to meeting the required accelerated financial statement reporting deadlines.
- The USDA Forest Service's internal control related to preparing and approving routine transactions and adjustments continued to be not fully effective. Specifically, not all personnel responsible for initiating or approving transactions have detailed knowledge of the various business processes and/or the standard Treasury posting models. As a result, transactions are either incorrectly processed or are processed two or more times. For example, USDA Forest Service personnel incorrectly recorded transactions to reflect about

¹The USDA Forest Service uses the Foundation Financial Information System (FFIS) as its core accounting system. The USDA OCFO is the owner of FFIS and is responsible for operating and maintaining it. The USDA OCFO establishes ACCTEIDs to identify the various posting models used to process accounting transactions. The ACCTEIDs specify the general ledger accounts that are posted.

Exhibit I

\$215 million as “unavailable” budget authority on the Combined Statement of Budgetary Resources when the funds were available as of September 30, 2005.

- The USDA Forest Service did not timely identify posting logic errors. Of the approximately 450 ACCTEIDs that USDA Forest Service used during FYs 2004 and 2005, at least 40 did not relate to a standard Treasury posting model. In certain instances, such as a unique USDA Forest Service process, there may be a valid reason a standard Treasury posting model does not exist. The creation and use of non-standard Treasury posting models should be fully documented.
- In response to a prior-year material weakness issued to the USDA OCFO by the Office of Inspector General, the USDA OCFO revised its methodology in FY 2005 for compiling the Consolidated Statement of Financing (SOF). Although the USDA OCFO and Forest Service performed extensive research and analysis, sufficient evidential matter was not presented timely to substantiate the fair presentation of the line items noted in our opinion.
- The USDA Forest Service uses GL account 2190, *Other Accrued Liabilities*, to record both funded and unfunded other accrued liabilities. As a result, the USDA Forest Service has difficulty in properly identifying the total amount of *Liabilities not Covered by Budgetary Resources* for disclosure in its financial statements.
- The USDA Forest Service continues to have an ineffective process to timely identify, assess, and implement financial management and reporting changes that are mandated by authoritative accounting literature. During FY 2005, USDA Forest Service did not timely recognize financial management and reporting changes required by OMB Circular No. A-136, *Financial Reporting Requirements* and Interpretation Number 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*. OMB Circular No. A-136 contains significant changes for FY 2006, especially related to the identification and reporting for *Earmarked Funds*. Timely identification, assessment, and implementation of mandated financial management and reporting changes are a critical element of timely and effective preparation and issuance of financial statements and to provide management with accurate financial data in a timely manner.
- During FY 2005 the USDA Forest Service planned to change its business practice by depositing its receipts from timber sales into a specific Treasury appropriation fund symbol instead of the general budget clearing account. However, the USDA Forest Service did not fully implement this change during FY 2005.

OMB Circular No. A-127, *Financial Management Systems*, states that an agency’s financial management system shall be able to provide financial information in a timely and useful fashion to (1) support management’s fiduciary role; (2) support the legal, regulatory and other special management requirements of the agency; (3) support budget formulation and execution functions; (4) support fiscal management of program delivery and program decision making, (5) comply with internal and external reporting requirements, including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and (6) monitor the financial management system to ensure the integrity of financial data.

Recommendation Number 1:

In addition to the prior recommendations 1, 3, 8, 11 of Audit Report No. 08401-3-FM, we recommend that the USDA Forest Service:

- In conjunction with the USDA OCFO, complete the existing project for producing the SOF on a transactional basis. Document the propriety of all ACCTEIDs that constitute valid and logical reconciling items in the SOF. Obtain training for personnel involved in financial statement preparation regarding the relationship of the SOF to the statements of budgetary resources and net cost. Perform a comprehensive technical review of the SOF to ensure it is accurately prepared.

- Establish a separate general ledger sub-account within GL 2190 to separately record unfunded liabilities or otherwise segregate funded and unfunded liabilities.

Number 2: Accountability for Undelivered Orders (UDOs) is Lacking (*Repeat Condition*)

As reported in our FY 2004 report, the USDA Forest Service experienced sporadic lack of compliance with its policies and procedures to review and certify the accuracy of UDOs. During FY 2005, the USDA Forest Service experienced a worsening of this condition.

Review and Certification of UDOs Continues to Need Improvement

An internal control sample of UDOs was selected from the USDA Forest Service's May 31, 2005 UDO certification report at each of the 10 field sites reviewed during the audit. Of the 80 samples items that were tested, 19 items result in invalid UDOs as of May 31, 2005 and 7 items were not de-obligated within 30 days after the UDO certification was completed by the field office.

Because of the poor operating effectiveness of the internal controls over UDOs, the September 30, 2005 UDO extract was reviewed in detail. The testwork results disclosed 28 of 146 routine UDO transactions as exceptions.

USDA Forest Service Directive 6509.11k-2005-8 states, "For the months ending May 31 and August 31, [USDA Forest Service personnel must] certify that ALL un-liquidated obligations are reviewed for accuracy, including any accruals associated with these obligations.....Invalid UDOs must be de-obligated [by USDA Forest Service personnel] within 30 days of the certification."

Review of Non-routine Period-end Accrual Transactions Needs to be Performed

During FY 2005, the USDA Forest Service established a new policy to mass enter into the general ledger, via a standard voucher, delivered orders and undelivered orders that were not recorded into the various sub-systems due to the early year-end cutoff. This policy was designed to ensure completeness of data in the general ledger. As part of the consolidation of finance and accounting functions at the ASC, field personnel no longer have entry access to the general ledger. This action has significantly reduced the number of people entering transactions in the general ledger. In order to accommodate the volume of both undelivered and delivered orders to be entered, summary documents with detailed information were used to enter transactions.

As part of our non-routine sample, 65 transactions were selected as of September 30, 2005. Of this sample the following errors were noted:

- 38 of the 65 transactions failed the management review control, and
- 24 of the 38 transactions were not recorded properly in the general ledger.

The USDA Forest Service has two over-arching internal control policies and procedures that should ensure the accuracy of the data entered into the general ledger. Those policies and procedures are as follows:

1. The USDA Forest Service's general ledger contains security profiles that require two separate employees to enter and approve SV transactions.

2. In addition, CFO Bulletin 2002-010 *SV Documentation Policy* states “SV documents require approval by an approving official and will process similar to balance vouchers, internal vouchers, working capital fund vouchers and journal vouchers in that one individual will create the SV and another (approving official) will approve the document before it is accepted in FFIS. Approving the SV document means the approving official has reviewed the supporting documentation and agrees that the SV transaction is appropriate, is adequately documented and should be made in the current accounting period.”

Although the USDA Forest Service does have these internal controls in place, they are not operating effectively based on the errors cited above.

As a result of the lack of adherence to the USDA Forest Service’s policies and procedures for reviewing the validity of UDOs and reviewing and approving period-end accrual standard vouchers, erroneous UDO transactions existed. The condition resulted in an audit adjustment to decrease the UDO balance by \$122 million as of September 30, 2005.

Recommendation Number 2:

In addition to the prior year recommendation 1 of Audit Report No. 08401-4-FM, we recommend that the USDA Forest Service develop a plan to improve the operating effectiveness of its review and approval of all period-end accrual adjustments.

Number 3: Implementation of the USDA Forest Service Accrual Methodology Needs Strengthening (Repeat Condition)

As reported in prior year reports, the USDA Forest Service developed an accrual methodology during fiscal year 2003. However, the USDA Forest Service continues to have implementation weaknesses related to the compliance with its methodology.

Implementation Deficiencies of Accrual Methodology Existed

Although the USDA Forest Service made significant progress in developing an auditable accrual methodology, a review of the June 30, 2005 accruals disclosed discrepancies in the application of the methodology by various field offices. A statistical sample of 163 transactions was selected; however testwork was not completed due to the late delivery of the sample supporting documentation from the field offices. Although testwork was not completed, several weaknesses were noted in the limited testwork that was performed. Specifically, it was noted that the USDA Forest Service did not comply with its accrual procedures since approximately 55% of its accounts payable estimates were based on third party estimates, 16% of its accounts payable estimates were based on program managers and 29% was based on straight line calculations. In addition, a higher than acceptable level of exceptions were noted for those sample items tested.

A statistical sample of 129 accounts payable was selected as of September 30, 2005. Although FS did make some improvements in its accrual process from June 30, 2005, weaknesses continue to exist in its accrual methodology.

Specifically:

- 36 of 129 sample items contained errors in the calculations of the accrual amount.
- 3 of the 36 related to old accruals that were no longer valid.

- Approximately 46% of its accrual estimates were obtained from third-party confirmations, 51% were based on program manager estimates, and 3% were based on straight-line estimates

On March 24, 2004, FS issued CFO Bulletin No 2004-006, *Consolidated Methodology for Accruing Liabilities for Incidents, Grants, Agreements, Contracts, Purchase Orders and Straight Payments*. The bulletin provides the guidance for accruing liabilities for both incident and non-incident business transactions including grants, agreements, contracts, certain purchase orders, and straight payments such as temporary duty travel and purchase card purchases. In addition, the following sources for accrual estimates are noted and the acceptable percentages of accruals obtained from each of the categories:

- 80% of total recorded accrual dollars is derived from information submitted by trading partners, the source of the most reliable accrual data.
- No more than 15% of recorded accrual dollars are FS developed and documented knowledge-based estimates.
- No more than 5% of recorded accrual dollars are estimated using the straight-line spreadsheet. This is the least preferred accrual determination method and must be supported by documented efforts to obtain accrual information from the trading partners and from the Forest Service-developed knowledge-based estimate.

In addition to the CFO Bulletin, OMB Circular No. A-123, *Management Accountability and Control*, provides that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls and other significant events must be clear and readily available for examination.

The non conformance with the established accrual methodology resulted in an adjustment to increase the accrual by approximately \$17 million.

We continue to recognize the need for the USDA Forest Service to adequately train field personnel on the USDA Forest Service's accrual methodology to ensure all locations fully comply with the review and certification requirements and ensure that the Albuquerque Service Center (ASC) develop an adequate monitoring program for quarterly review of its methodology as reported in the prior recommendations 14 and 15 of Audit Report No. 8401-3-FM.

Periodic Reviews of Fire and Other Incident Accruals Need to be Performed

During our review of accruals at June 30, 2005 and September 30, 2005, it was noted that the USDA Forest Service had fire and other incident-related accruals from prior fiscal years that were no longer considered valid as the accruals could not be supported or there was little or no payment activity in FY 2005.

The USDA Forest Service's *Guide for Recording Incident Accruals and Payments* states that monitoring incident accruals is a key activity to ensure agency liabilities are better reflected. Delegated incident units should implement regular quarterly and fiscal year-end procedures to ensure accruals are accurately stated.

Without performing periodic reviews on the recorded accrual balance related to fire and other incidents, the USDA Forest Service increases its risk of having invalid accounts payable and is not in compliance with its policy on recording incident accruals.

Recommendation Number 3:

We recommend that the USDA Forest Service modify its accrual methodology to require responsible USDA Forest Service officials to take additional/alternate steps to obtain additional information when vendors cannot provide the necessary information to determine an accurate estimate, or when the USDA Forest Service is aware that the information provided is inaccurate.

Recommendation Number 4:

We recommend that the USDA Forest Service improve its quarterly monitoring function to ensure that reviews of fire and other incident accruals are performed accurately and completely and that such recorded accrual amounts are valid.

Number 4: Controls Over the Purchase Order Normal Tracking and Inventory System (PONTIUS) and Purchase Order System (PRCH) Data Access, Input, Integrity, and Segregation of Duties Need Improvement (*Repeat Condition*)

The Purchase Order Normal Tracking and Inventory System (PONTIUS) is the front-end to the Purchase Order System (PRCH). Controls over data access, input, integrity, and segregation of duties play a crucial role ensuring the accuracy and integrity of data stored in these systems. Internal control weaknesses were noted in both systems.

During FY 2005, the USDA Forest Service began implementation of a new procurement system entitled the Integrated Acquisition System (IAS) however, a significant number of expenditure transactions were still processed through the PONTIUS and PRCH systems. PONTIUS and PRCH are scheduled to cease operations in November 2005.

OMB Circular No. A-127, *Financial Management Systems*, prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. In particular, OMB Circular No. A-127 specifies the need for integrated financial systems and to account for financial data using the USSGL at the transaction level.

Since the implementation of IAS occurred during FY 2005, no further recommendations will be made for this weakness.

Number 5: The USDA Forest Service Needs to Improve its General Controls Environment (*Repeat Condition*)

In response to previously reported weaknesses in this area, the USDA Forest Service has undertaken initiatives to improve its information technology functions. Specifically, as part of the business operations reorganization and consolidation, USDA Forest Service recently established a contract-like relationship with Federal employees¹ to manage the USDA Forest Service IT infrastructure functions and processes. As a result of the reorganization, the USDA Forest Service IT infrastructure functions and processes are currently being centralized and updated.

¹ The “contract-like relationship with Federal employees” resulted from an OMB Circular No. A-76 outsourcing study that was performed and awarded to government employees.

While we commend USDA Forest Service efforts to centralize and improve its IT infrastructure functions, more actions are necessary to fully address the general controls weaknesses identified in prior years as well as to ensure an appropriate level of confidentiality, integrity and availability of sensitive and crucial information systems and resources. Specifically, six of eight prior general control recommendations remain open. We have also included three new issues in this overall weakness. A description of the nine issues comprising this material weakness follows. Furthermore, at the USDA level, the OIG has identified a security weakness related to IT general controls. Actions to resolve the USDA issue are incumbent upon resolution of the USDA Forest Service general control material weakness.

The material weakness that follows was based on the guidance in the *Federal Information Security Management Act* (FISMA), passed as part of the *Electronic Government Act of 2002*, which mandates that Federal entities maintain IT security programs in accordance with OMB and National Institute of Standards and Technology (NIST) guidance. OMB Circular No. A-130, *Management of Federal Information Resources*, and various NIST guidelines describe specific essential criteria for maintaining effective general IT controls.

The Entity-Wide Process for Assessing Information Technology Risks Has Not Been Fully Implemented
(Repeated Condition)

We previously reported that the USDA Forest Service did not have formal risk assessment policies, procedures, or guidance for conducting and preparing appropriate and complete risk assessments. The USDA Forest Service published a risk assessment policy and conducted risk assessments (RAs) in fiscal year 2005. We reviewed the RAs for the USDA Forest Service Computer Base (FSCB), which is the USDA Forest Service General Support System (GSS), Paycheck7, Infrastructure (INFRA), Automated Timber Sale Accounting (ATSA), and Travel. We noted the following weaknesses:

Risk Assessment (RA) Conditions	Application
The RAs were missing analyses in the following areas: control analysis, likelihood determination, risk determination, and control recommendation.	ATSA; FSCB; Paycheck7; Travel
RA did not address regional or data center threats. In addition, the ASC was not incorporated in the RA.	FSCB
The RAs were missing Attachment A: Risk Evaluation Report checklists, as mandated by National Institute of Standards and Technology (NIST) SP 800-26, Security Self-Assessment Guide for Information Technology Systems.	INFRA; ATSA; Paycheck7 Travel
The vulnerability lists did not classify risk levels for AIX, Oracle, Windows 2000/XP, and Microsoft Office.	ATSA; FSCB; Paycheck7 Travel

We continue to recognize the need for the USDA Forest Service to ensure that controls are established to facilitate adherence to the Forest Service’s risk assessment policies and procedures as reported in prior recommendation 20 of Audit Report No. 08401-3-FM.

System Security Plans Are Incomplete (*Repeated Condition*)

We previously reported that the USDA Forest Service did not have policies to govern the development of system security plans. In FY 2005, the USDA Forest Service published a security management policy. We reviewed the System Security Plans (SSPs) for FSCB, Paycheck7, INFRA, ATSA, and Travel and noted the following weaknesses:

System Security Plan (SSP) Conditions	Application
The SSP was not updated as a result of the reorganization and transition to the Information Solution Organization (ISO).	FSCB
System interconnection and information sharing rules of behavior were in draft for the Department of Interior (DOI) – Bureau of Land Management (BLM); DOI – National Business Center (NBC); USDA – National Finance Center (NFC); and USDA – National Information Technology Center (NITC).	
The SSP was out of date, per USDA Forest Service requirements for review and update annually.	ConnectHR/Paycheck7
The SSP was missing analysis in the following areas, based on NIST SP 800-18 guidance for Major Applications: Security awareness and training, documentation, identification and authentication, and personnel security.	
The SSP did not discuss the security software which protects the system and information.	INFRA

We continue to recognize the need for the USDA Forest Service management to establish controls to facilitate adherence to Forest Service system security plans as reported in prior recommendation 21 of Audit Report No. 08401-3-FM.

Internet Access Controls Need Improvement (*Repeated Condition*)

We previously reported through vulnerability assessment of the USDA Forest Service that several File Transfer Protocol (FTP) servers did not disable write access to a public directory for anonymous users. As a result, the servers allow the user functional access to the system and to additional system services. In fiscal year 2005, many of the same access conditions continue to exist, including our identification of servers with default FTP accounts and hosts with default user names and passwords. We received the approved USDA Forest Service Manual 6680-2005-4 “Security of Information, Information Systems, and Information Technology” on September 27, 2005. This manual was not included in our review as it would not have impacted Internet access controls for FY 2005.

We continue to recognize the need for the USDA Forest Service management to develop and implement enterprise-wide system architecture standard for Internet-facing services as reported in prior recommendation 22 of Audit Report No. 8401-3-FM.

Patch Management and Configuration Guidance Are Incomplete (*Repeated Condition*)

We previously reported several findings in the area of system software, change control, and service continuity related to the operating system software. Specifically, these weaknesses were:

- Formal policies related to access restriction and monitoring usage of system software have not been documented;
- Periodic review of access capabilities of system programmers is not performed;
- System software related documentation is not maintained or updated;
- Normal change control policies or procedures do not exist;
- A formalized System Development Lifecycle (SLDC) methodology has not been developed for operating system software; and
- Emergency change procedures have not been documented.

During our FY 2005 audit, we noted that many of the same conditions continued to exist and can be attributed to a lack of formal policies. The FSM 6600, Systems Management, subsection 6683.6, Hardware Systems and Software Maintenance, and the Configuration Management Board (CMB) Charter are currently in draft form. No formal policy exists related to access restrictions over software code, change control, emergency change procedures, library management policies, or library access controls. Additionally, we discovered that not all servers are 'hardened' - users are not required to login with their user name before gaining root access.

We also previously reported the following issues related to system software:

- Outdated software;
- Missing critical patches on various services and/or software;
- Improperly configured services or software; or
- Outdated or unnecessary services and/or software installed.

During our FY 2005 external and internal vulnerability assessment of the Washington Office (WO); WO Detached in Fort Collins, Colorado; and the ASC, a significant number of issues of the four types described above were again identified. This included 27 instances of outdated web server components; 56 Microsoft, 21 Oracle, and 1 Dell OpenManage web server not being up to date; 19 X Server and 18 RPC services improperly configured; and, 3 Active Directory components, 11 legacy Echo and Chargen services, 20 RPC services, 1 MyAdmin service and 8 CGI scripts were running unnecessarily.

We continue to recognize the need for the USDA Forest Service management to develop and implement enterprise-wide policies and procedures regarding software management and change control as reported in prior recommendation 23 of Audit Report No. 8401-3-FM.

Continuity of Operations Plans and Contingency Plans Need Improvement (*Repeated Condition*)

We previously reported service continuity control weaknesses at the USDA Forest Service indicating that criteria for data classification and sensitivity of critical data operations information had not been established; data backup and recovery procedures were weak and inconsistent across the regions; preventive maintenance policies and

procedures did not exist; and continuity of operations plans and disaster recovery plans were not adequate and inconsistent across the regions.

In our FY 2005 audit, we inspected USDA Forest Service's continuity of operation plans (COOP) and disaster recovery documentation. COOPs provide procedures and capabilities to sustain an organization's essential, strategic functions at an alternate site. IT contingency plans provide procedures for recovering an application. We noted that, while improvements had been made over last year, the following weaknesses were identified:

- *Policies and procedures* – Policies and procedures did not exist for IT contingency and disaster planning, sensitive information protection and classification, and the logging of removal and return of storage media to and from the tape library. USDA Forest Service Manual 6600 – Systems Management, which documents backup and recovery procedures, was in draft form.
- *Emergency procedures* – At the WO, Fort Collins, CO – WO Detached, and Region 3 (supporting the ASC data centers) were not documented, periodically tested and employees had not received training on emergency procedures.
- *Data Center Continuity of Operations Plans* – A business impact analysis had not been performed for the Fort Collins, CO – WO Detached or the ASC locations. The Rocky Mountain Research Station's, which supports the Fort Collins – WO Detached office, COOP was outdated and incomplete. Specifically, it had not addressed the concepts of operations for WO Detached Acquisition Management and Financial Management systems units; it did not effectively document the steps to be taken by IT personnel to restore operations; the leadership contacts had not been updated; and the plan had not been tested. Regional COOPs had not been updated nor had regional employees received COOP training. The WO COOP after-action reports did not document deficiencies and corrective actions specific to the WO COOP.
- *Application Contingency Plans* – ConnectHR/Paycheck7 contingency plan did not exist. The general support system contingency plan was in draft.
- *Application Documentation* – System and application documentation was not maintained offsite for WO and Fort Collins, CO – WO Detached locations.
- *Data Center Facility* – Fire extinguishers were not available at the WO data center and the Region 3 data center, which supports the ASC.
- *Procedures and agreements* – Procedures and agreements regarding regional office backup site facilities had not been developed for instances where one region is the backup site for another region. Regional offices had not established service agreements for emergency telecommunication services.

Recommendation Number 5:

We recommend that USDA Forest Service:

- Complete, approve, communicate, and document the enforcement of policies and procedures addressing IT contingency and disaster planning and protection of sensitive information and classification. These policies and procedures should include the removal and return of storage media and physical and environmental security.
- Additionally, USDA Forest Service should conduct a Business Impact Analysis at the WO, Fort Collins, CO – WO Detached, and Region 3 (supporting the ASC) data centers to assist in identifying the criticality and sensitivity of FS information, systems, and facilities. The COOP for the Regional headquarters, WO and Fort Collins – WO Detached need to be enhanced. Also, the contingency plan for ConnectHR/Paycheck7 needs to be enhanced. USDA Forest Service should establish controls to certify all COOP and contingency plans are

tested annually and updated based on test results. Regional service level agreements or contracts with all backup site facilities and telecommunication services should be developed.

- Finally, we recommend that the USDA Forest Service develop materials and provide employees identified as occupying emergency roles with disaster recover and continuity of operations training.

The Certification and Accreditation (C&A) Process Needs Improvement (*Repeat Condition*)

In response to our previous reportable conditions, the USDA Forest Service conducted certification and accreditation activities and accredited the systems. In our FY 2005 audit, we examined Certification and Accreditation (C&A) packages for the USDA Forest Service network, Paycheck7, INFRA, ATSA, and Travel. We noted that while all of these financially significant applications were certified and accredited, but the following areas require improvement:

- *C&A process* – USDA Forest Service did not have a C&A policy and the USDA policy was in draft; the certifying agent’s position did not provide for an appropriate level of independence within the organization; and, procedures for continuous monitoring of the systems and performing annual self-assessments were informal.
- *Incomplete C&As* –FSCB, Paycheck7, INFRA, ATSA, and Travel were certified and accredited with incomplete C&A packages; and, the PONTIUS did not undergo C&A.
- *FISCAM Plan of Action and Milestones (POA&M)* – Responses to previous year findings were not reported timely in the IRM Audit Action Plan POA&M; and, there were no policies or procedures for updating and reviewing the POA&M.

We continue to recognize the need for the USDA Forest Service to develop and implement a Certification & Accreditation (C&A) policy based on NIST Special Publication as reported in prior recommendation 19 of Audit Report No. 8401-3-FM.

Access Controls at Data Processing Facilities Need Improvement

In our prior management letters, we reported that there were weak access controls across the USDA Forest Service entity-wide. Specifically, management had not periodically reviewed individual logical access privileges or unauthorized access attempts and audit logs. Many USDA Forest Service facilities had weak physical access controls. Additionally, standard forms were not used to document the approval of data sharing, archiving, and deletion.

In our FY 2005 audit, we noted that improvements had been made to access controls. However, we also noted that the following weaknesses still existed at the WO, ASC, and Fort Collins:

- *No standard logical access controls for gaining access to the USDA Forest Service network* – USDA Forest Service has established Interim Directive 6680-2005-3, *Technical Controls*, which addresses access controls. However, the process for obtaining and authorizing access to the USDA Forest Service network was not included in this policy and had not been standardized, documented, and communicated to users. At the ASC, management approval for the creation of new network and Lotus Notes accounts and changes to existing user accounts had not been documented. Additionally, a policy and procedure for granting and removing temporary or emergency access had not been established. Finally, USDA Forest Service had not established policy or procedure for periodically reviewing access listings for appropriateness, identifying and disabling

inactive user accounts, and removing network access for separated employees. Separated employees were found to have network access at several locations across the USDA Forest Service.

- *Weak logical access controls over system software, sensitive utilities, and database management utilities* – USDA Forest Service had not documented access restrictions over system software. Currently, access to system software, sensitive utilities, and database management utilities was controlled through root server access. The root access passwords are stored in an Oracle “password application.” Access to the password application was not formally authorized or documented.
- *Weak logical access controls over servers* - Users could gain root server access anonymously and actions could not be tracked to individual users.
- *No maintenance or review of audit trails* – Audit trails of successful and unsuccessful logins attempts and user activity on the USDA Forest Service network were not maintained. Suspicious activity on the USDA Forest Service network was not consistently investigated and regional personnel were unaware of how security violations and activities were to be reported. While successful and unsuccessful login attempts for servers, system software, and sensitive utilities were recorded, they were not periodically reviewed by management for suspicious activity. Additionally, audit trails of server operator activities were not maintained. Regarding remote access, logs were maintained of successful and unsuccessful logins, but management did not periodically review the logs for suspicious activity. USDA Forest Service had not established a process for management review of audit logs and monitoring of computer operator activities.
- *Inadequate physical access controls over USDA Forest Service facilities and restricted space* – The USDA Forest Service Manual 6683.2, “Physical and Environmental Security,” was in draft. As such, physical and environmental security requirements had not been established and communicated for USDA Forest Service facilities and all restricted space. Specifically, visitor logs were not used in the WO data center and were inconsistently used throughout the WO and other regional facilities. At the WO detached facilities in Fort Collins, locked doors were routinely propped open and security guards were not present to monitor access to facilities. At the WO data center, authorized ID request forms could not be provided for all employees with access to the data center and computer lab. Changes in physical access privileges were inconsistently authorized and documented. Additionally, separated and transferred employee access was not consistently removed from the system. Finally, management at the WO, Fort Collins, and ASC did not periodically review physical access listings for appropriateness.
- *Unidentified access paths* – No tools or diagrams were used to track logical access paths for the USDA Forest Service network and servers.
- *No use of standard forms to document approvals for archiving, deleting, and sharing of data* – Standard forms were not used to document approvals for archiving, deleting, and sharing data for the ATSA system or PONTIUS. Data was regularly shared with outside entities such as the U.S. Congress or the Freedom of Information Act Office.

