



U.S. Department of Agriculture



Office of Inspector General  
Financial & IT Operations

# **Audit Report**

## **Forest Service's Financial Statements for Fiscal Years 2004 and 2003**

Report No. 08401-4-FM  
November 2004

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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: NOV 10 2004

REPLY TO  
ATTN OF: 08401-4-FM

SUBJECT: Forest Service's Financial Statements for Fiscal Years 2004 and 2003

TO: Dale Bosworth  
Chief  
Forest Service

ATTN: Sandy Coleman  
Agency Liaison Officer  
Forest Service

This report presents the auditors' opinion on the Forest Service's (FS) principal financial statements for the fiscal years ending September 30, 2004, and 2003. The report also includes an assessment of FS' internal control structure and compliance with laws and regulations.

KPMG, LLP (KPMG), an independent certified public accounting firm, conducted the audits. KPMG is responsible for the auditors' report, dated November 10, 2004. We monitored the progress of the audit at all key points, reviewed KPMG's report and selected working papers, and performed other procedures, as we deemed necessary. Our review, as differentiated from an audit in accordance with the Government Auditing Standards, was not intended to enable us to express, and we do not express, an opinion on FS' financial statements, conclusions about the effectiveness of internal controls, conclusions on whether FS' financial management systems substantially complied with the three requirements of the Federal Financial Management Improvement Act of 1996, or conclusions on compliance with laws and regulations. Our review disclosed no instances where KPMG did not comply, in all material respects, with the Government Auditing Standards.

It is the opinion of KPMG, that the financial statements present fairly, in all material aspects, the FS' financial position as of September 30, 2004, and 2003; 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 generally accepted accounting principles. KPMG's report on FS' internal control structure over financial reporting identified five material internal control weaknesses. Specifically, KPMG identified material weaknesses in FS':

- Accountability for undelivered orders (new material weakness);
- financial management and accountability (repeat material weakness);
- yearend accrual methodology (repeat material weakness);
- controls in its purchasing applications over data input, reconciliation, 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.

These weaknesses in controls over the financial reporting process resulted in FS not (1) being able to prepare timely and reliable financial statements without extensive manual procedures and (2) having current and reliable ongoing information to support management decisions. Also, the weaknesses in computer security controls resulted in an increased risk of unauthorized individuals being allowed to access, alter, or abuse proprietary FS programs and electronic data. These material weaknesses in internal controls may adversely affect any decision by FS' management and other decision makers that is based, in whole or in part, on information that is inaccurate because of these weaknesses.

Most of the issues identified by KPMG are longstanding and pervasive weaknesses impacting the FS' ability to accurately and timely report to the Congress and the public what it accomplishes with appropriated funds and to be fully accountable for those funds. As discussed in Note 12 to the financial statements, FS restated its prior year financial statements as a result of errors in the underlying accounting records. This is the third consecutive year that FS has had to restate its prior year financial statements. The FS corrected its fiscal year 2003 financial statements to:

- Properly align budgetary and proprietary account relationships and correct certain related budgetary and proprietary posting errors;
- clear accumulated unsupported balances in various suspense and deposit clearing funds;
- correct an overstatement in Fund Balance with Treasury and associated custodial liability;
- correct erroneous revenue transactions; and
- correct offsetting receipts.

During fiscal year 2004, FS initiated much needed improvements in its internal control structure. For example, FS embarked on a long-term financial management improvement project that included an aggressive plan to centralize finance, accounting, and budget execution functions. In addition, FS initiated a short-term internal control monitoring program to ensure internal control policies and procedures were adequate and operating effectively. Finally, FS focused attention on financial data quality through general ledger analysis and account relationship testing. We believe that these efforts need to continue and improve in order for FS to become an effective, sustainable, and accountable financial management organization. These changes in FS' financial management infrastructure are essential and critical for FS and the U.S. Department of Agriculture to continue to meet the mandatory accelerated reporting deadlines and also to

provide agency managers with meaningful and accurate financial data throughout the year when it is needed to administer its programs and operations.