Recommendation Number 6:

We recommend that USDA Forest Service management develop, communicate, and establish controls to facilitate adherence to entity-wide policies and procedures on access controls to address access key controls, including:

- A standardized process for requesting access to the USDA Forest Service network. Include procedures for changes to existing user accounts and requesting, granting and removing temporary and emergency access;

- Periodic management review of network account access listings for appropriateness; identifying and disabling inactive user accounts, and removing network access for separated employees;
- Requesting, granting, and removing access to system software, sensitive utilities, and database management utilities;
- Periodic review of network, server operator, and remote access audit logs as required by USDA Forest Service Interim Directive 6680-2005-3, "Technical Controls." Include procedures and requirements for investigating suspicious user activity and reporting security violations;
- Management approval for archiving, deleting, and sharing ATSA and PONTIUS data;
- Finalize the USDA Forest Service Manual 6683.2, "Physical and Environmental Security," and communicate requirements to FS personnel. Establish controls to facilitate adherence to policy; and
- Additionally, the USDA Forest Service needs to modify server settings on all USDA Forest Service servers to ensure that users cannot gain root server access anonymously. USDA Forest Service network audit functions must be configured to maintain a history of successful and unsuccessful login attempts and user activity for the USDA Forest Service network as required by USDA Forest Service Interim Directive 6680-2005-3, "Technical Controls." USDA Forest Service management should identify and document all access paths for the USDA Forest Service network and servers. Finally, USDA Forest Service needs to develop and implement a user access review policy and procedure for the Department of Health and Human Service's Payment Management System application.

Network Account Management Needs Improvement

In our prior management letters, we reported that the USDA Forest Service had not established a formal password policy. Additionally, we noted many insufficient password parameters and login information across the USDA Forest Service organization.

In FY 2005, USDA Forest Service issued password requirements on August 26, 2005, in Interim Directive 6680-2005-3, *Technical Controls*. However, the policy does not require users to change their password every 60 days as required by the USDA Departmental Manual (DM) 3535-000, "C2 Controlled Access Protection." Additionally, the password requirements have not been communicated and consistently followed across the USDA Forest Service. Weak password parameters were found on the USDA Forest Service network (Windows and Advanced Integrated eXecutive (AIX) accounts.) Also, screen saver passwords can be disabled by users and network accounts are not locked after several unsuccessful login attempts.

During the FY 2005 internal vulnerability assessment of the WO, WO Detached in Ft. Collins, CO, and the ASC; we noted that weak password controls exist on a significant number of hosts within the USDA Forest Service information technology infrastructure. Specifically, several hosts were identified with weak administrator and other powerful account passwords, including blank passwords.

Recommendation Number 7:

We recommend that USDA Forest Service management:

- Update the USDA Forest Service Interim Directive 6680-2005-3 to include the USDA requirement that users change their password every 60 days and 30 days for system administrators;
- Establish controls to facilitate entity-wide adherence to the USDA Forest Service Interim Directive 6680-2005-3; including the application of strong passwords to all user accounts identified as having a weak

password during the vulnerability assessment and the removal or disabling of all default, temporary, and guest user accounts; and

- Continue with the USDA Forest Service implementation of Microsoft Active Directory in order to enforce screen saver passwords, account lock-out after three invalid login attempts, and the minimum password requirements documented in the USDA Forest Service Interim Directive 6680-2005-3 for all FS network users.

Implementation of the New Business Operations Organization Needs to be Stabilized

During the general controls review of the ASC and the Network Operations Center (NOC), we noted that various policies and procedures had not been documented. Specifically, the USDA Forest Service has not established policies and procedures related to the following areas:

NOC

- Granting and removing external access to the network, including terms of agreement for when the NOC assumed networking responsibilities;
- Standards for network software, links and service configuration;
- Software used by the NOC;
- Network Configuration Management Guidelines;
- Managing firewalls;
- Incident Detection System (IDS) configuration, alerts and network incident response; and
- Daily Operations Guide (DOG) for the NOC.

ASC

- Specific methods of protecting confidential data are not included in USDA Forest Service agreements;
- Access request forms for the Foundation Financial Information System (FFIS) and the National Finance Center (NFC) users are missing; and
- The ASC has not developed a COOP.

Additionally, we noted that reviews had not been performed for the following:

- Personnel with access to sensitive facilities;
- Appropriateness of the FFIS and the NFC access authorizations; and
- Network security status.

Recommendation Number 8:

We recommend that USDA Forest Service system owners, in cooperation with the USDA OCIO, and in compliance with USDA and USDA Forest Service information security requirements:

- Complete, approve, communicate and document the enforcement of policies and procedures, specifically addressing the conditions resulting from the new business operations organization;
- Develop and implement a policy to include review of personnel with access to sensitive facilities, the appropriateness of FFIS and NFC access authorizations, and the network security status;
- Install the latest software versions, service packs, and security patches (and remove out-dated versions);
- Develop and implement software configuration standards for Windows, UNIX and all other USDA Forest Service platforms with defined images that specify what software applications should be in use and on what kinds of machines these applications should be installed on; and
- Use automated tools to detect and eliminate unused or unauthorized applications including the use of ISS Internet Scanner in accordance with USDA Cyber Security Policy CS-007.

REPORTABLE CONDITIONS

Number 1: Controls Related to Physical Inventories of Capital Assets Need Improvement

The USDA Forest Service provides capitalized asset written physical inventory instructions to its reporting units. We reviewed the instructions and believe they are effectively designed.

For economy and efficiency, the USDA Forest Service performs a physical inventory of personal property on a two-year cycle preferably in the even years. The last inventory was performed in FY 2004.

Real property inventory procedures were changed in FY 2002 to require inventories on a rolling basis every five years starting in FY 2003.

In our FY 2005 audit, we noted four types of deficiencies:

- *Lack of Signatures and or Dates on Inventory Reports* - Inventory reports were either not available or were not properly signed and dated by the inventory taker for eight out of the ten units. Unsigned and undated physical inventory lists could result in a misstatement of assets because the physical existence of assets is not verified and/or properly recorded. This condition is caused by a lack of compliance by field units with the USDA Forest Service's written inventory instructions.
- *Lack of Evidence of Segregation of Duties* - Inventory reports were annotated only by the inventory taker, or that the accountable officer and reviewer was the same person. This deficiency existed at five of the ten reporting units. Lack of proper oversight of inventory can result in the misappropriation or misstatement of assets. This condition is caused by a lack of compliance by field units with the USDA Forest Service's written inventory instructions.
- *Lost or Found Items Discovered during Physical Inventories were not Properly Documented and/or Corrected in the Property Systems* – Non-reconciling items discovered during the physical inventory were not corrected in the property systems. This deficiency existed at five of the ten reporting units. The effect is a misstatement of assets because assets were not properly recorded in the property subsidiary ledgers. This condition is caused by a lack of compliance by field units with the USDA Forest Service's written inventory instructions.
- *Lack of Inventory of Level 1 and 2 Roads* – Level 1 and 2 roads were not inventoried in FY 2005 and at the current rate of their inventorying; they would not have a complete 100% physical inventory within five years. Level 1 roads are not in service and level 2 roads are unimproved vehicle trails/roadbeds.

Recommendation Number 9:

We recommend that the USDA Forest Service increase their monitoring of reporting units for compliance with the USDA Forest Service written physical inventory instructions and implement an appropriate inventory methodology for level 1 and 2 roads.

Number 2: A Segregation of Duties Policy related to Electronic Data Processing (EDP) Must be Fully Implemented (Repeat Condition)

We previously reported that, although a number of the controls around segregation of duties related to IT were in place, at least one of the following conditions was noted at the field sites reviewed:

- No segregation of duties policy;
- No clearly defined operating procedures for data center operations;
- The same individual may perform distinct systems support functions;
- No segregation of duties training;
- No active management review of staff functions; and
- No controls in place to ensure financial management reporting data accuracy.

Although USDA Forest Service had an interim directive in place, no formal enterprise-wide policy or procedures had been developed or implemented. During our FY 2005 audit, we noted that USDA Forest Service developed and published a segregation of duties policy. While the new segregation of duties policy controls have been approved, the following weaknesses still exist:

- Management does not periodically review segregation of duties controls;
- Staff is unaware of a segregation of duties policy at all sites except the WO; and
- Segregation of duties training has not been created or disseminated to USDA Forest Service employees.

OMB Circular No. A-130 describes specific essential criteria for maintaining effective controls. Without proper controls or segregation of duties in place, unauthorized personnel can have the ability to access, edit or delete critical data or files, thus compromising data integrity and accuracy.

Recommendation Number 10:

We recommend that USDA Forest Service:

- Establish controls to facilitate adherence to the segregation of duties policy and supporting procedures as well as develop, implement and document training so that employees are aware of the policy and their responsibilities.
- Modify, approve, and communicate a policy to address periodic management review of segregation of duties.

Number 3: The Compilation of Performance Measures Needs Improvement

The USDA Office of Inspector General (OIG) identified, in a March 2005 report entitled *Forest Service Implementation of the Government Performance and Results Act*, certain significant deficiencies in internal control over reported performance measures that, in our judgment, could adversely affect the USDA Forest Service's ability to collect, process, record, summarize, and report performance measures in accordance with management's criteria. Specifically, the OIG reported the USDA Forest Service had not effectively implemented

Exhibit II

a comprehensive strategy for collecting and reporting performance data. The OIG report identified several examples of inconsistencies, errors and omissions in measuring performance and that the standards used to define performance varied between regions and forests and even among the districts in a forest. The report further stated that definitions of performance measures were often vague and open to varied interpretation and were not always timely distributed to the field.

The OIG is continuing to monitor the USDA Forest Service's processes in this area.

Number 4: The Review of Purchase Card Transactions and Monitoring of the Program Needs Improvement (*Repeat Condition*)

During testwork over quarterly supervisory reviews of purchase card transactions, the following exceptions were noted in a sample of 19 transactions:

- Nine quarterly supervisory reviews were not completed and one quarterly supervisory review was signed and dated the day our field site review began.
- The ASC was not able to identify its purchase card holders in the Purchase Card Management System (PCMS).

In addition, during testwork over the authorization for use of PCMS Purchase Cards and completion of PCMS training, the following exceptions were noted in a sample of 104 cardholders:

- Three cardholders did not have their *Micro-Purchase & PCMS System Training Certificate Request* forms signed by the Local Agency Program Coordinator (LAPC).
- One cardholder did not have a copy of their (approved) *Micro-Purchase & PCMS Training Certificate* form on file.
- One cardholder was both Contracting Officer (CO) and PCMS purchase cardholder. The CO had an authorized warrant level of \$25,000 only, but with a purchase limit of \$100,000 for the PCMS purchase card.
- One cardholder made an unauthorized purchase since the cardholder was removed from the PCMS system as an authorized PCMS purchase card cardholder.

USDA Departmental Regulation 5013-6 requires that supervisors of purchase card holders monitor the purchasing activity of card holders in their units. On April 19, 2004, the Director of Acquisition Management reminded the various FS activities of the emphasis placed on the supervisor's review of purchase card holders. A supervisory review checklist was provided to document the reviews starting with the second quarter review (January – March 2004). Documentation of these reviews should be maintained for three years.

On April 28, 2005 the WO sent a letter reminding all purchase cardholders and their supervisors of their responsibilities associated with the management of the purchase cards and convenience checks. This action was taken as a result of a prior finding that quarterly supervisory reviews had not been accomplished as required.

The USDA Forest Service Handbook (FSH) 6309.32, *Federal Acquisition Regulation*, part 4G13.301, *Government wide commercial purchase card*, states that non-warranted cardholders are limited to the micro-purchase thresholds of \$2,500 for supplies and/or services and \$2,000 for construction. Warranted cardholders may conduct transactions (ii) within their warrant authority and the single and monthly limits established for their cards or \$2,000,000, whichever is less.

In addition, on June 30, 2003 the WO sent a letter to USDA Forest Service activities to have all USDA Forest Service cardholders authorized in writing by December 31, 2003.

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

We continue to recognize the need for the USDA Forest Service management to reinforce its policies in this area and incorporate procedures to test reviews of purchase card transactions in its Acquisition Management reviews as reported in prior year recommendation 4 of Audit Report No. 8401-4-FM.

Number 5: The Internal Controls Related to the Recording, Classification, Accounting for Information Related to Leases Need Improvement (*Repeat Condition*)

As noted in our prior year audit, the USDA Forest Service has not implemented automatic posting models for the routine recording of capitalized leases in the general ledger. The requirement for lease reporting and disclosure in the financial statements is accomplished by periodically compiling information from the regions based on data calls and then entered into general ledger once a year at fiscal year closing. This non-routine method is prone to errors. The USDA Forest Service intended to, but did not implement the planned programming changes and new procedures in FY 2005.

During our FY 2005 audit we sampled 114 real and personal property capital and operating leases and we identified the following errors:

- 13 leases had insufficient supporting documentation to classify them,
- 6 leases were classified as capital that should have been operating,
- 4 leases were classified as operating that should have been capital,
- 1 lease was expired, and
- 1 lease was a duplicate.

We also tested the mathematical accuracy of certain calculations to determine if assets under capital leases and the accumulated amortization has been correctly recorded and determined that accumulated amortization was overstated by at least \$3 million and assets under capital leases were overstated by \$0.5 million at September 30, 2005.

These errors could cause an overstatement or an understatement of asset values. These errors can be attributed to the of lack of policy and procedures, lack of training and/or lack of monitoring of reporting units for compliance with USDA Forest Service lease transaction recording policies.

We continue to recognize the need for the USDA Forest Service management to establish policies and procedures for the accurate recording of leases as reported in prior year recommendation 5 of Audit Report 8401-4-FM.

Number 6: The Design and/or Implementation of Controls Related to the Accurate Recording of Revenue-Related Transactions Need Improvement (*Repeat Condition*)

During our prior year audit, we noted that revenue transactions were not recognized in the correct month and/or year, were not sufficiently documented, or had values that were not supported by the documentation. We also noted for accounts receivable that unbilled receivables were not reduced upon the issuance of actual billings, and incorrect balances were caused by system linking problems.

During our FY 2005 audit, we tested 323 timber revenue samples, 542 general revenue samples, and 212 accounts receivable samples and noted errors as follows:

Revenue

- 13 timber samples did not have sufficient documentation,
- 4 timber samples had permits issued and executed in prior fiscal years but were recorded as revenue in FY 2005
- 3 timber samples were not sufficiently documented,
- 12 general samples were not recognized as revenue in the correct year,
- 6 general samples were not received,
- 4 general samples had values that were different from the documentation that was provided, and
- 1 general sample had a permit issued and executed in a prior year but recorded as revenue in FY 2005.

Accounts Receivables

- 16 samples were abnormal due to the misuse of posting models,
- 10 samples did not have sufficient documentation,
- 9 samples were abnormal due to an over-collection of a receivable or an over advance liquidation,
- 4 samples were not received,
- 3 samples were overstated because they had been previously collected, and
- 2 samples were abnormal due to job code errors.

OMB Circular No. A-123, *Management Accountability and Control*, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination. This condition can be attributed to a lack of policies or procedures and/or lack of trained personnel and/or lack of monitoring of reporting units for compliance with the policies and procedures.

The effect of these deficiencies results in an over or understatement of revenue.

We continue to recognize the need for the USDA Forest Service management to review and update its policies and procedures for accurate recording of revenue as reported in prior year recommendation 6 of Audit Report No 8401-4-FM.

Number 7: The USDA Forest Service Needs to Continue to Improve its Internal Controls over its Reconciliation and Management of Fund Balance with Treasury (*Repeat Condition*)

Although the USDA Forest Service has made significant progress in improving its Fund Balance with Treasury (FBWT) reconciliation and management processes, we identified continuing control deficiencies.

The Management of the Budget Clearing Accounts Needs to be Improved

The USDA Forest Service maintains budget clearing accounts (i.e., Treasury Appropriation Fund symbols accounts 12F3875 and 12F3885) as part of its FBWT. USDA Forest Service uses these accounts to temporarily record cash collections, as well as, revenue and expense transactions that have not been researched and resolved for final disposition in its general ledger. Transactions recorded in these FBWT budget clearing accounts have an offsetting amount recorded in a liability account (i.e., general ledger account 24XX). Depending on the nature of the recorded transaction, amounts should not legitimately reside in the budget clearing account and the corresponding liability account at fiscal year-end.

During our prior audit we noted that the USDA Forest Service was analyzing the composition of its budget clearing accounts and generally making proper disposition at least on a quarterly basis.

During our FY 2005 audit we noted that the Forest Service had planned to change its business practice and deposit timber cash in 12X6500, *Advances Without Orders from Non-Federal Sources*, instead of 12F3875. The USDA Forest Service does not have a receipt account for timber sales so its business practice had historically been to deposit the timber cash in the general budget clearing account, which is not the purpose of the account. However, the USDA Forest Service did not fully implement this planned change in FY 2005.

OMB Circular No. A-123 states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

The *Treasury Financial Manual (TFM)* Sections 2-3100 and 2-3300 state that the records of a Federal agency (i.e., the USDA Forest Service's general ledger) must agree with the records of the U.S. Treasury. Any differences must be identified, reclassified into a budget clearing account, and resolved timely. In addition, *TFM* Volume I, Section 4, Chapter 7000, states that reconciling items in budget clearing accounts must be resolved expeditiously.

The USDA Annual Close Guide, Section 10, states that all budget clearing accounts must reflect a zero balance in the general ledger at year-end.

The effect is cash payments to agencies can be inappropriately withdrawn from the USDA Forest Service's FBWT accounts; undelivered orders are overstated at any given point in time due to unreconciled transactions; and expenses and/or revenues are understated.

We continue to recognize the need for the USDA Forest Service management to establish a separate receipt and expenditure Treasury symbol as reported in prior recommendation 6 of Audit Report No. 8401-3-FM.

The FMS 6653/6654/6655 Reports Reconciliation Process Needs to be Improved

During our FY 2005 control tests of the FMS 6653/6654/6655 reports reconciliation process, we noted that all 53 sample items were adequately supported. However, 24 sample items were not corrected timely. This demonstrates improvement in the FBWT reconciliation process over the work for the prior fiscal year.

OMB Circular No. A-123 states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

USDA policy states that the USDA Forest Service needs to correct differences within 60 days after receipt of the Treasury reports.

Without a timely resolution of FBWT differences the USDA Forest Service's general ledger could be out of balance with Treasury's. In addition, the USDA Forest Service could be understating revenues and/or expenses.

We continue to recognize the need for the USDA Forest Service management to perform complete and timely resolution of non-reconciling items as reported in prior recommendation 27 of Audit Report 8401-3-FM.

Number 8: The Design and/or Implementation of Controls Related to the Accurate Recording of Personal Property Transactions Need Improvement (*Repeat Condition*)

The USDA Forest Service has improved its property internal controls during fiscal year 2005, including monthly general ledger to property subsidiary ledger reconciliations and other corrective actions. The implementation of WO compensating controls, to include the search for assets recorded below the capitalization threshold, further illustrates the continuing commitment by the USDA Forest Service to improving the control environment necessary for accurate financial reporting of personal property.

While the overall USDA Forest Service control structure has improved, controls at reporting units remain weak. Tests of both controls and substantive transactions revealed that data input by reporting units remains poor, as numerous data quality errors were identified.

During our prior-year testing of internal controls, we identified errors where the recorded data did not agree with the supporting documentation. These errors included:

- items recorded below the capitalization threshold
- lack of sufficient supporting documentation
- prior events being recorded in current year
- unauthorized adjustments to recorded assets
- lack of supervisory review for property transfers

During our prior substantive testing we also identified errors where the recorded data did not agree with the supporting documentation. These errors included:

- prior events being recorded in current fiscal year
- items recorded below the capitalization threshold
- recorded cost not agreeing to the actual cost
- capitalizable items being recorded with an incorrect budget object code

- capitalization of costs that should be recorded as expenses
- improper asset write off
- use of wrong posting model, causing a duplicate capitalization of a previously capitalized asset
- recording of a pre-payment as a capitalized asset
- improper removal of a properly capitalized component cost

FY 2005 substantive testing, we identified errors where the recorded data did not agree with the supporting documentation. These errors were associated with 27 of 339 personal property transactions tested. These errors included:

- 12 samples were for FY 2004 or prior events that were recorded in FY 2005
- 8 samples had insufficient support
- 7 samples had recorded cost that did not agree to the actual cost

These errors did not result in material misstatement of asset values. These errors can be attributed to a lack of trained personnel as well as a lack of supervisory review of the data input for these transactions.

We continue to recognize the need for the USDA Forest Service to increase its monitoring of compliance with property recording policy as reported in prior recommendation 30 of Audit Report No. 8401-3-FM.

Number 9: The Posting of Certain Transactions Needs to Contain the Proper Reference Data to Link Related Transactions (*Repeat Condition*)

The USDA Forest Service business processes require that relevant information needed to link related transactions such as document and agreement number be entered in the general ledger module of FFIS as well as the related FFIS cost accounting module called Project Cost Accounting System (PCAS). This link facilitates the matching of related transactions, such as an advance and the draw down of that advance through subsequent payments, which results in a net balance. However, this required information is not always entered in the system.

During our review of data extracts as of September 30, 2005 from the general ledger for accounts for 4801 and 2190, we noted that trans-codes DG, DH, BG, Z7, and CE remained open and unlinked in our extract. The following trans-codes and the respective balances were identified in each of the extracts:

Transcode	General Ledger Acct. 2190	General Ledger Acct. 48XX
BG	(\$2,622.87)	\$3,988,665.69
CE	0	35,067.72
Z7	0	94,126.22
DG	(12,892,985.08)	(5,253,685.78)
DH	(3,799.31)	32,707.57
Total	\$(12,899,407.26)	\$(1,103,118.58)

Individual document transactions relating to undelivered orders and accruals are overstated as of June 30, 2005.

We continue to recognize the need for the USDA Forest Service to ensure adequate linking of its transactions as reported in prior recommendations 34, 35, and 36 of Audit Report No. 8401-3-FM.

Number 10: The Compilation of the USDA Forest Service’s Required Supplementary Information (RSI) and Required Supplementary Stewardship Information (RSSI) Needs Improvement (*Repeat Condition*)

We noted that the USDA Forest Service does not have adequately designed controls to ensure the consistency of information compiled and reported in its RSI (Deferred Maintenance) and RSSI (Stewardship Land and Heritage Assets) Sections of the financial statements.

OMB Circular No. A-123, *Management Accountability and Control*, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

We continue to recognize the need for the USDA Forest Service to revise its current control structure for data collecting of RSI and RSSI as reported in prior recommendation 37 of Audit Report No. 8401-3-FM.

Number 11: The USDA Forest Service Application Systems Controls Need Improvement (*Repeat Condition*)

During prior years the Automated Timber Sale Accounting (ATSA) system lacked key security documentation including a risk assessment, security plan, and administrator’s guide. Additionally, duplicate transactions were validly permitted in ATSA, but the transactions were not uniquely identified in the system. Finally, periodic reviews of ATSA activity audit logs were not performed by management.

In FY 2005, we noted that USDA Forest Service had made improvements to the ATSA system security documentation. The USDA Forest Service had created a duplicate transactions report and completed the ATSA administrator’s guide. However, other weaknesses remain open and have not been sufficiently addressed.

The ATSA system security plan was completed in 2004; however, the plan does not require periodic audit log reviews by management. Currently, the security plan identifies that ATSA audit trails only record the user ID and time and date of system use. Also, these audit trails are only reviewed by IT staff following exceptional events. Additionally, the ATSA risk assessment, dated September 2004, is incomplete.

The USDA Forest Service management indicated that periodic review of audit trails is not a priority. Management believes that reviewing audit logs only after exceptional events is sufficient.

Reviewing system and application logs is crucial to the timely identification of anomalies and incidents, as well as to ensure proper functioning of system hardware and software. Without periodic management review of audit trails, the potential exists for security related incidents to go unnoticed and uninvestigated thus allowing potential unauthorized users to access system resources and compromise the confidentiality, integrity, and availability of ATSA data.

Exhibit II

Without a detailed, qualitative risk assessment the full extent of threats, risks and vulnerabilities to ATSA may not be understood. Additionally, without an evaluation of the controls in place, the appropriate controls may not be implemented to address the risks to the system. By not documenting a strategy to mitigate risks and implement controls, controls are not prioritized and responsibility is not assigned to ensure the necessary controls are implemented to mitigate risks in a timely manner.

We continue to recognize the need for the USDA Forest Service to update the ATSA system security plan and to increase audit trail requirements as reported in prior recommendation 38 of Audit Report No. 8401-3-FM.

STATUS OF PRIOR YEAR’S REPORTABLE CONDITIONS/MATERIAL WEAKNESSES

As required by *Government Auditing Standards* and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of the prior years’ reportable conditions. The following table summarizes these issues and provides our assessment of the progress USDA Forest Service made in correcting these reported conditions. We have also provided the OIG report where the issue is monitored for audit follow-up. This table contains only those reports that are open.