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

*/s/*

ROBERT W. YOUNG  
Assistant Inspector General  
for Audit

**United States Department of Agriculture  
Forest Service**

**For the Years ended September 30, 2004 and 2003**

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**INDEPENDENT AUDITORS' REPORT**



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Auditors' Report**

Chief, USDA Forest Service and  
Office of 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, 2004 and 2003 and the related consolidated statements of net costs, changes in net position, and financing and the 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 its financial statements.

### **SUMMARY**

As stated in our opinion on the financial statements, we concluded that the USDA Forest Service's financial statements as of and for the years ended September 30, 2004 and 2003 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, the USDA Forest Service restated its fiscal year 2003 financial statements.

Our consideration of internal control over financial reporting resulted in the following new reportable conditions. The first one is considered a material weakness.

- Accountability for Undelivered Orders (UDOs) is Lacking
- A Segregation of Duties Policy related to Electronic Data Processing Must be Developed and Implemented
- The Review of Purchase Card Transactions Needs Improvement
- The Internal Controls Related to Recording, Classification and Accounting for Information Related to Leases Need Improvement
- The Design and/or Implementation of Controls Related to the Accurate Recording of Revenue Related Transactions Need Improvement

We also consider the following reportable conditions identified in our report dated December 18, 2003 to be open. The first four are considered material weaknesses.



- The USDA Forest Service Needs to Improve its Financial Management and Accountability
- Implementation of the USDA Forest Service Accrual Methodology Needs Strengthening
- Controls Over Purchase Order System (PRCH) Data Access, Input, Integrity, and Segregation of Duties Need Improvement
- The USDA Forest Service Needs to Improve Its General Controls Environment
- The USDA Forest Service Needs to Continue to Improve its Internal Controls over its Reconciliation and Management of Fund Balance with Treasury
- The Design and/or Implementation of Controls Related to the Accurate Recording of Personal Property Transactions Need Improvement
- Posting of Certain Transactions Needs to Contain the Proper Reference Data to Link Related Transactions
- Compilation of the USDA Forest Service's Required Supplementary Information and Required Supplementary Stewardship Information Needs Improvement
- The USDA Forest Service Application System Controls Need Improvement

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, disclosed 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, or 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 as Required by Appropriations Law
- Instances of Non-compliance with Federal Financial Management Improvement Act (FFMIA) were Identified that related to Federal Accounting Standards

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, 2004 and 2003 and the related consolidated statements of net costs, changes in net position, and financing and the combined statements of budgetary resources for the years then ended.

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, 2004 and 2003 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.

As discussed in Note 12 to the financial statements, the USDA Forest Service restated its fiscal year 2003 financial statements.



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 Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. 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 and the Required Supplementary Information related to deferred maintenance may not be reliable since preparation controls have not been effectively designed to ensure the existence, completeness, accuracy 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 2004 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 new reportable conditions. We believe that the reportable condition presented in Exhibit I is a material weakness. Exhibit II presents the other reportable conditions.

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**

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, preparation controls have not been effectively designed to ensure the existence, completeness, accuracy and timeliness of the reported information.

### **COMPLIANCE AND OTHER MATTERS**

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.



The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed instances of noncompliance with appropriations law, described in Exhibit IV, that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed instances, described in Exhibits IV and V, where the USDA Forest Service's financial management systems did not substantially comply with Federal financial management systems requirements or applicable Federal accounting standards. The results of our tests of FFMIA disclosed no instances in which the USDA Forest Service's financial management systems did not substantially comply with the United States Government Standard General Ledger at the transaction level.

## **RESPONSIBILITIES**

### ***Management's Responsibilities***

*The Government Management Reform Act of 1994 (GMRA)* requires each Chief Financial Officer (CFO) Act 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 annual financial statements.

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;
- Establishing and maintaining internal controls over financial reporting, and preparation of the Management's Discussion and Analysis (including the performance measures), required supplementary information, and required supplementary stewardship information; and
- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required 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 2004 and 2003 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 2004 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 OMB Bulletin No. 01-02 and *Government Auditing Standards*. 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 internal control over financial reporting. Consequently, we do not provide an opinion thereon.