All Reported Conditions In this Table are Referenced		
USDA OIG Audit Report No. 08401-4-FM November 2004		
Reported Condition	Recommendation	Status
Accountability for Undelivered Orders is Lacking <i>(2005 Material Weakness; 2004 Material Weakness)</i>	1. We recommend that USDA Forest Service management: <ul style="list-style-type: none"> ■ Require all locations to fully comply with review and certification requirements and follow up to resolve questionable items. ■ Work with USDA to begin performing quarterly reviews and certifications as of November, February, May, and August to both save the resources needed to perform the monthly certifications and help ensure that the UDO balances are properly adjusted in time for the quarterly and annual reporting deadlines. 	Open Closed
	2. We recommend that USDA Forest Service management: <ul style="list-style-type: none"> ■ Require the use of only referencing SV documents to accrue or modify UDO balances. ■ Review its entire UDO transaction population to ensure that all improper SV accruals are removed and all abnormal balances are corrected. 	Closed Closed
	3. We recommend that USDA Forest Service management develop and implement a formal enterprise-wide segregation of duties policy that encompasses the weaknesses identified above.	Closed
A Segregation of Duties Policy related to Electronic Data Processing (EDP) must be Developed and Implemented <i>(2004 Reportable Condition)</i>	4. We recommend that USDA Forest Service management reinforce its policies in this area and incorporate procedures to test the reviews of purchased transactions in its Acquisition Management reviews.	Open

All Reported Conditions In this Table are Referenced		
<i>USDA OIG Audit Report No. 08401-3-FM January 2004</i>		
	<p>Milestone (POA&M) report includes the accurate status of all findings.</p> <p>20. We recommend that USDA Forest Service management establish controls to facilitate adherence to the Forest Service Risk Assessment policies and procedures. All risk assessments should be developed in accordance with agency, USDA, and federal guidelines. Additionally, USDA Forest Service should revise any existing risk assessments to align with the NIST Special Publication 800-30.</p> <p>21. We recommend that USDA Forest Service management establish controls to facilitate adherence to the USDA Forest Service’s SSP policies and procedures and document SSPs in accordance with agency, USDA, and federal guidelines. All SSPs should be revised to align with NIST Special Publication 800-18. Additionally, USDA Forest Service should complete, approve, communicate, and establish controls to facilitate adherence to Forest Service Computer Incident Response Team (CIRT) policies and procedures, and provide guidance so personnel are aware of the guidelines and their roles.</p> <p>22. USDA Forest Service management should develop and implement enterprise-wide system architecture standards for Internet-facing services. These standards should ensure agency compliance with USDA regulations and should address firewall configuration, proper use of de-militarized zones, and limiting the use of unsecured services to ensure protection of internet-accessible data. USDA Forest Service management should also eliminate access to all unnecessary services from the Internet and implement strong authenticated access control to those services that are necessary.</p> <p>23. It is recommended that management develop and implement enterprise-wide policies and procedures regarding software management and change control. These policies and procedures should address:</p> <ul style="list-style-type: none"> ■ Access restrictions over system software code and program libraries; ■ Emergency change procedures; ■ FSM 6600, subsection 6683.6, ‘Hardware and 	<p>Open</p> <p>Open</p> <p>Open</p> <p>Open</p>

All Reported Conditions In this Table are Referenced		
USDA OIG Audit Report No. 08401-3-FM January 2004		
	<p>Systems Software Maintenance’;</p> <ul style="list-style-type: none"> ■ Configuration Management Board (CMB) Charter; ■ Approval process for changes that fall below the CMB watermark; ■ Installation of the latest software versions, service packs, and security patches (and removal of out-dated versions); ■ Software configuration standards (with defined images that specify what software applications should be in use and on what kinds of machines these applications should be installed on); and ■ Use of automated tools to detect and eliminate unused or unauthorized applications (including the use of ISS Internet Scanner in accordance with USDA Cyber Security Policy CS-007). <p>Additionally, USDA Forest Service management should review all systems for the presence of outdated software or services, missing critical patches and/or updates, and improperly configured servers or systems. Forest Service should then proceed to update or delete any identified outdated software, test and install applicable patches or updates, configure servers and systems in accordance with Forest Service technical bulletins and federal criteria, and remove any unneeded services.</p> <p>24. It is recommended USDA Forest Service management develop and implement enterprise-wide policies and procedures for contingency planning, business resumption, and disaster recovery and ensure that all data processing support facilities:</p> <ul style="list-style-type: none"> ■ Identify the criticality and sensitivity of USDA Forest Service information, systems, and facilities ■ Implement consistent backup and recovery procedures (including off site storage of key documentation and frequent offsite data rotation based on the criticality of data being stored on backup media) ■ Implement mandatory training on and periodic testing of recovery procedures ■ Implement adequate controls at key data processing support facilities, e.g., automated alert 	<p>Closed</p>

All Reported Conditions In this Table are Referenced		
<i>USDA OIG Audit Report No. 08401-3-FM January 2004</i>		
<p>Controls Related to Physical Inventories of Capitalized Assets Need Improvement <i>(2003 Reportable Condition)</i></p>	<p>32. Previously closed. 33. Previously closed.</p>	
<p>Postings of Certain Transactions Needs to Contain the Proper Reference Data to Link Related Transactions <i>(2005 Reportable Condition; 2004 Reportable Condition; 2003 Reportable Condition)</i></p>	<p>34. We recommend that the USDA Forest Service develop a methodology to link transactions that are currently in the financial systems.</p> <p>35. We recommend that the USDA Forest Service work with the USDA and FFIS contractor to incorporate edit checks that would disallow processing of transactions that do not provide the required data.</p> <p>36. We recommend that the USDA Forest Service establish direction and quality assurance protocols to ensure that appropriate data be entered in the system.</p>	<p>Open</p> <p>Open</p> <p>Open</p>
<p>Compilation of the USDA Forest Service's Required Supplementary Information (RSI) and Required Supplementary Stewardship Information (RSSI) Needs Improvement <i>(2005 Reportable Condition; 2004 Reportable Condition; 2003 Reportable Condition)</i></p>	<p>37. We recommend that the USDA Forest Service revise its current control structure for data collection and reporting of RSI and RSSI to ensure the timeliness and completeness of the reported information.</p>	<p>Open</p>

All Reported Conditions In this Table are Referenced		
<i>USDA OIG Audit Report No. 08401-3-FM January 2004</i>		
<p>The USDA Forest Service ATSA Application Controls Need Improvement</p> <p><i>(2005 Reportable Condition; 2004 Reportable Condition; 2003 Reportable Condition)</i></p>	<p>38. We recommend that USDA Forest Service management update the SSP for the ATSA system. SSP should be based on the ATSA Risk Assessment results; and be approved by management and reviewed and updated at least annually to reflect any changes to the current environment and the risks associated with those changes. USDA Forest Service management should incorporate in the ATSA SSP required management review of activity logs. Currently, the Security Plan identifies that audit trails exist but does not indicate the frequency with which they should be reviewed and who should review them. These reviews should be performed on a consistent basis regardless of whether potential unusual activity is detected. USDA Forest Service should also take steps to ensure required management reviews of ATSA activity logs are carried out and according to the updated security plan. Additionally, USDA Forest Service should modify the ATSA front end application to capture user activities.</p>	<p>Open</p>

COMPLIANCE AND OTHER MATTERS

The USDA Forest Service Does Not Obligate all Transactions Required by Appropriations Law

Obligation testwork performed over approximately 132 transactions disclosed that 26 transactions were not obligated as required by appropriation law prior to payment. The transactions that were not obligated included temporary travel, GSA automobile leases, and probable contingent liability type transactions.

It is USDA Forest Service policy not to obligate for temporary travel related transactions because of limitations within USDA's travel system. For all other transactions not obligated, several USDA Forest Service offices did not obligate for GSA automobile leases and utility type transactions because of the variability in determining the estimated cost for these types of transactions.

The Government Accountability Office (GAO), publication GAO/OGC-92-13, *Appropriations Law*, defines an obligation in very general terms as, "an action that creates a liability or definite commitment on the part of the government to make a disbursement at some later time. The obligation takes place when the definite commitment is made, even though the actual payment may not take place until the following fiscal year." Furthermore, GAO's *Appropriations Law* cites 9 criteria for recording obligations. When one criterion is met, the agency not only may, but also must record that transaction as an obligation. Criterion 7 addresses travel expenses. With regard to the timing, *Appropriation Law* states that, "the obligation is not incurred until the travel is actually performed or until the ticket is purchased." While the precise amount of the liability should be recorded, the precise amount is not always known immediately. When this takes place, "the obligation should be recorded on the basis of the agency's best estimate."

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

We continue to recognize the need for the USDA Forest Service to obligate all transactions as reported in prior year recommendation 8 of Audit Report No. 8401-4-FM.

The USDA Forest Service May Not be in Compliance with 31 USC 1517

To maintain administrative control of funds, the USDA Forest Service makes sub-allocations to its organizational components. At the end of FY 2005, we understand that the USDA Forest Service's Region 5 had obligated funds in excess of its sub-allocation by approximately \$4.0 million although USDA Forest Service, at the agency level, did not obligate in excess of either its apportionment or appropriation. However, 31 USC 1517 states that an officer or an employee of the United States Government may not make or authorize an expenditure or obligation exceeding an apportionment or an amount permitted by the applicable administrative control regulations as specified by 31 USC 1514. Therefore, we believe the USDA Forest Service may not be in compliance with this statute.

Recommendation Number 11:

We recommend that the USDA Forest Service fully investigate the circumstances surrounding this issue and obtain appropriate legal advice from the USDA Office of the General Counsel.

The USDA Forest Service’s Systems Do Not Comply with the Federal Financial Management Improvement Act (FFMIA)

Federal Accounting Standards

Instances of FFMIA non-compliance relating to compliance with applicable Federal accounting standards were identified during the fiscal year 2005 audit.

The following table lists those *Statements of Federal Financial Accounting Concepts* (SFFAC) and *Statements of Federal Financial Accounting Standards* (SFFAS) that the USDA Forest Service did not comply with during the audit period.

FFMIA Non-compliance with Federal Accounting Standards	
SFFAS/SFFAC Number	Accounting Deficiencies Noted
SFFAC 2	<ul style="list-style-type: none"> ■ Unliquidated Obligation errors ■ Problems with preparing proper note disclosures (e.g., dedicated collections, custodial revenue, SBR to Presidents Budget reconciliation, and restatement) ■ Not assessing the impact of remaining abnormal balances
SFFAS 5	<ul style="list-style-type: none"> ■ Incorrect accruals
SFFAS 6	<ul style="list-style-type: none"> ■ Improper accounting for leases
SFFAS 7	<ul style="list-style-type: none"> ■ Errors with recording timber and non-timber revenue
SFFAS 8	<ul style="list-style-type: none"> ■ Improper stewardship reporting

Although the USDA Forest Service continues to improve its accounting operations, deficiencies still exist in the processing of various transactions. The deficiencies noted in the above table resulted in additional time and effort of the USDA Forest Service to research and resolve the deficiency.

We continue to recognize the need for the USDA Forest Service to identify business process causes for non-compliance with accounting standards as reported in prior year recommendation 9 of Audit Report No. 8401-4-FM. In addition, we also recognize the need for the USDA Forest Service to develop a remediation plan as reported in prior year recommendation 10 of Audit Report No. 8401-4-FM.

Financial Management Systems

As noted in our material weakness on the general controls environment, although the USDA Forest Service has completed certification and accreditations, they do not fully comply with the requirements of OMB Circular No. A-130, *Management of Federal Information Resources*. The USDA Forest Service systems that are impacted are Travel, Connect HR, INFRA, ATSA, and Paycheck 7 applications and their general support environment. A certification and accreditation that is fully compliant with OMB Circular A-130 is a requirement for systems to comply with FFMIA.

We continue to recognize the need for the USDA Forest Service to perform complete certification and accreditations on its systems as reported in prior recommendation 1 of Audit Report No. 8401-3-FM.

Compliance with the United States Standard General Ledger

As noted in our material weakness over financial reporting, the USDA Forest Service has at least 40 ACCTEIDs of its approximately 450 ACCTEIDs within its general ledger that did not relate to a standard Treasury posting models. In certain instances, such as a unique USDA Forest Service process, there may be a valid reason for such a deviation from the U.S. Standard General Ledger posting models. However, USDA Forest Service has not researched all of the posting models and concluded on the validity of those transactions.

In addition to the posting models noted above:

The Equipment Management Information System (EMIS) is used to manage working capital fund equipment which consists of computer hardware and vehicles. The system does not record depreciation at the equipment transaction level using the USSGL. It records depreciation by unit monthly at the summary level in the USDA Forest Service general ledger.

USDA Forest Service capitalized lease and internal use software work in process transactions are not recorded in the general ledger at all. Instead, they are maintained in off-line spreadsheets and then recoded in the general ledger only at year-end closing.

Recommendation Number 12:

We recommend that the USDA Forest Service comply with recommendation 1 of this report as well as develop systems and methodologies that comply with the Standard General Ledger at the transactional level.

STATUS OF PRIOR YEAR'S NONCOMPLIANCE FINDINGS AND OTHER MATTERS

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

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



File Code: 6500
Date: DEC 21 2005

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

Dear Mr. Boyce,

We have reviewed KPMG's Independent Auditor's Report dated December 19, 2005, and generally agree with its contents with the exception of the auditors finding of noncompliance with 31 USC 1517. We believe the auditors have made an overly strict interpretation of 31 USC 1517 which does not conform to our interpretation of and our understanding of the intent of the statute.

USDA Forest Service will develop an implementation plan to address the findings and recommendations identified during the audit. As we consider the required corrective actions, we will continue to work with KPMG and the Office of the Inspector General in identifying the specific actions that will assist us in successfully addressing the recommendations.

If you have any question or require additional information, please contact Jesse L. King at (202) 205-1321.

Sincerely,

JESSE L. KING

Associate Deputy Chief for Business Operations/Chief Financial Officer

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



**UNITED STATES DEPARTMENT OF AGRICULTURE
FOREST SERVICE'S**

**MANAGEMENT DISCUSSION AND ANALYSIS &
CONSOLIDATED FINANCIAL STATEMENTS**

FISCAL YEARS 2005 AND 2004

OVERVIEW

The Management's Discussion and Analysis (MD&A) serves as a high-level overview of the U.S. Department of Agriculture (USDA) Forest Service's performance in fiscal year (FY) 2005. This report is designed for those individuals interested in the progress and status of the agency.

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

Mission Statement

The Forest Service operates under the following mission:

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

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

Organizational Structure

The Forest Service operates under the guidance of the USDA Under Secretary for Natural Resources and Environment (NRE). Forest Service policy is implemented through nine regional offices, six research offices, one State and Private Forestry (S&PF) area office, the Forest Products Laboratory, the International Institute of Tropical Forestry, with 868 administrative units (which include forest, districts, and research labs) functioning in 46 States, Puerto Rico, and the Virgin Islands.

Reporting to the Chief are the deputy areas: Business Operations; Research and Development; National Forest System (NFS); S&PF; and Programs, Legislation, and Communication (PL&C). Please see the Forest Service's organizational chart in Appendix A for additional information.

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

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

National Forests and Grasslands. This responsibility segment includes protection and management of an estimated 193 million acres of NFS land, which includes 35 million acres of designated wilderness areas. In addition, the Forest Service partners with other nations and organizations to foster global natural resource conservation and sustainable development of the world's forest resources.

Forest and Rangeland Research. This responsibility segment is responsible for research and development of forestry and rangeland management practices to provide scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the estimated 1.6 billion acres of forests and associated rangelands in the United States.

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

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

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

FUTURE DEMANDS AND RISKS

In FY 2003, the Forest Service defined what it believed to be the four greatest threats to the health of the Nation's forests and grasslands: fire and fuels, invasive species, loss of open space, and unmanaged recreation. The agency recognized that successfully addressing these threats requires that all business and financial practices meet the highest standards.

The FY 2004 Executive Priorities—the Forest Service's 2004 Key Performance Indicators—not only maintained a focus on the uncertainty of wildland fires and invasive species, but also tracked the agency's performance in mitigating the effects of the loss of open space and unmanaged outdoor recreation.

In FY 2005, the Forest Service focused even harder on reducing the risk of loss from catastrophic wildland fire by treating hazardous fuels in fire-dependent ecosystems through a variety of programs. The following factors challenge the Forest Service's ability to achieve the desired outcomes in the FY 2005 Executive Priorities and, therefore, the long-term goals of the Strategic Plan for 2004-2008:

- Continuing regionwide drought in the Western United States and continuing local weather patterns leading to stressed forest vegetation, increased insect and disease activity, and the continued serious threat of catastrophic wildfires, especially near communities with a buildup of hazardous fuels in the wildland-urban interface (WUI).
- Continuing potential for transfers of funds appropriated for other purposes to the wildland fire suppression account to pay for suppression costs. Numerous activities and projects designed to acquire and manage forests and grasslands, conduct research, or help State or private landowners manage their lands are disrupted or completely forgone because of these transfers.
- Increasing economic losses caused by the impacts to natural resources by invasive species, such as the Sudden Oak Death epidemic in California.
- Increasing challenges to managing wildfire risks and wildlife habitat because State and local planning and zoning ordinances provide limited protection for open space.
- Supporting innovative uses for woody biomass as sources of renewable energy and new products while overcoming the costs of acquiring, transporting, and processing the raw material.
- Challenge of developing metrics and markets for environmental services (clean water and air, carbon sequestration, and beautiful, natural landscapes).
- The infrastructure (roads, facilities) maintenance backlog which reduces the agency's capacity to deliver on its mission and serve the public.
- The unprecedented challenge to law enforcement resources of increasing security on national forests in the face of increasing legitimate and illegal uses as well as the evolution of national security after September 11, 2001.

FINANCIAL STATEMENT HIGHLIGHTS FOR 2005

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

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

In producing these statements, the agency seeks to provide relevant, reliable, and accurate financial information related to Forest Service activities. Analysis of the agency's September 30, 2005, financial statements highlights the following key points. The exhibits below reflect the amounts for FY 2005 and FY 2004.

Assets

The Forest Service reports \$8.2 billion in assets at the end of September 30, 2005. This represents an increase of 9 percent from FY 2004 amounts. This change is partially attributed to an increase in Fund Balance with Treasury (FBwT). FBwT for the periods ending September 30, 2005 and 2004 increased \$681 million or 20 percent due to the Forest Service receiving additional funding for our Wildland Fire Management Fund. However, fire activity was not as severe in FY 2005, and less money was disbursed compared with FY 2004, resulting in the overall increase in FBwT. The three major asset categories are shown in Exhibit 1.

Exhibit 1: Assets (in millions)

ASSET	2005	2004	Difference	
			Dollars	Percentages
General Property, Plant, and Equipment	\$3,695	\$3,807	(\$112)	(3%)
Fund Balance with Treasury	4,187	3,506	681	20%
Accounts Receivable, Intragovernmental, and Non-Intragovernmental	269	163	106	65%
Total of Major Categories	\$8,151	\$7,476	\$675	9%
Other Asset Categories	20	14	6	43%
Grand Total Assets	\$8,171	\$7,490	\$681	9%

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

General PP&E also includes assets acquired by the Forest Service to be used for conducting business activities, such as providing goods or services. General PP&E does not include the value of heritage assets¹ or stewardship assets². Although heritage and stewardship assets may be considered priceless, they do not have a readily identifiable financial value and are not recorded within the financial statements of the Forest Service. A more in-depth discussion of stewardship assets is presented in the Required Supplementary Stewardship Information (RSSI) section.

¹ Heritage assets are assets that are historical or significant for their natural, cultural, aesthetic, or other important attributes that are expected to be preserved indefinitely.

² Stewardship assets are primarily land held by the agency as part of the NFS and not acquired for, or in connection with, other General PP&E.

FBwT consists primarily of funds derived from congressional appropriations and funds held in trust for accomplishing purposes specified by law. Accounts receivable consists of amounts due from other Federal entities or the public as a result of the delivery of goods, services, and specific activities performed by the Forest Service. FBwT is available to the agency to pay authorized expenses and to finance purchase commitments based on apportionments by the Office of Management and Budget (OMB).

Liabilities and Net Position

Liabilities

The Forest Service reported \$2.0 billion in liabilities as of September 30, 2005, representing probable future expenditures arising from past events. This amount represents an increase of 7 percent from September 30, 2004. This change was partially due to an increase in Accounts Payable. For the periods ending September 30, 2005 and 2004, the balance increased \$88 million or 187 percent due to factors including: asset balance increase as reflected in the previous table and agency support to Hurricane Katrina relief efforts. The major liability amounts for accounts payable, unfunded leave, Federal Employees' Compensation Act (FECA) benefits, payments to States, and other liabilities appear in Exhibit 2.

Exhibit 2: Liabilities (in millions)

LIABILITIES	2005	2004	Difference	
			Dollars	Percentages
Accounts Payable, Intragovernmental and Non-Intragovernmental	\$135	\$47	\$88	187%
Unfunded Leave and FECA Benefits	578	602	(24)	(4%)
Payments to States	378	380	(2)	(1%)
Other Liability Categories	935	859	76	9%
Grand Total Liabilities	\$2,026	\$1,888	\$138	7%

Federal agencies, by law, cannot make any payments unless Congress has appropriated funds for such payments and OMB has apportioned the funds. A portion of liabilities reported by the Forest Service on September 30, 2005, however, is currently not funded by congressional appropriations. For example, the unfunded amounts include employees' annual leave (earned but not yet taken) and FECA benefits that have accrued to cover liabilities associated with employees' death, disability, medical, and other approved costs that have not yet been appropriated.

A major program generating unfunded liabilities is the Payments to States. A portion of the Payments to States program is funded with agency receipts and the balance is recorded as an unfunded liability for which the Department of Treasury (Treasury) general receipts are apportioned in the following year when the payments are made. The agency receipts are funds held by the agency in special receipt accounts pending transfer to the appropriate party for part of the Payments to States based on receipts collected during that fiscal year, the remaining liability is funded by Treasury general receipts.

Net Position

A net position of \$6.1 billion is reported for FY 2005. This represents an increase of 10 percent over FY 2004 amounts. The change is attributed to numerous factors, including a decrease in net cost of operations. Net position represents unexpended appropriations consisting of undelivered orders (UDOs), as well as unobligated funds and the cumulative results of operations, as shown in Exhibit 3.

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

Exhibit 3: Net Position (in millions)

NET POSITION	2005	2004	Difference	
			Dollars	Percentages
Unexpended Appropriations	\$1,792	\$1,511	\$281	19%
Cumulative Results of Operations	4,353	4,091	262	6%
Total Net Position	\$6,145	\$5,602	\$543	10%

Net Cost of Operations

The Forest Service's net cost of operations was \$5 billion for the year ended September 30, 2005.

Earned revenue from the public includes such items as the sale of forest products (timber and firewood); recreational opportunities (campgrounds); mineral resources; livestock grazing; and special land use fees for power generation, resorts, and other business activities conducted on NFS lands. The Forest Service also performs reimbursable activities, such as work completed mainly for other Federal agencies, in accordance with the Economy Act.

The Forest Service distributes a portion of earned revenues to eligible States in accordance with existing laws. These payments to the States, in accordance with the Secure Rural Schools and Community Self-Determination Act of 2000, benefit public schools and roads in communities hosting national forests. These payments also pay for local forest stewardship projects.

Expenses

Forest Service program costs for the year ended September 30, 2005, are \$5.8 billion. This represents a 1 percent decrease from FY 2004. One reason for the decrease is that the agency spent less in grant costs as a result of fewer agreements with the public.

Exhibit 4 illustrates program costs by responsibility segment for the years ended September 30, 2005, and September 30, 2004.

Exhibit 4: Gross Expenses (in millions)

GROSS EXPENSES	2005	2004	Difference	
			Dollars	Percentages
Program Costs				
National Forests and Grasslands	\$3,419	\$3,444	(\$25)	(1%)
Forest and Rangeland Research	329	342	(13)	(4%)
State and Private Forestry	389	418	(29)	(7%)
Wildland Fire Management	1,694	1,715	(21)	1%
Total Program Costs	\$5,831	\$5,919	(\$88)	(1%)

Budgetary Resources

The Forest Service had budget authority of approximately \$5.8 billion in FY 2005 and \$5.9 billion in FY 2004. The funding received in FY 2005 represents a slight decrease (2 percent) under that received in FY 2004.

PERFORMANCE GOALS AND RESULTS FOR 2005

Strategies and Resources

The Government Performance and Results Act (GPRA) provides a framework under which Federal agencies prepare strategic plans, annual plans, and performance reports to set performance goals and then report on the extent to which they are achieved. Within GPRA's framework, Forest Service's executive leadership selected a set of key performance measures, the Executive Priorities, to measure the agency's effectiveness and results in the FY 2005 Performance and Accountability Report (P&AR). Several of these Executive Priorities are long-standing measures of performance for the agency and its stakeholders. The remaining Executive Priorities were developed in collaboration with USDA and OMB in PART³ evaluations over the past 4 years.

PART is a systematic method to assess performance, focusing on a program contribution to achieving an agency's strategic and program performance goals. PART assessments have strengthened and reinforced performance measurement within the Forest Service by encouraging outcomes and efficiency measures in its performance reporting. For each program or goal that has been assessed, a minimum of one efficiency measure has been developed and is tracked, although not as an Executive Priority for FY 2005.

Since 2002, the Forest Service has participated in nine PART assessments, although seven of the nine have been completed as of September 30, 2005. Of the seven programs assessed, three have not demonstrated effective results for the agency. Please see the Annual Performance Report section of the P&AR for additional information on PART assessments.

Performance and Trends

The Forest Service uses 9-month actual and 3-month estimated or *projected* accomplishments for the Executive Priorities. The data sources for these measures are reported through various databases, but consolidated for review by the Program and Budget Analysis (P&BA) Staff. Targets and projected performance for FY 2005, actual performance for the Executive Priorities in FY 2004, and trends for FYs 2001-2005, if available, may be found in Exhibit 5. It is important to note that these achievements are preliminary and may change when the 12 months of *actual* accomplishments are reported to the Washington Office in November 2005. The values in the Results column are defined as:

Exceeded	Equal to or greater than 110 percent of the FY 2005 target
Met	Within a 10 percent range below or above the FY 2005 target
Unmet	Less than 90 percent of the FY 2005 target
Deferred	In process of determining a baseline for future reporting

³ OMB's Program Assessment Rating Tool is commonly referred to as PART.

Exhibit 5: Performance and Trends for 2001-2005

Executive Priorities	2001		2002		2003		2004		2005	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Projected	Result
Goal 1: Reduce the risk from catastrophic wildland fire⁴										
1.1.a-c	Number of acres of hazardous fuels treated 1) in the WUI; and 2) in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the WUI									
	Acres treated with Direct Hazardous Fuels dollars—WUI	611,551	784,367	1,114,106	1,016,759	1,320,317	846,352	1,130,906		EXCEEDED
	Acres treated with Direct Hazardous Fuels dollars—outside WUI ⁵	750,146	493,536	339,239	590,876	418,135	421,746	393,508		MET
	Total (Direct Hazardous Fuels dollars)	1,361,697	1,257,903	1,453,345	1,607,635	1,738,452	1,268,098	1,524,414		EXCEEDED
	Acres treated other dollars—WUI	--	--	--	292,720	274,330	NA ⁶	179,446		--
	Acres treated other dollars—outside WUI	--	--	--	317,084	215,400	NA	217,293		--
	Total (other dollars)	NA ⁷	NA	NA	609,804	489,730	700,000	396,739		UNMET
	TOTAL acres treated	NA	NA	NA	2,217,439	2,228,182	1,926,598	1,921,153		MET
	Percent of acres identified as high priority through collaboration consistent with the 10-Year Plan						100%	100%		MET
1.1.g	Number of acres brought into stewardship contracts	--	--	--	Baseline	41,834	Baseline ⁸	22,368		DEFERRED
1.3.a	Percent of communities at risk with completed and current fire management plans or risk assessments	--	--	--	--	Protocol in development	Baseline	21.5%		DEFERRED
1.3.b	Number of acres covered by partnership agreements	--	--	--	--	125,000	Baseline	145,979		DEFERRED

⁴ The sum of these Executive Priorities represents the total acres treated for hazardous fuel reduction by the Hazardous Fuels Reduction program and as a secondary benefit of other vegetation management programs in High Priority areas as identified by the 10-Year Implementation Strategy of the National Fire Plan. In addition to the work that falls under these Executive Priorities, the agency treated 497,096 acres to maintain NFS lands in healthy condition or in areas not under the High Priority designation. Overall, the agency treated 2,741,259 acres in FY 2005.

⁵ This target includes only Condition Class 2 or 3, and Fire Regime 1, 2, or 3 acres. Target for all non-WUI acres was 761,642.

⁶ NA, or not applicable, as targets were set for the total amount, but not at this level of detail.

⁷ Treatments for high priority acres, with other than Direct Hazardous Fuels funding, were not tracked; therefore no subtotals or totals available prior to FY 2004.

⁸ Baseline data are being collected to assess measure and allow targets to be established in future years; therefore no target was assigned.

⁹ The change from % to # reflects the current year accomplishment relative to this Executive Priority. The State Foresters are ultimately responsible for community hazard mitigation plans, and are not required to report the number of plans expected for completion in a current fiscal year (the denominator in the % calculation).

Executive Priorities		2001		2002		2003		2004		2005		Result
		Actual	Actual	Actual	Actual	Target	Actual	Target	Actual	Target	Projected	
Goal 2: Reduce the impacts from invasive species												
2.1.b	Acres treated for selected invasive species					1,046,482	1,086,921	918,000	703,897			UNMET
--	Noxious weeds acres treated	143,938	130,868	138,742	67,438	75,456	88,688					EXCEEDED
Goal 3: Provide high-quality recreation while sustaining natural resources												
3.1.a	The 3-year average number of fatalities on the passenger car network											
--	Miles of road maintained to standard (high-clearance and passenger)	81,632	76,798	110,676	54,800	87,400	103,748 ¹⁰	82,104				MET
3.1.a	Miles of trail receiving maintenance ¹¹	40,800	30,649	30,608	19,630	20,610	23,160	22,894 ¹²				EXCEEDED
3.1.b	Number of facilities to standard	--	--	--	Protocol in development	15,802	15,465	24,036				EXCEEDED
3.1.e	Number of ROW acquired to provide public access				244	250	182	199				UNMET
3.2.a	Percent of NFS lands covered by travel management implementation plans	--	--	--	0	Baseline	Protocol in development	266,870				DEFERRED
Goal 4: Consider opportunities for energy development and the supporting infrastructure												
4.1.a	Percent of energy facility and corridor applications approved within prescribed timeframes											
--	Percent of energy facility applications	--	--	--	Baseline	45%	65%	76%				EXCEEDED
--	Percent of oil and gas applications	--	--	--	Baseline	45%	33%	26%				UNMET
Goal 5: Improve watershed condition												
	Watershed assessments completed ¹³	154	134	115	122	116	--	--				No longer an Executive Priority
5.1.a	Number of inventoried forest and grassland watersheds in fully function condition as percentage of all watersheds ¹⁴	--	--	--	NA	30%	33%	33%				EXCEEDED
5.1.b	Acres of nonindustrial private forest land under approved stewardship management plans	1,616,986	1,640,000	1,717,000	1,618,000	1,500,000	1,449,890					MET
5.3.a	Acres of terrestrial habitat enhanced to achieve desired ecological conditions	241,123	209,472	230,528	232,350	218,727	184,716					EXCEEDED
5.3.a	Miles of stream habitat enhanced to achieve desired ecological conditions	2,193	2,001	1,375	1,860	1,788	1,661					MET
5.3.a	Acres of lake habitat enhanced to achieve desired ecological conditions	18,428	18,217	16,429	10,953	12,451	15,528					EXCEEDED

¹⁰ In prior years, miles of high-clearance roads and passenger car roads were reported separately. The results were combined for trend.
¹¹ In FY 2004, this measure was "miles of trail maintained to standard." See the Annual Performance Report section of the P&AR for more detail.
¹² Executive Priority should have included "to standard" as in past years. This projected performance may not be considered reliable.
¹³ This is no longer an Executive Priority. It was replaced with "watersheds in fully functional condition", which is a new Executive Priority for FY 2005.
¹⁴ This was the first year for this Executive Priority.

Executive Priorities	2001		2002		2003		2004		2005		
	Actual	Actual	Actual	Actual	Actual	Actual	Target	Actual	Target	Projected	Result
Goal 6: Improve productivity and efficiency											
6.1.a	Percent of Nation for which current FIA is accessible to external customers	--	--	--	--	76% ¹⁶	NA	76%	76%	76%	MET
6.2.c	Extent to which performance data are current and complete	--	--	--	--	86%	Baseline	Baseline	Baseline	96%	DEFERRED
6.5.a	Number of Land and Resource Management Plans developed and revised					12	14	16	16	11	UNMET
6.3.a	Acres of land adjustments to conserve the integrity of undeveloped lands and habitat quality										
--	Acres adjusted (exchanged) ¹⁷	35,132 ¹⁸	15,553	29,171	56,948	341,536	20,654	338,752	EXCEEDED ¹⁹		
--	Acres acquired	128,913	42,817	75,476	45,884	57,925	52,775	56,469	MET		
--	Acres protected by Legacy Program	84,709	57,009	128,349	563,186	300,000	224,000	44,600	UNMET		
	TOTAL acres of land adjustments	248,754	114,749	232,986	666,018	699,461	297,429	416,549	EXCEEDED		
6.5.b	Proportion of data in information systems that is current to standard	--	--	--	--	--	Protocol in development	Protocol in development	Protocol in development	Protocol in development	DEFERRED
6.5.c	Number of forest plan monitoring reports completed	104	92	91	96	105	118	113	MET		

¹⁵ FIA data made available to the public are quality assured and current (defined as less than 2 years old). Congressional hearings in 1999 exempted Alaska and Hawaii from the total land base (denominator) used for this measure. These lands were included in the total for FY 2004, creating a false decrease in the percent accomplished.

¹⁶ This was the first year for this Executive Priority.

¹⁷ Acres adjusted (exchanged) and acres acquired were tracked in a single measure prior to FY 2003. The total was halved for trend, and does not represent actual accomplishments for FY 2001 and FY 2002.

¹⁸ These FY 2001 and FY 2002 performance numbers have changed from the FY 2004 P&AR. The numbers were incorrect in that report.

¹⁹ The significant increase in "Acres adjusted (exchanged)", was due to the completion of the State of Florida Land Exchange, which had delays in the process, and did not occur in FY 2004, as planned.

Procedures over Performance Reporting

In FY 2005, USDA Office of Inspector General (OIG) found that the usefulness of performance measures and the accuracy of reporting processes within the Forest Service are often flawed. This was attributed to the agency's decentralized management structure and willingness to delegate broad authority without having an adequate system of internal controls to ensure that policies established by top management are followed. In response, an interim directive (February 2005) implemented the first annual review by the regions, stations, and area (RSAs) to verify the interpretation of the measures, adherence to standards and reporting schedules, and that data quality or its limitations were recorded in supporting documentation. Through these reviews, program managers across the agency identified inconsistencies in the field's interpretation of management's direction. The results of these reviews were certified by line officers to assure the completeness and reliability of the agency's performance reporting for the P&AR.

Exhibit 6 is management's direction to the field for reporting accomplishments for the Executive Priorities.

Exhibit 6: Measures, Data Sources, and Accomplishment Reporting

Executive Priority	Data Source	How Accomplishments Are Reported
<p>Total number of acres of hazardous fuels treated 1) in the WUI; or 2) in Condition Classes 2 or 3, in Fire Regimes 1, 2, or 3 and outside WUI</p> <p>The percent of these acres that were identified as "high priority" as defined in the 10-Year Implementation Plan</p>	<p>NFPORS</p>	<p>The Forest Service tracked this Executive Priority using four measures:</p> <p>Within WUI, with:</p> <ul style="list-style-type: none"> ▪ Hazardous Fuels Program funding (FN) ▪ Other funding (FNOTH) <p>Outside WUI but in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3, with:</p> <ul style="list-style-type: none"> ▪ Hazardous Fuels Program funding ▪ Other funding <p>Accomplishment data are entered by field units (districts or forests) when contracted (for contracts) or carried out.</p> <p>High priority, as defined in the 10-Year Implementation Plan, means to use as appropriate, the USDA Forest Service and Department of the Interior's Cohesive Strategy²⁰ for all fire management plans. Collaboration involves participants with direct responsibility for management decisions affecting public and/or private land and resources.</p> <p>Accomplishment is always 100%.</p>
<p>Acres brought into stewardship contract improvements</p>	<p>WorkPlan</p>	<p>This is the number of contract-awarded acres brought into stewardship contracts that improve the health of NFS land having the greatest potential for catastrophic wildland fire. For accomplishment reporting in FY 2004, the measure is equivalent to applicable contract/agreement.</p> <p>NEW: Number of acres brought into stewardship contracts based on either contract awarded acres or executed agreement acres. This item is performance measure 1.1g.</p>
<p>Percent of communities at risk with completed and current fire management plans or risk assessments</p>	<p>Washington Office Staff, NFPORS</p>	<p>Completed projects should meet the standard as identified in the NFP. The number of communities at risk will be published in the Federal Register.</p> <p>The National Association of State Foresters (NASF) and State Foresters are responsible for providing Community Wildfire Protection Plans (CWPP) performance information to Forest Service regional office contacts or NFPORS.</p>
<p>Acres covered by partnership agreements</p>	<p>Washington Office S&PF Staff</p>	<p>The measure is the number of acres of nonFederal hazardous fuels treated through partnership. State Foresters report accomplishments to Forest Service regional office contacts or NFPORS directly.</p>
<p>Acres treated for noxious weeds treated</p>	<p>WorkPlan</p>	<p>This accomplishment is reported when the treatment of noxious weed infestations was completed by the Forest Service. If contracted, report treated acres contracted. Work plans or maps of project areas including project descriptions should document the</p>

²⁰ Restoring Fire-Adapted Ecosystems: A Cohesive Strategy for Protecting People and Sustaining Natural Resources, in *Draft*.

Executive Priority	Data Source	How Accomplishments Are Reported
		<p>treatments completed. Units report all acres actually treated by an acceptable method for the specific objective of controlling noxious weed spread and/or reducing noxious weed density and area of occupation.</p> <p>For biological control methods in which a population of biocontrol agents was to be established (e.g., insects, fungus, bacterium, etc.), units report 5 acres of accomplishment for each release of a biocontrol agent. Separate 5-acre accomplishments are reported for releases of biocontrol agents that are separated from each other by at least 1/4 of a mile. For biological control methods where a population of biocontrol agents is to be established (e.g., insects, fungus, bacterium, etc.), report 5 acres of accomplishment for each release of a biocontrol agent in the year of release only. Natural expansions of the biocontrol agent's population are not considered additional accomplishments.</p> <p>Treatment and retreatment of invasive plant (including noxious weeds) infestations is reported here. Accomplishment is reported when treatment has been completed by the Forest Service.</p>
Acres treated for selected invasive species treated	Washington Office FHP Staff and NFORS	Acres treated for Gypsy moth, Hemlock woolly adelgid, White pine blister rust, and invasive plants from FHP and NFS programs. Includes acres treated to maintain forest health, and reduce risk and damage from insects, diseases, and invasive plant species. Includes suppression, prevention and restoration projects/programs of native and nonnative insects, disease and invasive plants.
Miles of trails receiving maintenance	WorkPlan	The Forest Service tracked miles of trails maintained to standard as identified in Meaningful Measures trails component in FY 2004. The FY 2005 accomplishment should not be compared with FY 2004, nor should it be considered reliable.
Miles of high clearance and passenger roads maintained to standard	WorkPlan (12-month actual performance reported in the Roads Accomplishment Report)	<p>This accomplishment is reported in miles and percent and is the sum of the following:</p> <p>Miles of objective maintenance level 1 and 2 roads that are maintained in accordance with standards for the applicable maintenance level at year end.</p> <p>Miles of objective maintenance level 3, 4, and 5 roads that are maintained in accordance with standards for the applicable maintenance level at year end.</p>
Number of facilities maintained to standard	INFRA	Facilities to standard have a FCI rating of .10 or less, which is good and fair buildings added together. Units assumed total number of facilities to be 40,100 to calculate percent for SP. This accomplishment is reported as number of facilities and percent of total.
Number of ROW acquired	WorkPlan	The Forest Service tracks the total number of road and trail ROW easements acquired, resolved through other lands activities, or by cooperative effort. These activities coincide with Categories I, II, and III on the existing annual Rights-of-Way Acquisition Report (FS-5400-25 4/92).
Percent of NFS lands covered by travel management implementation plans	WorkPlan	<p>The Forest Service tracks the percentage of acres of NFS land that is covered by contemporary access and travel management decisions that address off-highway vehicle management and are consistent with the revised forest plan direction. This accomplishment is reported by regional offices after compilation of what the field units reported in WorkPlan for acreage covered by travel management plans.</p> <p>Acres of NFS lands on administrative units or ranger districts for which a motor vehicle use map has been published in conformance with new travel management regulation in 36 CFR 212.56.</p>
Number of energy facility applications processed within prescribed timeframes	WorkPlan (numerator)	<p>Number of special use applications processed within the projected timeline determined by the authorizing officer for electric transmission lines, oil or gas pipelines, and renewable energy generation facilities (use code 621-644).</p> <p>Note: Strategic Plan measure is percent, this value is the numerator. Percentage will be calculated using accomplishments reported in this code and LM-SUP-APPL-FN. This info will not be available in the Special Uses Database System this year.</p>

Executive Priority	Data Source	How Accomplishments Are Reported
Percent of oil and gas applications processed in prescribed timeframes	WorkPlan (numerator); denominator is from the National Energy Plan (NEP) Report	Processing within prescribed timeframes means 60 days for oil and gas lease nominations where land availability decisions are already made, 18 months for lease nominations requiring land availability decision, 180 days for an application for a permit to drill (APD) requiring an EA, and 18 months for APDs requiring an Environmental Impact Statement. For purposes of reporting, if lease applications (nominations) have not been filed, assume each potential nomination will be for 1,000 acres.
Number of watersheds in fully functioning condition	WorkPlan	Forests will use information from coarse filter watershed analysis to assign fifth-level hydrologic units into three condition classes. Forests will focus on watershed stability and ability to attain beneficial uses to report the number of hydrologic units determined to be fully functional, functional but at risk, and nonfunctional. To roll up data, units need to report both numerator and denominator.
Acres of terrestrial wildlife habitat restored or enhanced	WorkPlan	<p>This accomplishment is the sum of acres of terrestrial habitat <u>and</u> acres of threatened and endangered species (TES) terrestrial habitat.</p> <p>Terrestrial habitat: Units report total number of acres restored or enhanced to achieve desired future condition of habitat. Improvements were through application of a variety of management techniques, such as prescribed burns, seeding to improve foraging habitat for game and nongame species, or manipulating vegetation to obtain desired habitat condition for the benefit of wildlife. Units count an acre only once for the current fiscal year and only if it achieved desired future condition.</p> <p>TES terrestrial habitat: Units reported acres of TES terrestrial habitat that were restored or enhanced using nonstructural improvements in the reporting year using appropriated funds for the explicit purpose of improving TES habitat.</p> <p>Accomplishments are reported when improvements are completed. If work was contracted, units reported accomplishments when the project work was obligated. Work plans or maps of project areas, including project descriptions, should document the improvements completed.</p>
Miles of streams restored or enhanced	WorkPlan	<p>This accomplishment is the sum of miles of inland fish streams <u>and</u> anadromous fish streams restored or enhanced.</p> <p>Inland fish: Units report the miles of inland fish-bearing rivers and streams that were restored or enhanced using structural or nonstructural improvements in the reporting year (using inland fish appropriated funds). It is assumed that restoration/enhancement activities addressed environmental features limiting the productive capability of the particular river/stream. Units included the portion of streams that were measurably improved through implementation of habitat improvement measures.</p> <p>For example, if stabilization of an active slump may eliminate a major sediment source impacting spawning and rearing habitat in a 3-mile stream reach, then units reported the entire 3 miles of river with improved production capability.</p> <p>Anadromous fish: Units report the miles of anadromous fish-bearing rivers and streams that were restored or enhanced using structural or nonstructural improvements in the reporting year (using appropriated funds used for the explicit purpose of improving fish habitat). It is assumed that restoration/enhancement activities address environmental features limiting the productive capability of the particular river/stream. Units included the portion of streams that were measurably improved through implementation of habitat improvement measures.</p> <p>Accomplishments are reported when improvement are completed. If work is contracted, units report the accomplishment when the project work is obligated. Work plans or maps of project areas including project descriptions should document the improvements completed.</p>
Acres of lakes restored or enhanced	WorkPlan	<p>This accomplishment is the sum of inland fish-bearing lakes, ponds, and reservoirs, <u>and</u> anadromous fish-bearing lakes, ponds, and reservoirs.</p> <p>Inland fish: Units report the surface acres of inland fish-bearing lakes, ponds, and reservoirs that were enhanced with structural or nonstructural improvements in the reporting year. It is assumed that restoration/enhancement activities address</p>

Executive Priority	Data Source	How Accomplishments Are Reported
		<p>environmental features limiting the productive capability of the particular water body. The units include the portion of the water bodies that were measurably improved through implementation of habitat improvement measures. For example, if placement of an aerator provides for over-winter survival in a 10-acre lake, then report the entire 10 acres of lake with improved production capability.</p> <p>Anadromous fish: Units report the surface acres of anadromous fish-bearing lakes, ponds, and reservoirs that were enhanced using structural or nonstructural improvements in the reporting year with appropriated funds used for the explicit purpose of improving anadromous fish habitat. It is assumed that restoration/enhancement activities address environmental features limiting the productive capability of the particular water body. Units include the portion of the water bodies that were measurably improved, through implementation of habitat improvement measures. For example, if placement of a fish weir provides access to a 10-acre lake, then report the entire 10 acres of lake with improved production capability.</p> <p>The accomplishment is reported when improvement are completed. If work is contracted, units report accomplishment when the project work is obligated. Work plans or maps of project areas including project descriptions should document the improvements completed.</p>
Acres of nonindustrial private forest land under approved stewardship management plans.	Performance Measures Accountability System (PMAS)	<p>NOTE: FY 2005 data is not available from States until November 2005. Acres reported are for FY 2004.</p> <p>This accomplishment is reported as the number of acres, in thousands, of land under approved Forest Stewardship Plans in FY 2004.</p>
Percent of the Nation for which FIA information is accessible to external customers	FIA Staff	<p>FIA data available to the public are quality assured and current, less than 2 years old. The accomplishment was reported in the FIA Report 9 and by FIA Staff.</p>
Acres of land adjustments to conserve the integrity of undeveloped lands and habitat quality	WorkPlan	<p>Accomplishments are reported when the documents of conveyance are recorded within the fiscal year. Documentation consists of the official land status files. The accomplishment is the sum of acres adjusted (exchanged), acres acquired, and acres protected by purchase or conservation easement.</p> <p>Acres adjusted: The total number of acres that are acquired and conveyed through land exchanges, transfers, interchanges and conveyances, excluding Sisk Act (December 4, 1967) acquisitions and excluding S&PF Legacy acquisitions. Partial interests acquired through the previously mentioned adjustments are included in this code and can include, but are not limited to, mineral interests, conservation easements, etc.</p> <p>Acres acquired: The number of acres that are acquired through land purchase or donation, including conservation easements or interest in land, for NFS purposes.</p> <p>Acres protected: The number of acres that are protected by purchase or by conservation easements.</p>
Number of Land Management Plan (LMP) revisions/new plans completed	WorkPlan	<p>This accomplishment is reported when a Record of Decision based on the Final EIS is signed by the regional forester. A number larger than 1 is acceptable for a unit only when multiple land management plans exist for that administrative unit.</p>
LMP monitoring and evaluation reports	WorkPlan	<p>This accomplishment is reported when a NFS unit completes an "Annual Monitoring and Evaluation Report" in accordance with respective plan requirements; regional direction; Forest Service Manual (FSM), Forest Service Handbook (FSH), and planning regulation guidance on what to monitor; and associated Washington Office policy direction.</p> <p>Reports are based on monitoring data and information gathered during the previous fiscal year; focus on evaluation of plan implementation; and provide an overview of resource conditions and trends as they relate to indicators and criteria for sustainability.</p>

Executive Priority	Data Source	How Accomplishments Are Reported
		with specific attention to the effects of management on ecological system structure and function.
Percent of performance data are current and complete	Washington Office P&BA Staff	The accomplishment is the percent of RSAs providing certification forms that their unit's accomplishment data is current and complete.
Proportion of data within information systems that are current to standard	Washington Office Business Operations Staff	A team is continuing to work through definitions and how the measurement may be operationalized.
Number of grazing allotments analyzed (NEPA) and decisions signed	INFRA	Units report grazing allotments that were analyzed and completed during the fiscal year. Analysis and project-level decisions are issued in conformance with provisions of NEPA. Accomplishments are reported once a decision was signed. One decision may be prepared for several grazing allotments, so the reportable item was the number of allotments for which analyses were completed and decisions signed.

PRESIDENT'S MANAGEMENT AGENDA

The President's Management Agenda (PMA) is a strategy to improve the management and performance of the Federal Government in the following five areas:

- Strategic Management of Human Capital
- Competitive Sourcing
- Improved Financial Performance
- Expanded Electronic Government
- Budget and Performance Integration

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

Strategic Management of Human Capital

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<p><i>Implemented a comprehensive Human Capital Plan, analyzed the results, and integrated them into decision making processes to drive continuous improvement.</i></p>	<p>Prior to the implementation of the PMA, the Forest Service developed and implemented a comprehensive Human Capital Management process in partnership with the National Academy of Public Administration (NAPA).</p> <p>Now, in its seventh year, this effort contributes directly to the strategic management of human capital, providing the Forest Service with more informed decisionmaking and continuous improvement from the work of interdisciplinary teams of agency leaders and staff specialists. Results include the agencywide workforce plan, a 5-year recruitment strategy, a corporate training strategy, and a five-tiered strategy for leadership succession.</p> <p>Several standing teams provide ongoing leadership to continuous improvement of the Forest Service's Human Capital:</p> <ul style="list-style-type: none"> ▪ Chief's Workforce Advisory Group (an executive-level board). ▪ National Recruitment Council (field representation). ▪ National Training Council (field representation). ▪ Office of Leadership Success

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<p><i>Analyzed and optimized existing organizational structures from service and cost perspectives, using redeployment and delaying as necessary and integrating competitive sourcing and E-Gov solutions; and has process(es) in place to address future changes in business needs.</i></p>	<p>From FY 2003 through FY 2005, the Forest Service analyzed the existing organization in three major studies designed to optimize efficiencies and cost effectiveness in program delivery. These studies—the information technology (IT) competitive sourcing study (A-76), and the business process reengineering (BPR) studies for financial management and human resource management—recommended significant restructuring and centralization for these business functions.</p> <p>For the Information Technology Infrastructure Competitive Sourcing Study, seven business units were studied:</p> <ol style="list-style-type: none"> 1. Database Management 2. Desktop Support 3. Infrastructure Design, Integration, Testing, and Delivery Management 4. Security 5. Server Support 6. Telecommunications <p>From these studies, a Performance Work Statement was developed and a Request for Proposals was solicited. The Award Announcement was made on July 27, 2004, with the selection of the Information Solutions Organization (ISO) as the primary service provider. Remaining local units continue to provide support for location-specific issues, such as printer and onsite equipment maintenance calls, and cell phone support. This is the Continuing Government Activity, or CGA. Both the ISO and CGA provide IT Management for the agency.</p> <p>The financial management BPR resulted in a centralized restructuring of three functional areas, represented at the Albuquerque Service Center (ASC) as Financial Operations, Financial Reporting and Reconciliation, and Budget Execution. The results of this consolidation will ensure an organizational structure that provides efficient and cost effective service on a sustainable basis, while providing substantial cost savings to the agency. The ASC opened for limited business on February 22, 2005. As of September 2005, all functions have been successfully migrated except Claims Management and Incident Business Management, which will complete the migration plan in second quarter of FY 2006.</p> <p>The Human Resource (HR) BPR evaluated alternatives based on criteria that included customer satisfaction, consistency across the agency, linking technology systems, and cost savings. In the reorganization, all region, station, local, and other servicing HR units will be replaced by a new centralized HR organization featuring the following:</p> <ul style="list-style-type: none"> ▪ A Forest Service HR Service Center in Albuquerque; ▪ New technology featuring Web-based self-reliance tools and a call center; ▪ HR Liaisons to support local Forest Service Leadership Teams; ▪ A Board of Customers to monitor and provide feedback to the National

OMB'S GREEN STANDARD	STATUS AND PROGRESS
	<p>Leadership Team; and</p> <ul style="list-style-type: none"> ▪ Changing roles for managers, supervisors, HR employees, and all Forest Service employees. <p>The transition will occur in the following stages through FY 2007:</p> <p>Stage I—staffing, classification, Paycheck on the Web, HR Liaisons.</p> <p>Stage II—pay and leave, benefits, performance measurement, and employee development.</p> <p>Stage III—employee and labor management relations.</p>
<p><i>Succession strategies, including structured executive development programs, result in a leadership talent pool and continuously updated to achieve results.</i></p>	<p>In May 2003, the Office of Leadership Success integrated succession planning with the agency workforce plan to develop succession strategies. The Employee Development branch and the Office of Leadership Success designed executive development programs based on the five-tiered leadership development strategy. At the field level, work began on the development and implementation of leadership programs in the other tiers of the five-tiered strategy.</p> <p>To engage current Forest Service leaders in the leadership development process, a comprehensive Senior Leaders Program for employees ranging in grade from GS-12 to GS-14 was designed. The first class in this 12-month experiential learning program was held in October 2004 for 40 managers.</p>
<p><i>Has performance appraisal plans and awards programs for all SES and managers, and more than 60% of the workforce, that effectively:</i></p> <ul style="list-style-type: none"> ▪ Link to agency mission, goals and outcomes; ▪ Hold employees accountable for results appropriate for their level of responsibility ▪ Differentiate between various levels of performance (i.e., multiple performance levels with at least one summary rating above Fully Successful); and ▪ Provide consequences based on performance. The agency is working to include all agency employees under such systems. 	<p>The Forest Service is in the initial stage of outlining an approach to move from a pass/fail performance appraisal program to a multilevel performance appraisal program. This work includes benchmarking from other agencies, estimating costs of options, developing a time table, determining if some processes can be automated, recommending an alternative, and negotiating with the union.</p> <p>Performance appraisals for SES and supervisory GS-14s and GS-15s were linked to the Forest Service's strategic goals and objectives in FY 2004. This particular framework will be carried forward into the multilevel plan, once a decision is made from the process described above.</p> <p>Consideration is being given to agency decisions for the HR BPR effort and the implications and impact of those efforts for performance management, therefore, the Forest Service's final plan is dependent upon the outcomes of this ongoing BPR effort.</p>
<p><i>Reduced under representation, particularly in mission-critical occupations and leadership ranks; established processes to sustain diversity.</i></p>	<p>The National Recruitment Council coordinates recruitment efforts, develops planning and recruitment tools, and manages a system of National Recruitment Initiatives, based at 12 targeted universities. A system of monitoring and accountability measure Forest Service progress in addressing key workforce planning</p>

OMB'S GREEN STANDARD	STATUS AND PROGRESS
	<p>issues. A recent review of these measures indicates that in FY 2004, minority hiring had increased by an estimated 50% over previous years, and the use of the Student Career Experience Program hiring authority had more than doubled.</p>
<p><i>Significantly reduced skill gaps in mission critical occupations and competencies, integrated competitive sourcing and E-Gov solutions into gap reduction strategy.</i></p>	<p>Since 1998, the Forest Service has implemented a systematic approach to recruiting a highly skilled and diverse workforce needed to carry out the agency's mission, now and into the future. This system is currently based on a foundation of annual workforce planning at the national and field levels.</p>
<p><i>Has made significant progress and demonstrates continued improvement toward meeting agreed-upon aggressive hiring timeline goals.</i></p>	<p>Since FY 2003, a system of monitoring and accountability has been in place to measure progress in addressing key workforce planning issues including hiring, diversity and use of all authorities and incentives.</p> <p>A recent review of these measures indicates that in FY 2004 minority hiring had increased by more than 50% over previous years and the use of the Student Career Experience Program hiring authority had more than doubled.</p>
<p><i>Uses outcome measures to make human capital decisions, demonstrate results, make key program and budget decisions, and drive continuous improvement in the agency.</i></p>	<p>The Forest Service was a key member of the team that developed USDA's Human Capital Assessment and Accountability Framework (HCAAF). The HCAAF provides a self-assessment using critical success factors and performance indicators. The HCAAF is a tool that prompts participants with statements indicating the level of alignment to the agency's strategic plan or human capital strategy, in a format similar to OMB's PART.</p> <p>As a part of this system, the Forest Service is using the USDA Quarterly Accomplishment Report (QAR) and the Human Capital Scorecard as an ongoing system to evaluate agency human capital management programs, document results and outcomes, and ensure continuous program improvement.</p>

Competitive Sourcing

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<p><i>Has an OMB approved "green" competition plan to compete commercial activities available for competition.</i></p>	<p>The Forest Service's FY 2004-08 Competitive Sourcing Green Plan is awaiting approval at USDA (June 2004).</p> <p>The revised Green Plan for FY 2005 through 2009 was delivered to USDA by July 29, 2005.</p>
<p><i>Publicly announces standard competitions in accordance with the schedule outlined in the agency "green" competition plan.</i></p>	<p>The Forest Service had no planned or announced standard studies in FY 2005, but on June 30, 2005, completed the Communication Feasibility Study that was identified in the USDA Green Plan.</p>
<p><i>Since January 2001, has completed at least 10 competitions (no minimum number of positions required per competition) or has completed a sufficient number of large competitions to demonstrate meaningful use of competitive sourcing.</i></p>	<p>The Forest Service completed 171 studies and implemented 4, involving 3,695 fulltime equivalents (FTEs) of in-house work.</p> <p>Began implementing the results of the IT infrastructure standard study in February 2005, with a projected average savings of \$20 million per year over 5 years.</p>
<p><i>In the past four fiscal quarters, completed 90% of all standard competitions in a 12-month timeframe or timeframe otherwise approved in accordance with OMB Circular A-76.</i></p>	<p>Completed the IT Infrastructure in August 2004, on schedule.</p>
<p><i>In the past four fiscal quarters, completed 95% of all streamlined competitions in a 90-day timeframe or timeframe otherwise approved in accordance with OMB A-76.</i></p>	<p>The Forest Service has not announced or performed any standard and streamlined competitions in the past four quarters.</p>
<p><i>In the past year, canceled fewer than 10% of publicly announced standard and streamlined competitions.</i></p>	<p>No publicly announced standard or streamlined competitions were cancelled.</p>
<p><i>Has OMB reviewed written justifications for all categories of commercial activities determined to be unsuitable for competition.</i></p>	<p>OMB reviewed and approved justifications for 2004 FAIR Act inventory.</p> <p>Revised and submitted enhanced justifications for FY 2005, consistent with direction from OMB and USDA, and in agreement with other natural resource agencies' definition and practice.</p>
<p><i>Structures competitions in a manner to encourage participation by both private and public sectors as typically demonstrated by receipt of multiple offers and/or by documented market research, as appropriate.</i></p>	<p>The Forest Service intends to pursue national studies, in part to solicit greater interest from private and public sectors.</p> <p>The Forest Service will seek to conduct selected competitive sourcing studies in accordance with an interagency Charter between USDA Forest Service and the Department of the Interior Bureau of Land Management. If warranted by the findings of a feasibility study currently underway, the first joint</p>

OMB'S GREEN STANDARD	STATUS AND PROGRESS
	<p>study performed under that charter could be of the Remote Automated Weather Stations. The agency intends to pursue national studies, in part to solicit greater interest from private and public sectors.</p>
<p><i>Regularly reviews work performed once competitive sourcing studies are implemented to determine if performance standards in contract or agreement with agency provider are met and takes corrective action when provided services are deficient.</i></p>	<p>Conducted reviews for the two Region 5 (R5) standard competitive sourcing studies and made recommendations. R5 is implementing the recommendations.</p> <p>Developed an approach to monitor IRM performance and unit has been established to monitor performance.</p>
<p><i>To maintain green status, agency:</i></p>	
<p><i>Has positive anticipated net savings and/or significant performance improvements from competitions completed either in last fiscal year for which data has been officially reported to Congress by OMB or in the past three quarters, and</i></p>	<p>In February 2005, the agency began implementing the results of the IT Infrastructure standard study, with projected average savings of \$20 million per year over 5 years.</p>
<p><i>Through sampling, independently validates that savings to be achieved for the prior fiscal year were realized.</i></p>	<p>Ongoing monitoring taking place, but 1 full year of performance not yet completed.</p>

Improved Financial Performance

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<p><i>Receives an unqualified audit opinion on its annual financial statements.</i></p>	<p>Key objectives for the Forest Service in FY 2005 were to:</p> <ul style="list-style-type: none"> ▪ Sustain the three, consecutive unqualified audit opinions; ▪ Centralize the accounting functions at the ASC under the Associate Deputy Chief/Chief Financial Officer (CFO) and one Center Director; and ▪ Migrate most accounting functions from 153 dispersed locations to the center in accordance with a defined plan and schedule. <p>By meeting these objectives, the agency received an unqualified audit opinion in FY 2005, included herein, after initially receiving a "qualified" opinion related to the Consolidated Statement of Financing.</p>
<p><i>Meets financial statement reporting deadlines.</i></p>	<p>In FY 2005, the Forest Service met its reporting deadlines.</p>
<p><i>Reports in its audited annual financial statements that its systems are in compliance with the Federal Financial Management Improvement Act.</i></p>	<p>Overall, the Forest Service achieved substantial compliance with FFMIA.</p> <p>However, an independent auditor noted instances where the agency's financial management systems did not comply with Federal financial management system requirements, applicable Federal accounting standards, or the U.S. Standard General Ledger at the transaction level.</p>
<p><i>Has no chronic or significant Anti-Deficiency Act Violations.</i></p>	<p>The Forest Service has no known Anti-Deficiency Act violations and is continuously improving processes related to funds control and incident business to restrict obligations and expenditures to amounts apportioned by OMB and/or amounts available for obligation and expenditure.</p>
<p><i>Has no material auditor-reported internal control weaknesses.</i></p>	<p>OIG Audit Reports No. 08401-3-FM and 08401-2-FM identified a material weakness regarding the Forest Service Information Technology General Controls Environment. Significant progress has been made to resolve this material weakness. The agency has developed policy and procedures to manage its general controls environment and is working to implement and monitor compliance with the new policy.</p>

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<p><i>Has no material noncompliance with laws or regulations; AND</i></p>	<p>Various instances of noncompliance were identified in the FY 2004 Financial Statements Audit report related to Federal Accounting Standards. As of September 30, 2005, the Forest Service has no material noncompliance with laws and regulations. The Forest Service issued policy and procedures for the proper accounting treatment of leases, the proper accounting treatment of internal use software, and plans to conduct associated training during October 2005. Monitoring of these areas will be performed as part of the normal quality assurance review process of agency programs.</p>
<p><i>Has no material weaknesses or non-conformances reported under Section 2 and Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems.</i></p>	<p>Although the Forest Service completed the corrective actions associated with the current material weaknesses, the FY 2005 financial statement audit reinstated the 5 material weaknesses with new audit recommendations for FY 2006.</p>
<p><i>Is implementing a plan to continuously expand the scope of its routine data use to inform management decision-making in additional areas of operations.</i></p>	<p>The implementation of the Government Performance and Results Act, called Managing for Results (M4R) in the Forest Service, is progressing. The Performance Accountability System (PAS) being developed will integrate budget, financial, and performance data to support improved management decisionmaking. WorkPlan 3.0, released in June 2005, will provide timely and useful planning, financial, and accomplishment information for managers at all agency levels.</p>
<p><i>Currently produces accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operations.</i></p>	<p>Development of PAS is moving forward. PAS will integrate budget, financial, and performance data for improved management decisionmaking. WorkPlan 3.0 (released in June 2005) will provide timely and useful planning, financial, and accomplishment information for managers at all agency levels. The agency has significantly improved financial data quality by implementing multiple audit recommendations, consolidating financial operations into one location, and improving training and monitoring of compliance with financial policies and procedures.</p>

Expanded Electronic Government

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<p><i>Has an Enterprise Architecture linked to the Federal Enterprise Architecture (FEA) rated "effective" using OMB's EA Assessment tool.</i></p>	<p>FSM 6615.1—Forest Service Enterprise Architecture Technical Reference Model (Forest Service policy).</p> <p>The Forest Service's Enterprise Architecture (EA) defines and manages Forest Service technology standards, policies, and products and aligns them with the agency's mission, goals, strategies, budgets, and business architecture. It is the repository that provides a common blueprint to validate IT investment decisionmaking and affords consistency across applications and databases. The Forest Service EA is based on the Federal Enterprise Architecture Framework (FEAF), which is a business and performance-based framework to support cross-agency collaboration, transformation, and Governmentwide improvement.</p> <p>The agency will develop a baseline measurement of its EA program maturity between July and December 2005.</p>
<p><i>Has acceptable business cases (security, measures of success linked to the Enterprise Architecture, program management, risk management, and cost, schedule, and performance goals) for all major systems investments.</i></p>	<p>The Forest Service received acceptable scores on all OMB Exhibit 300s (business case summaries) for each major system in May 2005. Annual updates are made to the major systems' business cases.</p> <p>Currently, there are no agency investments on OMB's watchlist.</p>
<p><i>Has demonstrated, using EVM or operational analysis, cost and schedule overruns, and performance shortfalls, that average less than 10% for all major IT projects</i></p>	<p>In March 2005, USDA's Office of the Chief Information Officer (OCIO) drafted a Departmental Regulation on earned value management (EVM) activities and techniques. This regulation summarizes the policies, responsibilities, and procedures for the development, maintenance, and use of EVM for major IT investments throughout USDA. Forest Service worked in conjunction with the OCIO to draft the regulation. IT staff have reviewed the draft, which is now in the process of being formally approved by USDA.</p> <p>Upon approval of this regulation, USDA will provide (1) an EVM implementation guide, and (2) an EVM reference guide. In the interim, all USDA agencies are required to use the EVM reporting tool, WorkLenz for IT capital investments. The Forest Service submits quarterly EVM updates to USDA in WorkLenz.</p>
<p><i>Submits quarterly status reports in remediating IT security weaknesses</i></p>	<p>The Forest Service tracks IT security weaknesses and submits quarterly status updates to USDA OCIO on remediation using the Federal Information Security Management Act (FISMA) plan of action and milestones (POA&M) database.</p>
<p><i>Inspector General verifies the effectiveness of the Department-wide IT Security Remediation Process</i></p>	<p>USDA OIG verifies the Forest Service IT Security Remediation Process by doing the following:</p> <ol style="list-style-type: none"> 1. Performing an independent validation and verification (IV&V) for

OMB'S GREEN STANDARD	STATUS AND PROGRESS
	<p>completed Forest Service certification and accreditations (C&As). This IV&V started in February 2005.</p> <p>2. Including in the annual financial audit (conducted by KPMG) a review of IRM policies, procedures, and controls. This audit follows the guidelines outlined in FISCAM²¹ and includes the following:</p> <ul style="list-style-type: none"> a. A review of progress accomplished in remediation of the findings (NFRs) in the FY 2004 audit. b. A review of the FISMA POA&M IT security weaknesses and progress of remediation. c. Testing IRM procedures to ensure remediation and controls are effective.
<p><i>Has 90% of all IT systems properly secured (certified and accredited);</i></p>	<p>More than 90% of all Forest Service IT systems have been certified and accredited.</p>
<p><i>Has implemented all of the appropriate E-Gov initiatives rather than creating redundant or agency unique IT projects.</i></p>	<p>USDA reviews all system capital investments exceeding \$250,000 a year to confirm that they do not duplicate components of Federal or Departmental E-Gov systems.</p> <p>The Forest Service has implemented Recreation One-Stop, Geospatial One-Stop, and Electronic Management of NEPA projects.</p> <p>Proofs-of-concept are underway in the areas of Field Data Automation, e-Grants, e-Authentication, e-Learning, e-Research, e-Permits, and the Forest Service Enterprise Portal. In all of these projects, efforts have been made to use products and approaches provided by Federal and USDA electronic government initiatives. Agencywide implementations from these proof-of-concept projects will occur during FYs 2006—2010.</p>

²¹ Federal Information System Controls Audit Manual.

Budget and Performance Integration

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<p><i>Senior agency managers meet at least quarterly to examine reports that integrate financial and performance information that covers all major responsibilities of the Department. Agency demonstrates improvement in program performance and efficiency in achieving results.</i></p>	<p>At the April 2005 National Leadership Team meeting, the Forest Service implemented a new budget formulation process, integrating budget and performance information in several alternative scenarios, prior to preparing the FY 2007 agency request.</p> <p>For FY 2005 performance reporting, the Regional Foresters submitted midyear review of financial and performance information, providing Deputy Chiefs and Washington Office Program Directors the opportunity for tactical corrections to allocation decisions, based on available funding, performance, and demonstrated need.</p>
<p><i>Strategic plans contain a limited number of outcome-oriented goals and objectives. Annual budget and performance documents incorporate measures identified in the PART and focus on the information used in the senior management report described in the first criterion.</i></p>	<p>Currently the agency strategic plan contains only a limited set of priority goals, objectives, and key performance measures. These are incorporated into the agency's annual program direction (performance budget) as are those measures resulting from the PART process.</p> <p>All PARTed Forest Service programs have resulted in at least one efficiency measure. These efficiency measures justify Forest Service funding requests to USDA, in the agency's budget justification and the Department's estimate for the FY 2007 President's Budget.</p>
<p><i>Has performance appraisal plans and awards programs for all SES and managers, and more than 60% of agency positions that effectively:</i></p> <ul style="list-style-type: none"> ▪ <i>Link to agency mission, goals and outcomes;</i> ▪ <i>Hold employees accountable for results appropriate to their level of responsibility;</i> ▪ <i>Differentiate between various levels of performance;</i> ▪ <i>Provide consequences based on performance.</i> <p><i>The agency is also working to include all agency employees under such systems.</i></p>	<p>In FY 2004, the Forest Service's Executive Priorities were incorporated into the performance appraisal plans for Senior Executives (SES) and GS-14 and GS-15 supervisors, establishing the first linkage to the 2004-08 Strategic Plan.</p> <p>In FY 2005, direction was sent to all other employees to also tie their performance to the agency's strategic goals and objectives.</p> <p>When deployed, PAS will provide input to performance accountability for SES and managers, which can then be cascaded to all employees.</p>
<p><i>Reports the full cost of achieving performance goals accurately in budget and performance documents and can accurately estimate the marginal cost (+/- 10%) of changing performance goals.</i></p>	<p>The Forest Service budget is structured around programs, many of which support multiple objectives. It currently does not have a system that directly ties projects funded under various programs to strategic plan goals and objectives. While it can provide estimates of the costs of performance accomplishments, these are based on several assumptions made at the national level and cannot be tied back to individual, "on-the-ground" projects.</p>

OMB'S GREEN STANDARD	STATUS AND PROGRESS
	<p>Starting in FY 2006, the Forest Service will be using its WorkPlan system to tie all Forest Service projects to its strategic plan goals and objectives, along with planned performance measures. This will provide a baseline of information showing how much the Forest Service is spending by strategic goal and objective at the forest, regional, and national level. This information should allow it to accurately report on the costs for each performance goal and objective, and provide a baseline for accurately estimating the costs of changing these goals and objectives starting in FY 2007.</p>
<p><i>Has at least one efficiency measure for all PARTed programs.</i></p>	<p>The Forest Service has one efficiency measure, at a minimum, for all PARTed programs. Efficiency measures by strategic goal were submitted to USDA for the FY 2007 budget.</p>
<p><i>Uses PART evaluations to direct program improvements, and PART ratings and performance information are used consistently to justify funding requests, management actions, and legislative proposals.</i></p> <p><i>Less than 10% of agency programs receive a 'Results Not Demonstrated' rating for more than two years in a row.</i></p>	<p>The Forest Service uses PART information in the narratives of the Agency Request, Department Estimate, and the Budget Justification.</p> <p>Of the seven Forest Service programs or strategic goals that have been PARTed, three stand as Results Not Demonstrated (RND).</p>

MANAGEMENT CONTROLS, SYSTEMS, AND COMPLIANCE WITH LAWS

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA)²² requires Federal agencies to conduct ongoing evaluations of the adequacy of the systems of internal accounting and administrative control and to annually report all material weaknesses found through these evaluations. Federal agencies are required to provide reasonable assurance that the following objectives are being met:

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

During FY 2005, the Forest Service took the steps necessary to ensure that evaluations of the system of internal controls for the agency have been conducted in accordance with OMB guidelines and comply with the standards prescribed by the Comptroller General (CG). The Forest Service evaluations included assessments regarding whether the financial management systems and internal accounting and administrative controls were in compliance with the standards prescribed by the CG. The results of the assessment, conducted at all levels throughout the agency, indicate that the system of internal accounting and administrative control in effect during FY 2005 complies with the requirement to provide reasonable assurance that the above-mentioned objectives have been met.

In FY 2005, as a result of audits by GAO, OIG, and internal agency reviews, the Forest Service reported the following OIG audit-identified material weaknesses (MW) as part of the FMFIA process:

- FS 04-01: Financial Management Internal Control Weaknesses
 - MW 1: Improve Financial Management and Accountability (OIG Audit # 08401-3-FM)
 - MW 2: Implementation of the Forest Service Accrual Methodology Needs Strengthening (OIG Audit # 08401-3-FM)
 - MW 3: Controls over PONTIUS and PRCH Data Access, Input, Reconciliation, Integrity, and Segregation of Duties (OIG Audit # 08401-2-FM) and (Separate limited-distribution report)
 - MW 4: Accountability for Undelivered Orders (UDO) (OIG Audit # 08401-4-FM)
- FS 00-01: General Control Environment (OIG Audit # 08401-2-FM) and (Separate limited-distribution report)

Other OIG audit-identified material weaknesses (not FMFIA-reported)

- Performance Reporting Internal Control Weaknesses (OIG Audit # 08601-01-HY)

As of September 30, 2005, the Forest Service completed all corrective actions for FMFIA reported material weakness FS 04-01 and requested OCFO remove this deficiency from the list of agency material weaknesses.

²² This is also known as the Integrity Act.

For FMFIA reported material weakness FS 00-01, the Forest Service has remaining corrective actions related to system security issues that are part of the USDA reported material weakness. The system security corrective action related to the development and implementation of policy and procedures for entitywide software and hardware management, originally scheduled for completion in the fourth quarter of FY 2005, has a revised completion date of second quarter of FY 2006. This corrective action was delayed as a result of restructuring the IT organization within the Forest Service. However, the Forest Service requested closure by OCFO of the FMFIA-reported material weakness on information security because all significant actions that qualified this finding as a material weakness have been completed. All "other" OIG material weaknesses have been reassessed and downgraded, or closed.

The corrective actions taken by the Forest Service to eliminate the material weakness on "performance reporting" was officially downgraded to a reportable condition by OIG. This decision was based on OIG's indepth review of the actions taken as of August 2005, in response to the audit recommendations. The Forest Service has completed all actions regarding the material weakness on UDOs and strengthening of the accrual methodology. Requests for closure of the associated audit recommendations were forwarded to OCFO along with the request to close these material weaknesses.

The results from the independent audit of the Forest Service financial statement reinstated the following material weaknesses. The agency has until December 31, 2005, to prepare a corrective action plan to address them in FY 2006.

The following tables contain justification, status of corrective actions, and explanation of remaining steps required to close the material weaknesses, based on the FY 2005 corrective action plans.

FMFIA Material Weakness Action Plans

MATERIAL WEAKNESS FS 04-01—FINANCIAL MANAGEMENT INTERNAL CONTROL WEAKNESSES				
Description: Controls are inadequate to assure improvements in data quality				
Reference: OIG Audit Report No. 08401-4-FM				
Responsible Staff: Washington Office Budget and Finance				
Corrective Actions	Action Completed	Revised Completion Date	Reason Corrective Actions Were Not Completed	FY 2006 Action Plan for Corrective Actions Not Met
Develop detailed future state process. Work with other teams to develop roles and responsibilities, staffing plan, migration plan, customer service IT requirements, performance metrics, etc. (1st Qtr.).	Yes	N/A	N/A	N/A
Begin process to transition people and processes from the field and WO into the ASC (2nd Qtr.).	Yes	N/A	N/A	N/A
Transition NE/NA staff and finance activities to the ASC to address major financial management deficiencies (2nd Qtr.).	Yes	N/A	N/A	N/A
Build detailed future state processes (e.g., policies and procedures, reports, etc.) (2nd Qtr.).	Yes	N/A	N/A	N/A

Build training materials for transition (2nd Qtr.).	Yes	N/A	N/A	N/A
Migrate management, administrative support, and customer service functions (3rd Qtr).	Yes	N/A	N/A	N/A
Complete migration of the payments-grants and agreements and payments-other teams (4th Qtr.).	Yes	N/A	N/A	N/A
Migrate personal property, real property, and WCF teams (4th Qtr.).	Yes	N/A	N/A	N/A

MATERIAL WEAKNESS FS 00-01—USDA INFORMATION SECURITY WEAKNESS				
Description: Weaknesses have been identified in the Department's ability to protect its assets from fraud, misuse, inappropriate disclosure and disruption				
Reference: OIG Audit Report No. 08401-2-FM-IT; Summary Report of IT Findings, dated 12/18/05 (restricted distribution)				
Responsible Staff: Washington Office Information Resources Management				
Corrective Actions	Action Completed	Revised Completion Date	Reason Corrective Actions were not Completed	FY 2006 Action Plan for Corrective Actions Not Met
Require and confirm that all employees have an authenticated address in the USDA's certified E-Gov authentication solution (1st Qtr.).	Yes	N/A	N/A	N/A
Implement a memorandum of understanding with the USDA OCFO/ACFO Financial System (2nd Qtr.).	Yes	N/A	N/A	N/A
Revised: Implement ISS for monitoring infrastructure to detect enterprise-level vulnerabilities and eliminate unused or unauthorized applications (2nd Qtr.).	No	8/31/2005		
Finalize and formally implement the information security risk assessment policy (3rd Qtr.).	Yes	N/A	N/A	N/A
Implement entitywide policy and procedures on access controls for segregation of duties (3rd Qtr.).	Yes	N/A	N/A	N/A
Test the continuity of operations plan entitywide (4th Qtr.).	Yes	N/A	N/A	N/A
Implement the network perimeter policy in coordination with the network router enhancements (4th Qtr.).	Yes	N/A	N/A	N/A
Develop and implement entitywide software management policy and procedures (4th Qtr.).	No	3/31/2006	Overall revision of software and hardware management policies is required, as a result of agency restructuring of IT organization (A-76)	Revise Systems Management Handbook, FSH 6609.11 (10/31/2005) Rewrite Software Management policy, FSM 6620 (12/31/2005) Revise Computer Technology Management policy, FSM 6610 (12/31/2005) Revise Application Developers Handbook,

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires Federal agencies to implement and maintain financial management systems that substantially comply with the following:

1. Federal financial management system requirements;
2. Applicable Federal Accounting Standards;
3. The Standard General Ledger (SGL) at the transaction level; and
4. Information security policies, procedures and practices.

The Federal Information Security Management Act (FISMA) of 2002 added the fourth reporting requirement for FFMIA. Under the FFMIA, agencies are required to annually report whether financial management systems substantially comply with the FFMIA. If systems are found not in compliance, a remediation plan is required to bring the agency's financial management systems into substantial compliance.

FY 2005 Results

For FY 2005, the Forest Service is in substantial compliance with the FFMIA, although the financial statements audit report noted instances of noncompliance where the agency's financial management systems did not comply with Federal financial management system requirements, applicable Federal accounting standards, or the U.S. Standard General Ledger at the transaction level.

The Forest Service developed a remediation plan to aggressively implement corrective actions to resolve all Improvement Act and FISMA noncompliance issues. As of September 30, 2005, the Forest Service completed significant corrective actions regarding its financial management systems and made significant progress in resolving FISMA noncompliance issues. The agency continues to make progress toward resolving one remaining issue within the general control environment. The development and implementation of entitywide software and hardware management policies and procedures will require complete review and revision as a result of Forest Service organizational restructuring and is now targeted for completion in the second quarter, FY 2006.

The results from the independent audit of the Forest Service financial statement reinstated the following material weaknesses. The agency has until December 31, 2005, to prepare a corrective action plan to address them in FY 2006.

The following tables contain justification, status of corrective actions, and explanation of remaining steps required to achieve full compliance with the FFMIA, based on the FY 2005 corrective action plans.

FFMIA Remediation Plans

SECTION 2—APPLICABLE FEDERAL ACCOUNTING STANDARDS					
Agency Point of Contact: Director, ASC and Assistant Director, Financial Policy and Standards					
References: OIG Audit No. 08401-4-FM					
Description	Corrective Actions	Target Completion Date	Actual Completion Date	Reason Corrective Actions were not Completed	FY 2006 Action Plan for Corrective Actions Not Met
Improve financial statement note disclosures	Conduct training on OMB Bulletin No. 01-09 to ensure proper note disclosures to the financial statements.	5/31/2005	5/25/2005	N/A	N/A
Accounting for Liabilities of the Federal Government	Change cookbook certification reviews to a November, February, May, August quarterly cycle.	5/31/2005	5/31/2005	N/A	N/A
	Monitor compliance with the review and certification requirements for obligations and accruals.	5/31/2005	5/31/2005		
Proper accounting for leases, internal use software, and nonmonetary business processes	Establish policy and procedures for the proper accounting treatment of leases.	5/31/2005			Training is scheduled for completion by October 31, 2005. Target revised to accommodate resource adjustments required to finalize the financial statement audit.
	Establish policy and procedures for the proper accounting treatment of internal use software.	5/31/2005			
	Establish policy and procedures for the proper accounting treatment of nonmonetary business processes.	5/31/2005	5/24/2005		
	Conduct training and implement monitoring process for compliance with established policy and procedures.	10/31/2005			
Accounting for Revenue and Other Financing Sources and Reporting Correction of Errors and Changes in Accounting Principles	Issue memo and conduct training to reemphasize the proper recording of revenue transactions.	6/31/2005	5/31/2005	N/A	N/A
	Implement department policy for the review and recordation of prior period adjustments.	5/31/2005	6/1/2005		
	Conduct monthly Cumulative Results of Operations review and analysis.	5/31/2005	6/15/2005		

Strategic Plan and Annual Performance Plan Goal and Objective to which the Corrective Actions apply, if applicable.

SECTION 4—INFORMATION SECURITY POLICIES, PROCEDURES, AND PRACTICES

Agency Point of Contact: Director, ASC and Assistant Director, Financial Policy and Standards

References: OIG Audit No. 08401-4-FM

Description	Corrective Actions	Target Completion Date	Actual Completion Date	Reason Corrective Actions were not Completed	FY 2006 Action Plan for Corrective Actions Not Met
Strengthen security and access controls	<p>Certify and accredit the Automated Timber Sales Accounting System, Travel, PAYCHECK, and INFRA.</p> <p>Finalize and formally implement the information security risk assessment policy.</p> <p>Implement entitywide policy and procedures on access controls for segregation of duties.</p> <p>Require and confirm that all employees have an authenticated address in the USDA's certified E-Gov authentication solution.</p> <p>Implement the network perimeter policy in coordination with the network router enhancements.</p>	<p>9/30/2004</p> <p>4/1/2005</p> <p>4/1/2005</p> <p>12/31/2004</p> <p>7/1/2005</p>	<p>10/29/2004</p> <p>12/31/2004</p>		
Improve software management controls	<p>Replace ISS with a suite of commercial scanning tools and a comprehensive monitoring infrastructure to detect enterprise level vulnerabilities and eliminate unused or unauthorized applications.</p> <p>Develop and implement entitywide software management policy and procedures.</p>	<p>8/31/2005</p> <p>3/31/2006</p>		<p>Overall revision of software/hardware management policies is required as a result of Forest Service organization restructuring</p>	<p>Revise Systems Management handbook, FSH 6609.11 (10/31/2005)</p> <p>Rewrite Software Management policy, FSM 6620 (12/31/2005)</p> <p>Revise Computer Technology Management policy, FSM 6610 (12/31/2005)</p> <p>Revise Application Developers Handbook, FSH 6609.13 (3/31/2006)</p>
Ensure computer-dependent operations experience no significant disruptions	<p>Test the continuity of operations plan entitywide.</p> <p>Implement a memorandum of understanding with the USDA OCFO/ACFO-Financial System.</p>	<p>9/30/2005</p> <p>5/31/2005</p>	<p>5/26/2005</p>		

Strategic Plan and Annual Performance Plan Goal and Objective to which the Corrective Actions apply, if applicable.

Financial Management Systems

FY 2005 Results

The Forest Service is currently procuring travel services through one of the GSA eTravel systems vendors, Electronic Data Systems. However, due to major system and interface challenges, this contractor has not been able to implement an end-to-end travel system for our agency. The Forest Service, under the direction of USDA, will begin the procurement process in October 2005, for a new end-to-end eTravel systems contractor.

Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) provides the framework for securing the Federal Government's information technology. Departments covered by the Paperwork Reduction Act must implement the requirements of FISMA, reporting annually to OMB and Congress on the effectiveness of the agency's security programs and independent OIG evaluations. Security audit findings, security deficiencies identified in systems through the Certification and Accreditation (C&A) process, and security deficiencies identified in self-assessments are listed and tracked in the FISMA Plan of Actions and Milestones (POAM), which is updated monthly and reported to USDA quarterly for inclusion with its FISMA Report to OMB.

The Forest Service is aware of the vulnerability of its assets and financial data due to error or fraud and is in the process of correcting the information security controls material weakness. Plans are in place to address this significant deficiency, as well as associated reportable conditions, which were identified in the FY 2004 Annual FISMA Report.

FY 2005 Results

The majority of the corrective actions to address information security material weaknesses identified in the FY 2004 financial statement audit (and also included in the FMFIA/FFMIA reports) have been completed in FY 2005, including:

- Policies to address information security risk assessment, access controls for segregation of duties, and network perimeter controls.
- C&A of general support systems and major applications, including financial applications.
- Infrastructure vulnerability scanning and monitoring.
- Implementation of Memoranda of Understanding (MOUs) for connection and use of USDA financial systems.

The Forest Service will continue with plans to complete the correction of the information security controls material weakness in FY 2006.

Inspector General Act Amendments of 1988

The Inspector General (IG) Act requires management to complete all final actions on audit recommendations within 1 year of the date of the IG's final audit report. Within the Forest Service, as of September 30, 2005, there were 13 audits pending final action for over 1 year.

Since 2002, the agency has increased efforts to reduce the number of unimplemented audits pending final action. The audit inventory at the end of FY 2002 for audits over 1 year was 32; FY 2003 was 26; FY 2004 was 21; and FY 2005 was 14. The explanation for delays in implementing recommendations includes the development and implementation of new/revised directives and systems.

Per the IG Act reporting requirements, agencies must report the management dollar value of disallowed costs and funds to be put to better use. A disallowed cost (DC) is a questioned cost that management sustains or agrees is not chargeable to the Government. Funds to be put to

better use (FTBU) are funds that OIG has recommended could be used more efficiently if management took actions to implement and complete the recommendation. From the reporting period of October 1, 2004, to September 30, 2005, come the following results.

FY 2005 Results

DC and FTBU (in thousands)				
	DC		FTBU	
	Reports	Value	Reports	Value
Balance 9/30/2004	1	\$140.5	6	\$46,002.9
New	--		2	42,686.5
Total	1	140.5	8	88,689.4
Closed	0	0.0	3	46,524.7
Balance 9/30/2005	1	\$140.5	5	\$42,164.7

Improper Payments Information Act

The Improper Payments Information Act²³ of 2002 (IPIA) requires the Forest Service to identify any of its programs that may be susceptible to significant improper payments (typically overpayments), estimate the annual amount of these improper payments, and submit these estimates to USDA. Any program deemed risk-susceptible for improper payments is reviewed to assess the level of improper payments, using OMB criteria to determine the size of a random statistical sample.

Improper Payments

The Wildland Fire Suppression (WFSU) Program is currently the Forest Service's only risk-susceptible program. This high profile program has made several payments outside the contract environment, increasing the potential for improper payments as billing errors may be more difficult to detect. Internal control standards may also be more difficult to meet. There were three basic causes for improper payments in WFSU:

- Payment for services not authorized under contract;
- Invoices had wrong rate for services and error was not identified during Field Office review; and
- Failures to take early-payment discount.

From the random sampling process, the outlay within WFSU and the respective percentage of improper payments for FY 2004 and FY 2005 produced the targeted amount for recovery.

Exhibit 7: Improper Payment Sampling Results (in millions)

FY 2004			FY 2005		
Outlays	IP %	IP \$	Outlays	IP %	IP \$
\$1,980	3.27%	\$65	\$1,782	3.00%	\$53

²³ IPIA was authorized in Public Law 107-300.

Exhibit 8: Improper Payment Reduction Outlook (in millions)

FY 2006			FY 2007			FY 2008		
Est. Outlays	IP %	IP \$	Est. Outlays	IP %	IP \$	Est. Outlays	IP %	IP \$
\$732	3.00%	N/AV	\$700	2.90%	N/AV	\$705	2.80%	N/AV

FY 2005 Results

In FY 2005, the Forest Service completed a pilot recovery auditing project using an independent recovery audit contractor. The primary objective of audit recovery is to identify inadvertent overpayments to suppliers of services or goods, and then contact the suppliers to verify and document the errors. Billings for collection are sent to the vendors, who remit refund checks to the Forest Service. Cash deposits of amounts recovered are made into appropriate Forest Service fund accounts. The contractor for the pilot identified \$333,000 in improper payments and recovered \$189,000 as of September 2005, representing a dramatic improvement in findings and collections from FY 2004.

There is an important distinction between the IPIA figures (above) and the recovery auditing figures (below). IPIA figures are only for WFSU disbursements, while Recovery Audit figures are for all nonpersonnel-related disbursements across the Forest Service.

Exhibit 9: FY 2005 Recovery Auditing Results (in millions)

Amount Subject to Review for FY 2005 Reporting	Actual Amount Reviewed and Reported	Amount Identified for Recovery	Amount Identified / Actual Amount Reviewed	FY 2005 Amounts Recovered	FY 2004 Amounts Recovered
\$2,428	\$2,428	\$,333	0.0137%	\$,189	N/A

More specific types of payment errors found during the course of the recovery audit process include:

- Duplicate payments;
- Unposted credit memos resulting from returned merchandise to vendors;
- Overpayment of various contractual charges such as incorrect per diem rates;
- Improper rates charged for meals provided during fire suppression; and
- General and administrative expense recovery not provided by contract.

Additional overpayment errors included the payment of sales tax on tangible personal property purchased, and the payment of a previously voided invoice.

To ensure that Forest Service management holds itself accountable for reducing and recovering improper payments, the agency has taken several steps:

- Hold accountable the entire ASC management team for compliance with IPIA through performance metrics in their performance elements.
- Issue specific policy guidance throughout the agency, emphasizing corrective actions to mitigate the causes of improper payments.
- Consolidate payment processing at ASC for more consistency

- Reduce future improper payments by communicating all information related to the WFSU improper payment recoveries and the underlying transactions to all Forest Service employees.

These actions should help the Forest Service reduce improper payments in the future.

The Forest Service acknowledges it has the necessary information systems and other infrastructure in place. There are no statutory or regulatory barriers to recovering improper payments.

LIMITATIONS OF FINANCIAL STATEMENTS

The Forest Service has prepared its financial statements to report its financial position and results of operations pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994.

The Forest Service statements have been prepared from its books and records in accordance with the formats prescribed by OMB. The statements, however, are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. Liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation by Congress. The Federal Government can abrogate the payment of all liabilities, other than for contracts.

**U.S. Department of Agriculture
Forest Service
Consolidated Balance Sheet
As of September 30, 2005 and 2004
(in millions)**

	<u>2005</u>	<u>2004</u>
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 4,187	\$ 3,506
Investments	5	4
Accounts Receivable (Note 4)	<u>181</u>	<u>62</u>
Total Intragovernmental	4,373	3,572
Cash and Other Monetary Assets	2	-
Accounts Receivable, Net (Note 4)	88	101
General Property, Plant, and Equipment, Net (Note 5)	3,695	3,807
Advances	<u>13</u>	<u>10</u>
Total Assets	<u>\$ 8,171</u>	<u>\$ 7,490</u>
Liabilities:		
Intragovernmental		
Federal Employee Benefits (Note 8)	\$ 65	\$ 65
Other Liabilities (Note 7)	<u>279</u>	<u>302</u>
Total Intragovernmental	344	367
Accounts Payable	134	47
Federal Employee Benefits (Note 8)	341	343
Environmental and Disposal Liabilities	17	8
Other Liabilities (Note 7)	<u>1,190</u>	<u>1,123</u>
Total Liabilities (Note 6)	2,026	1,888
Commitments and Contingencies (Note 7 and 9)		
Net Position:		
Unexpended Appropriations	1,792	1,511
Cumulative Results of Operations	<u>4,353</u>	<u>4,091</u>
Total Net Position	6,145	5,602
Total Liabilities and Net Position	<u>\$ 8,171</u>	<u>\$ 7,490</u>

The accompanying notes are an integral part of the consolidated financial statements.

**U.S. Department of Agriculture
Forest Service
Consolidated Statements of Net Cost
For the years ended September 30, 2005 and 2004
(in millions)**

	2005	2004
Program Costs		
Intragovernmental Gross Costs		
Benefit Program Costs	\$ 364	\$ 350
Imputed Costs	247	244
Reimbursable Costs	318	613
Total Intragovernmental Gross Costs	929	1,207
Less: Intragovernmental Earned Revenues	274	121
Intragovernmental Net Costs	655	1,086
 Gross Costs With the Public:		
Grants and Indemnities	607	887
Stewardship Land Acquisition (Note 11)	71	87
Other:		
Operating Costs	3,734	3,212
Depreciation Expense	268	286
Reimbursable Costs	222	240
Total Other	4,224	3,738
Total Gross Costs with the Public	4,902	4,712
Less: Earned Revenues from the Public	515	538
Net Costs with the Public	4,387	4,174
Net Cost of Operations (Note 10)	\$ 5,042	\$ 5,260

The accompanying notes are an integral part of the consolidated financial statements.

**U.S. Department of Agriculture
Forest Service
Consolidated Statements of Changes in Net Position
For the years ended September 30, 2005 and 2004
(in millions)**

	2005		2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	\$ 4,091	\$ 1,511	\$ 3,687	\$ 1,350
Budgetary Financing Sources:				
Appropriations Received	-	5,030	-	5,368
Appropriations Transfer - in/out	-	146	-	88
Other Adjustments (recissions, etc.)	-	(63)	-	(56)
Appropriations Used	4,832	(4,832)	5,239	(5,239)
Nonexchange Revenue	1	-	-	-
Donations and Forfeitures of Cash	1	-	1	-
Transfers -in/out without Reimbursement	184	-	172	-
Other Financing Sources:				
Donations and Forfeitures of Property	31	-	4	-
Transfers In (Out) without Reimbursement	-	-	4	-
Imputed Financing from Costs Absorbed by Others	247	-	244	-
Other	8	-	-	-
Total Financing Sources	5,304	281	5,664	161
Net Cost of Operations	(5,042)	-	(5,260)	-
Net Change	262	281	404	161
Ending Balances	\$ 4,353	\$ 1,792	\$ 4,091	\$ 1,511

The accompanying notes are an integral part of the consolidated financial statements.

**U.S. Department of Agriculture
Forest Service
Combined Statements of Budgetary Resources
For the years ended September 30, 2005 and 2004
(in millions)**

	<u>2005</u>	<u>2004</u>
Budgetary Resources:		
Budget Authority:		
Appropriations Received	\$ 5,812	\$ 5,923
Net Transfers	50	(12)
Unobligated Balance:		
Beginning of period	1,738	1,256
Net Transfers	1	4
Spending Authority from Offsetting Collections:		
Earned:		
Collected	448	428
Receivable from Federal Sources	12	(13)
Change in Unfilled Customer Orders:		
Advances Received	3	(10)
Without Advance from Federal Sources	71	20
Previously Unavailable	2	-
Subtotal	<u>536</u>	<u>425</u>
Recoveries of Prior Year Obligations	169	97
Temporarily/Permanently not available Pursuant to Public Law	(67)	(54)
Total Budgetary Resources (Note 14)	<u>\$ 8,239</u>	<u>\$ 7,639</u>
Status of Budgetary Resources:		
Obligations Incurred: (Note 12)		
Direct	\$ 5,545	\$ 5,632
Reimbursable	265	269
Subtotal	<u>5,810</u>	<u>5,901</u>
Unobligated Balance:		
Apportioned	1,804	1,262
Unobligated Balances not Available	625	476
Total Status of Budgetary Resources (Note14)	<u>\$ 8,239</u>	<u>\$ 7,639</u>
Relation of Obligations to Outlays:		
Obligated Balance, Net, Beginning of Period	\$ 1,493	\$ 1,597
Obligations Incurred	5,810	5,901
Less:		
Recoveries of Prior Year Obligations	169	97
Change from Federal Sources	84	8
Obligated Balance, Net, End of Period:		
Accounts Receivable	(226)	(213)
Unfilled Customer Orders from Federal Sources	(192)	(120)
Undelivered Orders	1,226	1,232
Accounts Payable	753	594
Subtotal Obligated Balance, Net, End of Period	<u>1,561</u>	<u>1,493</u>
Outlays:		
Disbursements	5,489	5,900
Collections	(451)	(418)
Subtotal	<u>5,038</u>	<u>5,482</u>
Less: Distributed Offsetting Receipts	426	384
Net Outlays	<u>\$ 4,612</u>	<u>\$ 5,098</u>

The accompanying notes are an integral part of the consolidated financial statements.

**U.S. Department of Agriculture
Forest Service
Consolidated Statements of Financing
For the years ended September 30, 2005 and 2004
(in millions)**

	2005	2004
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 5,810	\$ 5,901
Less: Spending Authority from Offsetting Collections and Recoveries	705	522
Obligations Net of Offsetting Collections and Recoveries	5,105	5,379
Less Offsetting Receipts	426	384
Net Obligations	4,679	4,995
Other Resources:		
Donations and Forfeitures of Property	31	4
Transfers in/out without reimbursement	-	4
Imputed Financing from Costs Absorbed by Others	247	244
Other	8	-
Net Other Resources Used to Finance Activities	286	252
Total Resources Used to Finance Activities	\$ 4,965	\$ 5,247
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(7)	131
Resources that Fund Expenses Recognized in Prior Periods	29	244
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	(65)	-
Resources that Finance the Acquisition of Assets	164	214
Trust Fund Repayment (Note 16)	149	-
Other resources or adjustments to net obligated resources that do not affect net cost of operations	53	-
Total Resources Used to Finance Items not Part of the Net Cost of Operations	323	589
Total Resources Used to Finance the Net Cost of Operations	\$ 4,642	\$ 4,658
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods (Note 15):		
Increase in Annual Leave Liability	-	16
Increase in Environmental and Disposal Liability	10	-
Decrease (Increase) in Exchange Revenue Receivable from the Public	-	10
Increase in Accrued Liability for Payments to States	-	92
Other	29	70
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	39	188
Components not Requiring or Generating Resources:		
Depreciation and Amortization	268	286
Revaluation of Assets or Liabilities	-	(6)
Allocation of Transfers (Note 16)	111	115
Bad Debt Expense and Other	(18)	19
Total Components of Net Cost of Operations that will not Require or Generate Resources	361	414
Total components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	400	602
Net Cost of Operations	\$ 5,042	\$ 5,260

The accompanying notes are an integral part of the consolidated financial statements.

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The USDA Forest Service was established on February 1, 1905, as an agency of the United States Federal Government within the U.S. Department of Agriculture (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. The USDA Forest Service's policy is implemented through nine regional offices, six research offices, one State and Private Forestry area office, the Forest Products Laboratory and the International Institute of Tropical Forestry, with 868 administrative units functioning in 46 states, Puerto Rico, and the Virgin Islands.

The USDA Forest Service's mission includes the four major segments described below.

- National Forests and Grasslands - Protection and management of approximately 192.5 million acres (unaudited) of National Forest System (NFS) land that includes 34.8 million acres (unaudited) of designated wilderness areas. In addition, the USDA Forest Service partners with other nations and organizations to foster global natural resource conservation and sustainable development of the world's forest resources;
- Forest and Rangeland Research - Research and development of forest and rangeland management practices to provide scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the 1.6 billion acres (unaudited) of forests and associated rangelands in the United States;
- State and Private Forestry – Cooperation with and assistance to state and local governments, tribal governments, forest industries, and private landowners to help protect and manage non-Federal forests and associated rangeland and watershed areas; and
- Wildland Fire Management – Protection of life, property, and natural resources on the 192.5 million acres (unaudited) of NFS lands, and extending to an additional 20 million acres (unaudited) of adjacent state and private lands.

The accompanying financial statements of the USDA Forest Service account for all funds under the USDA Forest Service's control.

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

B. BASIS OF PRESENTATION AND ACCOUNTING

The financial statements were prepared to report the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of the USDA Forest Service. The financial statements have been prepared from the books and records of the USDA Forest Service in accordance with accounting principles generally accepted in the United States of America and in accordance with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised August 23, 2005. All material intra-agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statement of Budgetary Resources is presented on a combined basis in accordance with OMB Circular A-136.

These financial statements present proprietary and budgetary information. The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

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

C. FUND BALANCE WITH THE U.S. TREASURY

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

D. ADVANCES AND INVESTMENTS

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

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

Earmarked funds for which the USDA Forest Service has investment authority are invested only in marketable securities of the United States Federal Government. Maturity periods are selected based on current cash flow requirements of each specific fund.

E. GENERAL PROPERTY, PLANT AND EQUIPMENT

General property, plant, and equipment (PP&E) includes real and personal property used in normal business operations. Real and personal property is recorded at cost or estimated fair value and must have an estimated useful life of 2 years or more. The USDA Forest Service capitalization threshold for acquisition of real property is \$25 thousand or more. The capitalization threshold for personal property is \$25 thousand or more. Internal use software is capitalized in accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 10, *Accounting for Internal Use Software*, if the fair value meets or exceeds \$100 thousand. USDA Forest Service reports the liability at lease inception, present value or fair market value, for capital leases in accordance with SFFAS No. 6, *Accounting for Property, Plant, and Equipment*.

F. LIABILITIES

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

G. ENVIRONMENTAL AND DISPOSAL LIABILITIES

The USDA Forest Service's estimated government-related environmental liabilities are principally associated with the future remediation of certain landfills, buildings, and other related sites in accordance with all applicable federal, state and local laws. Such estimates do not consider the effect of future inflation, new technology, laws or regulations.

H. COMMITMENTS AND CONTINGENCIES

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

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

I. WORKERS' COMPENSATION LIABILITY

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to Federal civilian employees injured on the job, employees who have incurred a work related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Benefit claims incurred for the USDA Forest Service's employees under FECA are administered by the U.S. Department of Labor (DOL). The U.S. Department of Agriculture uses Forest Service funds to reimburse the DOL for FECA claims. Consequently, the USDA Forest Service recognizes a liability for this compensation comprised of: (1) an accrued liability that represents money owed for claims paid by the DOL through the current fiscal year and (2) an actuarial liability that represents the expected liability for USDA Forest Service approved compensation cases to be paid beyond the current fiscal year.

J. EMPLOYEE ANNUAL, SICK, AND OTHER LEAVE

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

K. PENSION AND OTHER RETIREMENT BENEFITS

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

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

For FERS participants, the USDA Forest Service also contributes the employer's matching share for Social Security.

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

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

L. REVENUES AND OTHER FINANCING SOURCES

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

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

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

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

M. IMPUTED FINANCING

The USDA Forest Service recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the OPM. Amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against the USDA Forest Service are also recognized as imputed financing. Imputed financing for the years ended September 30, 2005 and 2004 was \$247 million and \$244 million, respectively.

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

N. COMBINED STATEMENTS OF BUDGETARY RESOURCES

The USDA Forest Service receives two transfer allocations from appropriations of other agencies - the DOL Job Corps Civilian Conservation, and the Department of Transportation Federal Aid to Highways. Job Corps Civilian Conservation is a DOL residential training program for unemployed and under-employed young people. The training programs are conducted on campuses on National Forest land and supervised by USDA Forest Service employees. Federal Aid to Highways provides emergency funding for the repair of National Forest system roads damaged by natural disaster. In accordance with OMB Circular A-136, *Financial Reporting Requirements*, the USDA Forest Service does not include these allocation transfers in its Combined Statement of Budgetary Resources. However, as the transfer allocations are considered material, the financial activity is reported in the Consolidated Statements of Net Cost and as a reconciling item in the Consolidated Statement of Financing.

O. USE OF ESTIMATES

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

P. RECLASSIFICATIONS

Certain reclassifications were made to the fiscal year 2004 statements to conform to the current year's presentation. Certain reclassifications were also made to the previously reported fiscal year 2005 Consolidated Statement of Financing as discussed in Note 16.

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

NOTE 2. NON-ENTITY ASSETS

Total assets consist of both entity and non-entity. Non-entity assets are those assets not available for use in the operations of the USDA Forest Service and consist primarily of accounts receivable, amounts held for others in the Fund Balance with Treasury suspense accounts and fines and penalties recorded as General Fund Proprietary Receipts that will be transferred to the U.S. Treasury at fiscal year-end. These business transactions occur primarily from the USDA Forest Service's timber operations and its law enforcement activities. As of September 30, 2005 and 2004, total non-entity assets consisted of:

	(in millions)	
	2005	2004
Intragovernmental:		
Fund Balance with Treasury:		
a) Balance in Receipt Accounts	\$99	\$168
b) Balance in Clearing Accounts	10	61
Total Intragovernmental	109	229
Accounts Receivable	24	10
Total Non-Entity Assets	133	239
Total Entity Assets	8,038	7,251
Total Assets	\$8,171	\$7,490

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

NOTE 3. FUND BALANCE WITH TREASURY

Funds with the U.S. Department of the Treasury are primarily appropriated (general and special funds) and trust funds that are available to pay current liabilities and finance authorized purchase commitments. The category of other fund types includes deposit and clearing accounts. Fund balances with the U.S. Department of the Treasury include both entity and non-entity fund balances. It is the USDA Forest Service's policy to ensure the Fund Balance with Treasury reported on the Consolidated Balance Sheets are consistent with the records of the U.S. Department of the Treasury.

Fund Balance with Treasury as of September 30, 2005 and 2004 consisted of the following:

	(in millions)	
	<u>2005</u>	<u>2004</u>
A. Fund Balances:		
(1) Trust Funds	\$676	\$533
(2) Revolving Funds	128	139
(3) Appropriated Funds	3,342	2,757
(4) Other Fund Types	41	77
Total	<u>\$4,187</u>	<u>\$3,506</u>
B. Status of Funds:		
(1) Unobligated Balance		
(a) Available	\$1,804	\$1,262
(b) Unavailable	625	476
(2) Obligated Balance not yet Disbursed	1,561	1,493
(3) Other Balances	197	275
Total	<u>\$4,187</u>	<u>\$3,506</u>

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

NOTE 4. ACCOUNTS RECEIVABLE, NET

Intragovernmental accounts receivable represent amounts due under reimbursable and cooperative agreements with Federal entities for services provided by the USDA Forest Service. An allowance for receivables deemed uncollectible is not established for these amounts because monies due from other Federal entities are considered fully collectible. As of September 30, 2005 and 2004, the intragovernmental accounts receivable balances were \$181 million and \$62 million, respectively.

Non-intragovernmental accounts receivable are comprised primarily of timber harvest and reimbursements and refunds owed to the USDA Forest Service for fire prevention and suppression activities. An allowance for receivables deemed uncollectible is established at 20 percent or 80 percent, depending upon the age of the receivable. The allowance for receivables referred to an outside agency for collection (e.g., Department of Justice, Department of the Treasury, etc.) is established at 100%. Non-intragovernmental accounts receivable as of September 30, 2005 and 2004 consisted of the following:

	(in millions)	
	2005	2004
Accounts Receivable	\$158	\$212
Allowance for Doubtful Accounts	(70)	(111)
Accounts Receivable, Net	\$88	\$101

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

NOTE 5. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

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

As of September 30, 2005 and 2004 the USDA Forest Service's PP&E consisted of the following:

September 30, 2005				
(in millions)				
Property Class	Estimated Useful Life (Years)	Cost	Accumulated Depreciation	Book Value
Personal Property	4-20	\$960	(\$696)	\$264
Real Property	10-50	7,589	(4,158)	3,431
Total		<u>\$8,549</u>	<u>(\$4,854)</u>	<u>\$3,695</u>

September 30, 2004				
(in millions)				
Property Class	Estimated Useful Life (Years)	Cost	Accumulated Depreciation	Book Value
Personal Property	4-20	\$974	(\$673)	\$301
Real Property	10-50	7,474	(3,968)	3,506
Total		<u>\$8,448</u>	<u>(\$4,641)</u>	<u>\$3,807</u>

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources as of September 30, 2005 and 2004 consisted of the following:

	(in millions)	
	<u>2005</u>	<u>2004</u>
Intragovernmental:		
Treasury Judgment Fund	\$9	\$7
Federal Employee Benefits (Note 8)	65	65
Total Intragovernmental	<u>74</u>	<u>72</u>
Federal Employee Benefits (Note 8)	341	343
Annual Leave Liability	173	194
Contingent Liabilities	28	1
Accrued Liability for Payments to States	378	380
Environmental and Disposal Liabilities	17	8
Total Liabilities Not Covered by Budgetary Resources	<u>1,011</u>	<u>998</u>
Total Liabilities Covered by Budgetary Resources	<u>1,015</u>	<u>890</u>
Total Liabilities	<u><u>\$2,026</u></u>	<u><u>\$1,888</u></u>

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

NOTE 7. OTHER LIABILITIES

	(in millions)					
	<u>2005</u>			<u>2004</u>		
	Non-Current	Current	Total	Non-Current	Current	Total
Intragovernmental						
Accrued Liabilities	\$ -	\$101	\$101	\$ -	\$118	\$118
Deposit Liabilities	-	87	87	-	90	90
Custodial Liabilities	-	57	57	-	58	58
Other	9	25	34	7	29	36
Total Intragovernmental	\$9	\$270	\$279	\$7	\$295	\$302
Other						
Accrued Liabilities	-	575	575	-	479	479
Accrued Liability for Payments to States (Note 6)	-	378	378	-	380	380
Annual Leave Liability	-	173	173	18	176	194
Contingent Liabilities	28	-	28	1	-	1
Capital Leases (Note 9)	21	2	23	21	2	23
Other	-	13	13	-	46	46
Total Other and Intragovernmental Liabilities	\$58	\$1,411	\$1,469	\$47	\$1,378	\$1,425

As of September 30, 2005 and 2004, the USDA Forest Service's major components of other liabilities are as follows:

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

Deposit Liabilities: Deposit liabilities consist primarily of collections deposited in deposit funds and clearing accounts, including suspense accounts, awaiting disposition or reclassification.

Custodial Liabilities: Custodial liabilities consist of amounts held in special receipt accounts that belong to non-USDA Forest Service entities.

Accrued Liability for Payments to States: The Act of May 23, 1908, as amended (16 U.S.C. 500), authorized the Payments to States, National Forest Fund program. This program requires revenue generated by the sale of goods and services on the national forests to be shared with the states for public schools and public roads in the county or counties in which the national forests are located.

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

Contingent Liabilities: As of September 30, 2005, the USDA Forest Service had several legal actions pending. Based on information provided by legal counsel, management believes some adverse decisions are probable and approximately \$28 million, related to such actions, has been accrued. The USDA Forest Service has a potential liability for approximately \$74 million, related to claims where the amount or probability of judgment is uncertain. There are no estimated obligations related to cancelled appropriations for which there is a contractual commitment for payment. In addition, there are no contractual arrangements which may require future financial obligations.

U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004

NOTE 8. FEDERAL EMPLOYEE BENEFITS

Federal Employees' Compensation Act Liabilities: 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 USDA Forest Service.

Workers' compensation benefits include the current and expected future liability for death, disability, medical, and other approved costs. The U.S. Department of Labor (DOL) actuarially determines the expected future liability for the U.S. Department of Agriculture as a whole, including the USDA Forest Service. The USDA Forest Service is billed annually as its claims are paid by the DOL. Payments to the DOL are deferred for two years so that the bills may be funded through the budget. Payments to the DOL are also recognized as an expense when billed and recorded in the Statement of Net Cost. The amounts of unpaid FECA billings constitute the accrued FECA payable.

The total components of accrued FECA payable as of September 30, 2005 and 2004 consisted of the following:

	(in millions)	
	<u>2005</u>	<u>2004</u>
Intragovernmental Liability for FECA (Note 6)	\$65	\$65
Expected Future Liability for FECA (Note 6)	341	343
Total	<u><u>\$406</u></u>	<u><u>\$408</u></u>

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

NOTE 9. LEASE LIABILITIES

The USDA Forest Service enters into leasing agreements through the General Service Administration (GSA) and through leasing authority delegated by GSA for general facilities (buildings and office space), equipment and land. Leases may include renewal options for periods of one or more years. Most leases are subject to cancellation upon certain funding conditions. The USDA Forest Service's assets under capital leases as of September 30, 2005 and 2004 and future capital and operating lease agreement payments as of September 30, 2005, consisted of the following:

Capital Leases:	(in millions)	
	2005	2004
<hr/>		
Summary of Assets Under Capital Leases		
Land, Building Machinery, & Equipment	\$40	\$40
Accumulated Amortization	(17)	(17)
Total	<u>\$23</u>	<u>\$23</u>
Future Payments Due:		
	Land & Buildings	
Fiscal Year		
2006	\$11	
2007	11	
2008	11	
2009	11	
2010	10	
After 5 Years	88	
<hr/>		
Total Future Lease Payments	\$142	
Less: Imputed Interest	(38)	
Less: Executory Costs	(48)	
Subtotal	56	
Less: Lease Renewal Options	(33)	
<hr/>		
Net Capital Lease Liability, covered by Budgetary Resources	<u>\$23</u>	
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Operating Leases:	(in millions)	
<hr/>		
Future Payments Due:		
	Land & Buildings, Machinery & Equipment	
Fiscal Year		
2006	\$67	
2007	62	
2008	57	
2009	50	
2010	45	
After 5 Years	257	
<hr/>		
Total Future Lease Payments	<u>\$538</u>	
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**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

NOTE 10. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

The USDA Forest Service reflects costs through four primary responsibility segments: National Forests and Grasslands, Forest and Rangeland Research, State and Private Forestry, and Wildland Fire Management.

The following tables illustrate program costs by segment for the years ended September 30, 2005 and 2004.

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

**Program Costs by Segment
For the year ended September 30, 2005**

(in millions)

	National Forests and Grasslands	Forest and Rangeland Research	State and Private Forestry	Wildland Fire Management	Total
Intragovernmental Gross Costs:					
Benefit Program Costs	\$364	-	-	-	\$364
Imputed Costs	247	-	-	-	247
Reimbursable Costs	126	20	46	126	318
Total Intragovernmental Gross Costs	737	20	46	126	929
Less: Intragovernmental Earned Revenue	125	29	12	108	274
Intragovernmental Net Costs	612	(9)	34	18	655
Gross Costs With the Public:					
Grants and Indemnities	377	2	212	16	607
Stewardship Land Acquisition	71	-	-	-	71
Other:					
Operating Costs	1,879	276	118	1,461	3,734
Depreciation Expense	240	3	-	25	268
Reimbursable Costs	115	28	13	66	222
Total Other	2,234	307	131	1,552	4,224
Total Gross Costs with the Public	2,682	309	343	1,568	4,902
Less: Earned Revenues from the Public	477	3	-	35	515
Net Costs with the Public	2,205	306	339	1,533	4,387
Net Cost of Operations	\$2,817	\$297	\$373	\$1,551	\$5,042

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

**Program Costs by Segment
For the year ended September 30, 2004**

(in millions)

	National Forests and Grasslands	Forest and Rangeland Research	State and Private Forestry	Wildland Fire Management	Total
Intragovernmental Gross Costs:					
Benefit Program Costs	\$338	\$1	\$ -	\$11	\$350
Imputed Costs	244	-	-	-	244
Reimbursable Costs	308	35	121	149	613
Total Intragovernmental Gross Costs	890	36	121	160	1,207
Less: Intragovernmental Earned Revenue	80	24	7	10	121
Intragovernmental Net Costs	810	12	114	150	1,086
Gross Costs With the Public:					
Grants and Indemnities	699	2	169	17	887
Stewardship Land Acquisition	87	-	-	-	87
Other:					
Operating Costs	1,401	274	126	1,411	3,212
Depreciation Expense	255	4	1	26	286
Reimbursable Costs	112	26	1	101	240
Total Other	1,768	304	128	1,538	3,738
Total Gross Costs with the Public	2,554	306	297	1,555	4,712
Less: Earned Revenues from the Public	458	5	1	74	538
Net Costs with the Public	2,096	301	296	1,481	4,174
Net Cost of Operations	\$2,906	\$313	\$410	\$1,631	\$5,260

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

NOTE 11. COST OF STEWARDSHIP PP&E

Stewardship assets acquired through purchase in fiscal years 2005 and 2004 amounted to \$71 and \$87 million, respectively, and consisted of land, easements, and rights-of-way. Stewardship land is all land that is not general-purpose land (i.e., land that does not have a general purpose building on it). Stewardship land costs include purchase costs and any salary costs, survey costs, title costs, closing costs, restoration costs, and any other expenses necessary to prepare the land for its intended use.

U. S. Department of Agriculture
 Forest Service
 Notes to the Financial Statements
 For the Years Ended September 30, 2005 and 2004

NOTE 12. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

The OMB usually distributes budgetary resources in an account or fund by specific time periods, activities, projects, objects or a combination of these categories by a process called apportionments. Apportionments by fiscal quarters are classified as category A and all other apportionments are classified as category B. Presented below is the amount of direct and reimbursable obligations incurred by apportionment category for fiscal year 2005 and 2004.

For the year ended September 30, 2005
 (in millions)

	Apportionment Category A	Apportionment Category B	Total
Obligations Incurred - Direct	\$3,189	\$2,356	\$5,545
Obligations Incurred - Reimbursable	167	98	265
Total Obligations Incurred	\$3,356	\$2,454	\$5,810

For the year ended September 30, 2004
 (in millions)

	Apportionment Category A	Apportionment Category B	Total
Obligations Incurred - Direct	\$3,431	\$2,201	\$5,632
Obligations Incurred - Reimbursable	210	59	269
Total Obligations Incurred	\$3,641	\$2,260	\$5,901

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

NOTE 13. PERMANENT INDEFINITE APPROPRIATIONS

The USDA Forest Service has permanent indefinite appropriations, authorized by specific legislative acts, to fund Recreation Fee Collection Costs, Brush Disposal, License Programs for Smokey Bear and Woodsy Owl, Restoration of Forest Lands and Improvements, Roads and Trails for States, National Forest Fund, Timber Roads Purchaser Elections, Timber Salvage Sale Operations, and Maintenance of Quarters. Each of these permanent indefinite appropriations is funded by receipts made available by law, and is available until expended.

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

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

The differences between the fiscal 2004 Statement of Budgetary Resources (SBR) and the fiscal 2004 actual numbers presented in the fiscal 2006 Budget of United States Government (Budget) are summarized in the table below. The material differences are explained in Note (a) below the table.

SBR Line Description	(in millions)				Note
	SBR Amount	Budget Amount	Dollar Variance	Percentage Variance	
Total Budgetary Resources/Status of Resources	\$7,639	\$7,631	\$8	0%	
New Budget Authority	5,923	5,914	9	0%	
Net transfers, current year authority	(12)	(7)	(5)	71%	
Offsetting Collections - Earned	415	419	(4)	-1%	
Change in Unfilled Customer Orders	10	8	2	25%	
Unobligated Balance-Beginning of Year	1,256	1,257	(1)	0%	
Net transfers, prior year balances, actual	4	-	4	NA	
Recoveries of Prior Year Obligations	97	94	3	3%	
Permanently not Available	(54)	(54)	0	0%	
Total New Obligations	5,901	6,056	(155)	-3% (a)	
Unobligated Balance-End of Year	1,738	1,575	163	10% (a)	
Obligated Balance-Beginning of Year	1,597	1,588	9	1%	
Obligated Balance-End of Year	1,493	1,488	5	0%	
Outlays	5,482	5,632	(150)	-3% (a)	

Note: (a.) Subsequent to the completion of the Fiscal Year 2004 Statement of Budgetary Resources and for the purpose of the presentation in the Fiscal Year 2006 budget, OMB requested the USDA Forest Service to retroactively record \$154 million of a transfer between the Wildland Fire Fund and the CWKV-Knutsen Vandenburg Fund as a current year appropriation instead of an expenditure transfer.

U. S. Department of Agriculture
 Forest Service
 Notes to the Financial Statements
 For the Years Ended September 30, 2005 and 2004

NOTE 15. EXPLANATION OF DIFFERENCES BETWEEN LIABILITIES NOT COVERED BY BUDGETARY RESOURCES AND COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS.

Components requiring or generating resources in future periods on the Consolidated Statement of Financing result primarily from net increases in liabilities not covered by budgetary resources (See Note 6). The components of the Consolidated Statements of Net Cost that will require or generate resources in the future are as follows:

	(in millions)	
	<u>2005</u>	<u>2004</u>
Increase in Annual Leave Liability	\$ -	\$16
Increase in Environmental and Disposal Liability	10	-
Decrease (Increase) in Exchange Revenue Receivable from the Public	-	10
Increase in Accrued Liability for Payments to States	-	92
Other	29	70
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	\$39	\$188

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

NOTE 16. OTHER STATEMENT OF FINANCING DISCLOSURES

The Consolidated Statement of Financing for the year ended September 30, 2005 presented herein includes reclassifications of certain previously reported amounts. The reclassifications, summarized in the table below, primarily reflect the disaggregation of amounts previously reported as "other."

	(in millions)	
	<u>As Previously</u>	
	<u>Reported</u>	<u>As Reclassified</u>
Other resources or adjustments to net obligated resources that do not affect net cost of operations	\$202	\$53
Trust Fund Repayment	-	149
Allocation of Transfers and Other	93	-
Allocation of Transfers	-	111
Bad Debt Expense and Other	-	(18)

The Consolidated Statement of Financing for the year ended September 30, 2004 has also been reclassified to conform to the current presentation.

The USDA Forest Service has allocation transfers that are reconciling items on the Consolidated Statement of Financing as explained in Note 1N.

In the event that funds appropriated to the Wildland Fire Management Fund are insufficient for current year operations related to fire suppression, the USDA Forest Service is permitted to borrow monies from other funds, which must be repaid in subsequent years. The FY05 Consolidated Statement of Financing includes such a repayment of \$149 million to the Cooperative Work Trust Fund as resources used to finance items not part of the net cost of operations. This transaction represents a budgetary obligation for the Wildland Fire Management Fund in the Combined Statement of Budgetary Resources but it does not represent an operating expense in the Consolidated Statement of Net Cost. This conforms to Treasury guidance for making expenditure transfers from general fund expenditure accounts (Federal Funds Group) to trust funds (Trust Fund Group).

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

NOTE 17. DEDICATED COLLECTIONS

The USDA Forest Service administers certain dedicated collection funds. These funds finance the enhancement and maintenance of National Forest System lands including reforestation. Donations are handled on the cash basis and all other collections are accounted for on the accrual basis. Financial information for the ten largest dedicated collection funds, identified by total asset value in regards to each fiscal year, is shown below. Following the financial information is the related descriptive narrative for each of the significant dedicated collection funds.

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

**Dedicated Collections
As of and for the year ended September 30, 2005
(In millions)**

	Cooperative Work	Payments to States, National Forest Fund	Recreation Fee Demonstration Program	Land Acquisition	Timber Salvage Sales	State, Private, and Int'l Forestry, Land and Water Conservation Fund	Timber Roads, Purchaser Election	Payments to Counties, National Grasslands	Expenses, Brush Disposal	Roads and Trails for States, National Forest Fund	Other Funds	Total
ASSETS												
Fund Balance with Treasury	\$624	\$165	\$131	\$67	\$101	\$80	\$68	\$55	\$57	\$29	\$130	\$1,507
Investments	-	-	-	-	-	-	-	-	-	-	5	5
Accounts Receivable, Net	2	-	1	20	2	-	-	7	-	-	20	52
General Property, Plant & Equipment, Net	17	3	3	48	1	-	2	-	-	16	4	94
TOTAL ASSETS	\$643	\$168	\$135	\$135	\$104	\$80	\$70	\$62	\$57	\$45	\$159	\$1,658
LIABILITIES												
Accounts Payable	\$-	\$1	\$1	\$-	(\$1)	\$-	\$-	\$-	\$-	\$1	\$-	\$2
Other Liabilities	49	66	3	1	5	5	-	19	-	2	44	194
TOTAL LIABILITIES	49	67	4	1	4	5	-	19	-	3	44	196
Total Net Position	594	101	131	134	100	75	70	43	57	42	115	1,462
TOTAL LIABILITIES AND NET POSITION	\$643	\$168	\$135	\$135	\$104	\$80	\$70	\$62	\$57	\$45	\$159	\$1,658
CHANGE IN NET POSITION												
Beginning Balances	\$442	\$69	\$44	\$145	\$95	\$-	\$63	\$-	\$56	\$38	\$174	\$1,126
Budgetary Financing Sources:												
Transfers -in/out without Reimbursement	149	-	81	61	-	122	-	(7)	-	-	34	440
Total Financing Sources	149	-	81	61	-	122	-	(7)	-	-	34	440
Exchange Revenue	(112)	(115)	(50)	(20)	(72)	-	(7)	(50)	(13)	(16)	26	(\$429)
Expenses	109	83	44	92	67	47	-	-	12	12	67	533
Net Cost of Operations	(\$3)	(\$32)	(\$6)	\$72	(\$5)	\$47	(\$7)	(\$50)	(\$1)	(\$4)	\$93	\$104
ENDING BALANCES	\$594	\$101	\$131	\$134	\$100	\$75	\$70	\$43	\$57	\$42	\$115	\$1,462

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

Dedicated Collections
As of and for the year ended September 30, 2004
(In millions)

	Cooperative Work	Land Acquisition	National Forest Fund	Payments to States, National Forest Fund	Timber Salvage Sales	Timber and Maintenance of Recreation Facilities	Fee, Operations and Maintenance of Recreation Facilities	Timber Roads, Purchaser Election	Expenses, Brush Disposal	Recreation Fee Demonstration Program	National Forest Fund	Roads and Trails for States, National Forest Fund	Reforestation Trust Fund	Other Funds	Total
ASSETS															
Fund Balance with Treasury	\$472	\$99	\$131	\$98	\$93	\$61	\$56	\$42	\$26	\$26	\$59	\$1,163			
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	4	4
Accounts Receivable, Net	2	-	-	1	-	-	-	2	-	9	-	-	-	9	14
General Property, Plant & Equipment, Net	16	48	2	1	-	2	-	3	-	15	-	-	-	3	90
TOTAL ASSETS	\$490	\$147	\$133	\$100	\$93	\$63	\$56	\$47	\$26	\$41	\$75	\$1,271			
LIABILITIES															
Accounts Payable	(\$1)	\$-	\$1	(\$2)	\$-	\$-	\$-	\$1	\$-	\$-	\$-	\$-	\$-	\$-	\$0
Other Liabilities	49	2	63	7	12	-	-	2	2	3	5	145			
TOTAL LIABILITIES	48	2	64	5	12	-	-	3	3	3	5	145			
Total Net Position	442	145	69	95	81	63	56	44	23	38	70	1,126			
TOTAL LIABILITIES AND NET POSITION	\$490	\$147	\$133	\$100	\$93	\$63	\$56	\$47	\$26	\$41	\$75	\$1,271			
CHANGE IN NET POSITION															
Beginning Balances	\$300	\$76	\$53	\$56	\$81	\$28	\$35	\$28	\$26	\$38	\$44	\$765			
Prior Period Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	2	3
Beginning Balances, as adjusted	300	76	53	56	81	28	35	28	26	39	46	768			
Budgetary Financing Sources:															
Other Adjustments (rescissions, etc.)	-	(1)	-	-	-	-	-	-	-	-	-	(1)			
Donations and Forfeitures of Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Transfers -in/out without Reimbursement	154	163	93	35	-	35	20	14	29	13	14	570			
Total Financing Sources	154	162	93	35	-	35	20	14	29	13	15	570			
Exchange Revenue	(107)	-	1	(71)	-	-	(13)	(44)	-	(1)	(27)	(\$262)			
Expenses	119	93	76	67	-	-	12	42	32	15	18	474			
Net Cost of Operations	12	93	77	(4)	-	-	(1)	(2)	32	14	(9)	212			
ENDING BALANCES	\$442	\$145	\$69	\$95	\$81	\$63	\$56	\$44	\$23	\$38	\$70	\$1,126			

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

Cooperative Work

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

Payments to States National Forest Fund

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

Recreation Fee Demonstration Program

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

Land Acquisition

Each fiscal year the USDA Forest Service's Treasury account 12X5004, receives a transfer of recreation user fees from the Department of the Interior's Land and Water Conservation Fund, to be used for the acquisition of land or waters, or interest therein, including administrative expenses, to carry out the provisions of the Land and Water Conservation Fund Act of 1965, as amended (16 U.S.C. 4601-4-11), pertaining to the preservation of watersheds. The Land Acquisition program is authorized by the Interior and Related Agencies Appropriations Act of December 30, 1982 (96 Stat. 1983, Public Law 97-394).

Timber Salvage Sales

The Salvage Sale Fund, Treasury account 12X5204, was established to facilitate the timely removal of timber damaged by fire, wind, insects, diseases, or other events. Amounts collected from the sale of salvaged timber are used on other qualifying salvage sales to cover the cost of preparing and administering the sales. The Timber Salvage Sales program is authorized by 16 USC 472(a).

State, Private, and Int'l Forestry, Land and Water Conservation Fund

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

U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004

To accommodate the new financing arrangement and at OMB's request, the Department of Treasury established a new special fund, 12X5367, "State, Private and International Forestry Land and Water Conservation Fund". The program expenditures include grants and an occasional land purchase but not real property will be procured or constructed.

Timber Roads, Purchaser Election

The Timber Roads, Purchaser Election, Treasury account 12X5202, receives deposits from small business timber purchasers who elect to pay the USDA Forest Service to construct or reconstruct any road or bridge required by their respective timber sale. These collections are used to finance only those forest development roads constructed or reconstructed under the terms and conditions of the timber sale contract(s) involved, and only to a standard necessary to harvest and remove the timber and other products covered by the particular sale(s). The Timber Roads, Purchaser Election program is authorized by 16 USC 472(I) (2).

Payments to Counties, National Grasslands

The Payments to Counties, National Grasslands account 125896, are credit receipts from Title III, Bankhead-Jones Farm Tenant Act, lands designated as either national grasslands or land utilization projects, to a special account (sec. 60.1, para. 3). When the status of such lands is changed to that of a national forest, credit such receipts to the National Forest Fund (125008). At the end of each calendar year, 25 percent of the net revenues from each national grassland or land utilization project are paid to the counties in which such lands are located. These payments are not payments in lieu of taxes (PILT); instead, they are national grassland or land utilization project receipts to be shared through grants with local governments for the purposes stated in the Act.

Expenses, Brush Disposal

Deposits from timber purchasers are recorded in Treasury account 12X5206, and used to cover the cost required to dispose of slash, brush, and other debris resulting from timber cutting operations and for supplemental protection of the cutover areas in lieu of actual disposal. The Expenses, Brush Disposal program is authorized by 16 USC 490-498.

Roads and Trails for States National Forest Fund

The Roads and Trails for States National Forest Fund, Treasury account 12X5203, receives annual deposits equal to ten percent of all revenues from receipt account 125008, the National Forest Fund. These amounts are then paid to the States, without regard to the State in which the amounts were derived, to repair or reconstruct roads, bridges, and trails on National Forest System lands or to carry out and administer projects to improve forest health conditions, which may include the repair or reconstruction of roads, bridges, and trails on National Forest System lands in the wildland-community interface where there is an abnormally high risk of fire. The Roads and Trails for States, National Forest Fund is authorized by the Act of March 4, 1913, as amended (16 USC 501).

Fees, Operations and Maintenance of Recreation Facilities

This Treasury receipt account, 125072, accumulates a portion of deposits derived from fees authorized by the Land and Water Conservation Fund Act and is available for expenditure by the USDA Forest Service only upon appropriation by Congress. Funds deposited are not appropriated under this heading because Congressional intent is to not use the deposits for activities over and above those

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

amounts already provided in the National Forest System appropriation. The Land and Water Conservation Act (16 U.S.C. 4601 et. seq.) authorized the establishment of this special fund and regulates admission and special recreation user fees at certain recreational areas.

Reforestation Trust Fund

The Reforestation Trust Fund account 12X8046 receives periodic transfers of funds from the U.S. Treasury of tariffs collected from exported timber. Such deposits may not exceed \$30 million dollars in a fiscal year. Amounts are invested and reinvested by the Washington Office, Financial Accounting and Operations Staff in United States Treasury interest-bearing Government securities. The interest income is added to the balance in the stand improvement activities. The Act of October 14, 1980, as amended (16 U.S.C. 1606 a(d)) established the Reforestation Trust Fund.

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the Years Ended September 30, 2005 and 2004**

NOTE 18. SEIZED PROPERTY

A seizure is the act of taking possession of goods in consequence of a violation of public law. Seized property may consist of monetary instruments, real property, tangible personal property and evidence. Until judicially or administratively forfeited, the USDA Forest Service does not legally own such property. Seized evidence includes cash, weapons, illegal drugs and non-monetary valuables. Pursuant to Federal Financial Accounting and Auditing Technical Release No. 4, *Reporting on Non-Valued Seized and Forfeited Property* (Release No. 4), seized property with no legal resale market in the United States (e.g., weapons, chemicals, drug paraphernalia, gambling devices) is not included on the consolidated balance sheet. Also, the USDA Forest Service has not included seized financial and personal property in its consolidated balance sheets due to immateriality.

The USDA Forest Service has custody of illegal drugs and weapons seized as evidence for legal proceedings. Illegal drugs and weapons have no saleable value to the Federal government and are destroyed upon resolution of legal proceedings. Marijuana represents the major significant seized drug for the USDA Forest Service. As of September 30, 2005 and 2004, the amount of marijuana on hand was 35,579(kg) and 35,784(kg), respectively. Since the amount of seized property is deemed to be immaterial, a schedule of brought forward balances, additions, deletions and adjustments is not presented.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

REQUIRED SUPPLEMENTARY INFORMATION

DEFERRED MAINTENANCE

Overview

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

Maintenance is defined to include preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to service needs different from, or significantly greater than, those originally intended.

Deferred maintenance is reported for general Property, Plant, and Equipment (PP&E), heritage assets, and stewardship assets. It is also reported separately for critical and noncritical amounts of maintenance needed to return each class of asset to its acceptable operating condition. Critical maintenance is defined as a serious threat to public health or safety, a natural resource, or the ability to carry out the mission of the organization. Noncritical maintenance is defined as a potential risk to the public or employee safety or health (e.g., compliance with codes, standards, or regulations), and potential adverse consequences to natural resources or mission accomplishment.

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

Currently, no comprehensive national assessment of Forest Service property exists. Deferred maintenance estimates for all assets are based on condition surveys performed on a 5-year maximum revolving schedule, with the exception of bridges which are on a 2-year maximum revolving schedule. Condition surveys were performed on a statistical sample of closed and very low traffic volume roads.

The overall agency indirect cost for managing the program is 17.8 percent, which is not included in the figures in Exhibit 1.

Exhibit 1: Deferred Maintenance Totals by Asset Class as of September 30, 2005

Asset Class	Overall Condition	Cost to Return to Acceptable Condition	Critical Maintenance	Noncritical Maintenance
Bridge	Varies	\$115,248,805	\$25,386,409	\$89,862,396
Building	Varies	438,900,147	117,769,176	321,130,971
Dam	Varies	26,299,657	9,329,549	16,970,108
Developed Site (Minor Construction Features)	Varies	88,758,470	-	88,758,470
Fence	Varies	437,319,863	436,970,013	349,850
Handling facility	Varies	24,158,047	24,145,512	12,535
Heritage	Varies	32,623,192	8,148,122	24,475,070
Road	Varies	4,571,518,198	712,104,630	3,859,413,568
Trail bridge	Varies	9,432,803	3,969,179	5,463,624
Wastewater	Varies	31,081,129	18,509,528	12,571,601
Water	Varies	81,249,446	46,274,742	34,974,704

Asset Class	Overall Condition	Cost to Return to Acceptable Condition	Critical Maintenance	Noncritical Maintenance
Wildlife, Fish, TES	Varies	6,420,634	4,453,138	1,967,496
Trail (FY 2001)	Varies	98,927,407	33,471,650	65,455,757
General Forest Area (FY 2001)	Varies	4,750,598	1,469,064	3,281,534
TOTALS		\$5,966,688,396	\$1,442,000,712	\$4,524,687,684

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

Conditions of roads and bridges within the NFS road system are measured by various standards:

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

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

Buildings shall comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration (OSHA) as determined by condition surveys. These requirements are found in FSM 7310, *Buildings and Related Facilities*, revised November 19, 2004. The condition of administrative facilities ranges from poor to good. Approximately half of these buildings are obsolete or in poor condition, needing major repairs or renovation. Approximately a quarter of these buildings are in fair condition, and the remaining facilities are in good condition.

Recreation facilities include developed recreation sites, general forest areas, campgrounds, trailheads, trails, water and wastewater systems, 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 FSM 2330, *Publicly Managed Recreation Opportunities*, and forest- and regional-level user guides. Quality standards for developed recreation sites were established as Meaningful Measures for health and cleanliness, settings, safety and security, responsiveness, and the condition of the facility

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

Heritage assets include archaeological sites that require determinations of National Register of Historic Places status, National Historic Landmarks, and significant historic properties. Some heritage assets may have historical significance, but their primary function in the agency is as visitation or recreation sites and, therefore, may not fall under the management responsibility of the heritage program.

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

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

Required Supplementary Information—Unaudited
For the Years Ended September 30, 2005 and 2004

Combining Statement of Budgetary Resources
For the Year Ended September 30, 2005
(In millions)

	National Forest and Grasslands	Forest and Rangeland Research	State and Private Forestry	Capital Improvement and Maintenance	Wildland Fire Management	Permanent and Trust Funds	Working Capital Fund	Total
\$	1,581	280	346	597	2,128	880	\$	5,812
Budget Authority:								
Appropriations Received	10	87	302	605	2,051	880		5,812
Net Transfers	(60)	29	81	106	(5)	81		1,738
Subtotal	1,591	302	433	605	2,051	880		5,862
Unobligated Balance:								
Beginning of Period	197	29	81	106	(5)	81		1,738
Net Transfers	(80)	29	86	106	308	983		1,739
Subtotal	117	29	86	106	308	983		1,739
Spending Authority From Offsetting Collections:								
Earned:								
Collected	85	27	11	8	109	27		448
Receivable from Federal	12	2	(21)	2	28	(9)		12
Change in Unfilled Customer Orders:								
Advances Received	1	(4)	3	-	-	3		3
W/out Advance from Fed.	(35)	15	14	(12)	89	-		71
Previously unavailable	2							2
Subtotal	65	40	7	(2)	226	21		536
Recoveries of prior year obligations	52	10	29	13	62	1		169
Permanently/Temporarily Not Available	(21)	(4)	(6)	(6)	(30)	-		(67)
Total Budgetary Resources	\$ 1,804	\$ 377	\$ 549	\$ 716	\$ 2,617	\$ 1,885	\$ 291	\$ 8,239

\$	1,510	304	464	601	1,769	708	\$	5,545
Obligations Incurred	109	32	29	16	79	-		265
Reimbursable	1,619	336	493	617	1,848	708		5,810
Subtotal	140	33	187	96	555	750		1,804
Appropriated	45	8	(131)	3	214	427		625
Unobligated Balances not Available	185	41	56	99	769	1,177		2,429
Subtotal	\$ 1,804	\$ 377	\$ 549	\$ 716	\$ 2,617	\$ 1,885	\$ 291	\$ 8,239

\$	204	85	522	247	330	76	\$	1,493
Obligations Incurred	1,619	336	493	617	1,848	708		5,810
Less:	52	10	29	13	62	1		169
Recoveries of Prior Year Obligations	(23)	17	(7)	(9)	117	(9)		84
Change from Federal Sources	(58)	(9)	(10)	(11)	(137)	-		(226)
Obligated Balance, Net, End of Period	(38)	(41)	(14)	(12)	(87)	-		(192)
Accounts Receivable	166	82	519	237	149	55		1,226
Unfilled Orders from Fed.	127	37	91	75	378	36		753
Undelivered Orders	197	69	586	289	303	91		1,561
Accounts Payable	1,597	325	407	572	1,696	700		5,489
Subtotal	(87)	(24)	(14)	(6)	(108)	(29)		(451)
Obligations Incurred	1,510	301	393	564	1,588	671		5,038
Less: Distributed Offsetting Receipts	1	-	-	-	-	425		428
Net Outlays	\$ 1,511	\$ 301	\$ 393	\$ 564	\$ 1,588	\$ 1,096	\$ 11	\$ 4,612

Required Supplementary Information—Unaudited
For the Years Ended September 30, 2005 and 2004

Combining Statement of Budgetary Resources
For the Year Ended September 30, 2004
(in millions)

Budgetary Resources	National Forest And Grasslands	Forest And Rangeland Research	State And Private Forestry	Capital Improvement And Maintenance	Wildland Fire Management	Permanent And Trust Funds	Working Capital Fund	Total
Budgetary Resources								
Budget Authority:								
Appropriations Received	\$ 1,657	\$ 270	\$ 333	\$ 562	\$ 2,369	\$ 732	\$ -	\$ 5,923
Net Transfers	85	28	105	51	(337)	51	5	(12)
Subtotal	1,742	298	438	613	2,032	783	5	5,911
Unobligated Balance:								
Beginning of Period	173	43	59	78	311	524	68	1,256
Net Transfers	66	5	34	43	(200)	52	4	4
Subtotal	239	48	93	121	111	576	72	1,260
Spending Authority from Offsetting Collections:								
Earned:								
Collected	97	33	9	10	44	-	235	428
Receivable from Federal	(6)	(20)	(10)	4	20	(2)	4	(13)
Change in Unfilled Customer Orders:								
Advances Received	-	(5)	(1)	-	-	(4)	-	(10)
W/out Advance from Fed.	18	4	1	2	(5)	-	-	20
Subtotal	109	12	(1)	13	59	(6)	239	425
Recoveries of prior year obligations	9	1	11	1	8	64	3	97
Permanently / Temporarily not Available	(19)	(3)	(3)	(7)	(22)	-	-	(54)
Total Budgetary Resources	\$ 2,080	\$ 356	\$ 538	\$ 741	\$ 2,188	\$ 1,417	\$ 319	\$ 7,639
Status of Budgetary Resources:								
Obligations Incurred								
Direct	\$ 1,777	\$ 290	\$ 448	\$ 622	\$ 1,771	\$ 516	\$ 208	\$ 5,632
Reimbursable	107	37	9	13	103	(1)	1	269
Subtotal	1,884	327	457	635	1,874	515	209	5,901
Unobligated Balance:								
Apportioned	179	28	76	105	64	768	42	1,262
Unobligated Balances not Available	17	1	5	1	250	134	68	476
Subtotal	196	29	81	106	314	902	110	1,738
Total Status of Budgetary Resources	\$ 2,080	\$ 356	\$ 538	\$ 741	\$ 2,188	\$ 1,417	\$ 319	\$ 7,639
Relation of Obligations to Outlays								
Obligated Balance, Net, Beg. of Period	\$ 166	\$ 71	\$ 449	\$ 225	\$ 457	\$ 163	\$ 66	\$ 1,587
Obligations Incurred:	1,884	327	457	635	1,874	515	209	5,901
Less:								
Recoveries of Prior Year Obligations	9	1	11	1	8	64	3	97
Change from Federal Sources	12	(16)	(9)	3	15	(2)	5	8
Obligated Balance, Net, End of Period	(45)	(7)	(31)	(9)	(109)	(9)	(3)	(213)
Accounts Receivable	(73)	(26)	1	(24)	2	-	-	(120)
Unfilled Orders from Fed.	216	85	445	221	196	47	22	1,232
Undelivered Orders	106	34	108	58	240	38	10	594
Accounts Payable	204	86	523	246	329	76	29	1,493
Subtotal	1,825	326	382	609	1,977	540	241	5,900
Outlays:	(97)	(28)	(8)	(9)	(43)	4	(237)	(418)
Collections	1,728	298	374	600	1,934	544	4	5,462
Subtotal	1,631	270	366	591	1,891	548	(233)	4,993
Less: Distributed Offsetting Receipts	1	-	-	-	-	383	-	384
Net Outlays	\$ 1,727	\$ 298	\$ 374	\$ 600	\$ 1,934	\$ 161	\$ 4	\$ 5,098

Working Capital Fund

The USDA Forest Service manages a Working Capital Fund (WCF) to provide orderly, efficient financial management of certain service and supply functions. Specifically, management of the WCF seeks to:

- Determine equitable rates and prices for goods and services of specified programs so that they operate on a self-supporting basis with enough funds to cover expenditures and an adequate reserve for emergencies, without great variations in the rates from year to year; and
- Preserve current capital investment by providing for the recovery of increase costs due to inflation.

Once a property item becomes part of the WCF program, use rates and replacement rates are charged to appropriate funds each month and are maintained in the WCF account to cover maintenance costs and future replacement.

Exhibit 2: FY 2005 Segment Information as of September 30, 2005 (in thousands)

	FY 2005	Forest Service WCF
Condensed Information:		
Fund Balance	\$128,087	
Accounts Receivable	1,340	
Property, Plant, and Equipment	205,126	
Other Assets	(10,806)	
Total Assets	\$323,747	
Liabilities and Net Position:		
Accounts Payable	\$484	
Deferred Revenues	0	
Other Liabilities	23,502	
Unexpended Appropriations	8,975	
Cumulative Results of Operations	290,786	
Total Liabilities and Net Position	\$323,747	
Forest Service Working Capital Fund :		
	Cost of Goods and Services Provided	Excess of Costs Over Exchange Revenue
	\$75,435	15,986
		59,449

Exhibit 3: FY 2004 Segment Information as of September 30, 2004 (in thousands)

	FY 2004	Forest Service WCF	
Condensed Information:			
Fund Balance	\$138,985		
Accounts Receivable	3,076		
Property, Plant, and Equipment	242,080		
Other Assets	12		
Total Assets	\$384,153		
Liabilities and Net Position:			
Accounts Payable	\$1,235		
Deferred Revenues	0		
Other Liabilities	23,709		
Unexpended Appropriations	8,971		
Cumulative Results of Operations	\$350,238		
Total Liabilities and Net Position	\$384,153		
Forest Service Working Capital Fund:			
	Cost of Goods and Services Provided	Related Exchange Revenue	Excess of Costs Over Exchange Revenue
	\$262,924	238,392	24,532

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
(Unaudited)

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

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

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

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

To achieve the objectives of required supplementary stewardship information (RSSI) reporting, resources and responsibilities for which the Forest Service has stewardship accountability have been categorized into two distinct groups—Stewardship Property, Plant, and Equipment (PP&E) and Stewardship Investments.

STEWARDSHIP—PROPERTY, PLANT, AND EQUIPMENT

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

Heritage Assets

The Forest Service estimates that more than 320,000 heritage assets¹ are on land that it manages. Some of these assets are listed on the National Register of Historic Places, and some are designated as National Historic Landmarks. Collection assets held at museums and universities are managed by those entities, and not the Forest Service.

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

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

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

The Forest Service heritage resource specialists on the 155 national forests maintain separate inventories of heritage assets. Most assets not used for administrative or public purposes receive no annual maintenance. A long-term methodology to better assess the extent and condition of these assets is being formulated to comply with Executive Order 13287, Preserve America. The real property

¹ This information is estimated from the nine Forest Service regions and from the annual Department of Interior report to Congress.

management module in INFRA was implemented to manage heritage assets. The Healthy Forests Initiative and competing budget priorities, however, have prevented full population of the database.

Acquisition and Withdrawal of Heritage Assets

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

Exhibit 4 shows the major heritage assets by category and condition for FY 2004².

Exhibit 4: Major Heritage Assets by Category and Condition, FY 2004

Category	2004 Final Sites	Condition
Total heritage assets	318,259	Poor to fair
Eligible for the National Register of Historic Places	57,925	Poor to fair
Listed on the National Register	3,397	Fair
Sites with structures listed on the National Register	1,874	Poor to fair
National Historic Landmarks	19	Fair to good

STEWARDSHIP LAND

National Forest System

The Forest Service manages more than 192 million acres of public land, most of which are classified as stewardship assets. These stewardship assets are valued for the following reasons:

- Environmental resources;
- Recreational and scenic values;
- Cultural and paleontological resources;
- Vast open spaces; and
- Resource commodities and revenue they provide to the Federal Government, States, and counties.

Land needed to protect critical wildlife habitat and cultural and historic values, to support the purposes of congressional designation, and for recreation and conservation purposes is acquired through purchase or exchange.

National Forests

The national forests are formally established and permanently set aside and reserved for national forest purposes. The following categories of NFS lands have been set aside for specific purposes in designated areas:

- National Wilderness Areas. Areas designated by Congress as part of the National Wilderness Preservation System.
- National Primitive Areas. Areas designated by the Chief of the Forest Service as primitive areas. They are administered in the same manner as wilderness areas, pending studies to determine sustainability as a component of the National Wilderness Preservation System.

² Data totaled through fiscal year (FY) 2004. FY 2005 data is gathered in the first half of FY 2006.

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

National Grasslands

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

Purchase Units

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

Land Utilization Projects

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

Research and Experimental Areas

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

Other Areas

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

Exhibit 5 shows the net change in acres between FY 2004 and FY 2005 on NFS lands by various purposes.

Exhibit 5: Net Change³ in Acres in National Forests by Various Purposes (FY 2004 to FY 2005)

Description	FY 2004	FY 2005	FY 2005
	Balance	Net Change	Ending Balance
NFS Land (in acres):			
National Forests	144,076,791	383,523	144,460,314
National Forest Wilderness Areas	34,953,370	3,708	34,957,078
National Forest Primitive Areas	173,762	0	173,762
National Wild and Scenic River Areas	950,906	(20,273)	930,633
National Recreation Areas	2,911,239	(92,971)	2,818,268
National Scenic Areas	130,493	160	130,653
National Scenic—Research Areas	6,637	0	6,637
National Game Refuges and Wildlife	1,198,099	0	1,198,099

³ As of October 20, 2005, final verifications have not been done, and numbers are still subject to change.

Preserve Areas			
National Monument Areas	3,659,974	100	3,660,074
National Monument Volcanic Areas	167,427	0	167,427
National Historic Areas	6,540	0	6,540
National Grasslands	3,839,543	(1,377)	3,838,166
Purchase Units	370,026	5	370,031
Land Utilization Projects	1,876	0	1,876
Research and Experiment Areas	64,871	(9)	64,862
Other Areas	296,050	59,229	355,279
Total NFS Land (in acres)	192,897,320	332,095	193,229,415

Condition of NFS Lands

The condition of NFS lands varies by purpose and location. The Forest Service monitors the condition of NFS lands based on information compiled by two national inventory and monitoring programs—FIA and Forest Health Monitoring (FHM). Annual inventories of forest status and trends are conducted by the FIA program in 45 States covering 77 percent of the forested land of the United States.

Active throughout 50 States, FHM provides surveys and evaluations of forest health conditions and trends. Although most of the 193 million acres of NFS forest lands continue to produce valuable benefits (i.e., clean air, clean water, habitat for wildlife, and products for human use), significant portions are at risk to pest outbreaks or catastrophic fires.

About 33 million acres of NFS forest land are at risk to future mortality from insects and diseases, based on the current Insect and Disease Risk Map⁴. Nearly 73 million acres⁵ of NFS forest land are prone to catastrophic fire based on current condition and departure from historic fire regimes (Fire Regimes 1, 2, and 3 and Condition Classes 2 and 3). Approximately 9.5 million acres are at risk to both pest-caused mortality and fire. Invasive species of insects, diseases, and plants continue to impact our native ecosystems by causing mortality to, or displacement of, native vegetation.

The National Fire Plan has enhanced our efforts to prevent and suppress future fires adequately and restore acres that are at risk. Risk to fire was reduced by treating fuels on 1,524,414 acres with Direct Hazardous Fuels dollars in the wildland-urban interface (WUI), or outside WUI but in Fire Regimes 1, 2, and 3 and Condition Classes 2 and 3.

Another 396,739 acres, both in WUI and outside WUI, were treated to reduce risk from fire but also improve wildlife habitat, prevent insect outbreaks, and meet other resource values, for a total of 1,921,153 acres of fuel hazard treatments on NFS lands.

Insect and disease prevention and suppression treatments were completed on 686,000 acres in FY 2005.

STEWARDSHIP INVESTMENTS

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

Human Capital—Job Corps Civilian Conservation Center
FY 2005 Net Cost of Operations: \$112.4 Million

⁴ The Insect and Disease Map is currently being updated and will be available in 2006 (calendar year).

⁵ The most recent information to measure trends in potential catastrophic fire was the 1999 mid-scale assessment of fire regime and condition class produced at the Missoula Fire Science Lab. The trend will be reevaluated in the near future using LANDFIRE, a tool that will produce a national wall-to-wall mapping of fuels and fire regimes.

The Forest Service's Job Corps Civilian Conservation (Job Corps) Centers, in coordination with the Department of Interior (DOI) National Park Service, Fish and Wildlife Service, and Bureau of Reclamation, continued "Empowering Youth and Enhancing Communities and Natural Resources."

In partnership with the U.S. Department of Labor (DOL), the Forest Service operates 18 Job Corps Centers. Job Corps is the only Federal residential employment and education training program for economically challenged young people ages 16 to 24. The purpose of the program is to provide young adults with the skills necessary to become employable, independent, and productive citizens. The program is administered in a structured, coeducational, residential environment that provides education, vocational and life skills training, counseling, medical care, work experience, placement assistance and followup, recreational opportunities, and biweekly monetary stipends. Job Corps students choose from a wide variety of careers, such as urban forestry, heavy equipment operations and maintenance, business, clerical, carpentry, culinary arts, painting, cement and brick masonry, welding, auto mechanics, health services, building and apartment maintenance, warehousing, and plastering.

Job Corps is funded from DOL annually on a program year; the fiscal year is July 1 to June 30. During Job Corps' FY 2005, accomplishments included the following:

- 8,889 participants received 4,441 placements with an average starting hourly wage of \$.43 more than the DOL national average.
- Approximately 1,500 female students received training in nontraditional vocations.
- 482 students received high school diplomas, and 1,934 students obtained general equivalency diplomas.
- Approximately 1,112 Job Corps students and staff assisted the agency in its firefighting efforts.
- Students accomplished conservation work appraised at \$20.3 million on NFS lands.

Since 1964, the Forest Service's Job Corps Centers have trained and educated more than 300,000 young men and women. On January 10, 2005, the agency successfully transferred the Mingo Job Corps Center from the DOI Fish and Wildlife Service to the USDA Forest Service.

Research and Development—Forest and Rangeland Research
FY 2005 Net Cost of Operations: \$296 Million

Of the \$296 million, \$274 million was an investment of Research and Development funding (FRRE), and \$22 million was an investment of National Fire Plan funding (FRF2).

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

- Vegetation management and protection
- Wildlife, fish, watershed, and air
- Resource valuation and use research
- Forest resources inventory and monitoring

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

A representative summary of FY 2005 accomplishments using Forest Service appropriated funds include the following:

- 63 new interagency agreements and contracts;
- 93 interagency agreements and contracts continued;

1,320 articles published in journals;
1,779 articles published in all other publications;
1 patent granted; and
16 rights to inventions established.