OMB Bulletin No. 01-02 requires auditors 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 on the Required Supplementary Stewardship Information because preparation controls have not been effectively designed to ensure the existence, completeness, accuracy and timeliness of the reported information.

As further required by OMB Bulletin No. 01-02 with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis, 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 2004 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. 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's 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**

November 10, 2004

## INTRODUCTION

The internal control weaknesses discussed in this report are discussed in the context of the USDA Forest Service's existing decentralized organizational structure. Although the USDA Forest Service has progressed in correcting certain prior year weaknesses under this structure, it has recognized that the decentralized nature of the existing organizational structure makes it difficult to implement sustainable corrective action for certain weaknesses due to the large number of separate reporting units. As a result, the USDA Forest Service has begun a project whereby, upon completion, many of the accounting processes will be centralized. The project is scheduled for completion in late fiscal year 2005.

For each weakness identified, we believe we have performed appropriate substantive procedures as applicable to enable us to issue our unqualified 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 systems managed by the USDA. As a result, several of the IT control weaknesses identified in this report will require the combined effort of USDA and the USDA Forest Service management.

Exhibits I and II describe the new material weakness and reportable conditions, respectively, as of and for the year ended September 30, 2004, and our recommendations. Exhibit III summarizes prior year reportable conditions, including those open conditions on which we are making no further recommendations in this report. Exhibit IV describes new instances of noncompliance with laws and regulations and other matters. Exhibit V describes prior year instances of noncompliance with laws and regulations, including those open instances on which we are making no further recommendations in this report. USDA Forest Service management's response is presented in Exhibit VI.

## MATERIAL WEAKNESS

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### **Material Weakness Number 1: Accountability for Undelivered Orders (UDOs) is Lacking**

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During fiscal year 2004, the USDA Forest Service experienced sporadic lack of compliance with its policies and procedures to review and certify the accuracy of UDOs. In addition, the USDA Forest Service was in its first full year of implementation with its new accrual (i.e., accounts payable) policy. During fiscal year 2004, it became apparent that field offices were not correctly recording accruals, which ultimately had an impact on the UDO balance as well. All of the above noted conditions led to an audit adjustment to increase the UDO balance by \$105 million as of September 30, 2004.

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### ***The Review and Certification of UDOs Needs Improvement and the Frequency of UDO Reviews Needs to be Revised***

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During our audit, we noted that:

- Certain locations did not properly comply with USDA Forest Service's semiannual certification policy related to the review of UDOs. Certain UDOs were not reviewed as required and certain questionable UDOs were not researched at all.
- The semiannual review and certification policy is as of March 31 and September 30 each year. The September 30 review may not be timely enough for the new reporting deadlines.
- In addition to the semiannual reviews and certifications, the USDA also requires monthly reviews and certifications, which may not be an efficient use of resources.

**Exhibit I**

CFO Bulletin 2004-001, *Review of Undelivered Orders*, requires all obligations that exceed the threshold of \$10,000 or are 120 days or older be reviewed as of the end of March and September. All obligation amounts determined no longer valid shall be deobligated.

Treasury Financial Manual 2004-05, *Yearend Closing*, paragraph 19. Reconciliation of Obligations, states that before the yearend closing, agencies that have not reviewed their unliquidated obligations during the year should do so. This ensures agencies properly record transactions meeting the criteria of valid obligations set forth in 31 U.S.C. 1501. Agencies should retain work papers and records on verifications to facilitate future audits.

Also, USDA requires monthly “cookbook” certifications from its components.

The semiannual review and certification requirement was not fully complied with due to lack of resources and the large number of transactions required to be reviewed.

As a result of the competing UDO review requirements, USDA Forest Service personnel did not always complete the semi-annual UDO review or complete it accurately. The following table summarizes the types of exceptions noted during our July 31 and September 30 testing.

<b>July 31 Testwork</b>		<b>September 30 Testwork</b>	
Number of Exceptions (Sample of 170)	Type of Error	Number of Exceptions (Sample of 180)	Type of Error
9	Invalid UDO	9	Invalid UDO
4	Overstatement of UDO	5	Overstatement of UDO
3	Understatement of UDO	6	Understatement of UDO

**Recommendation Number 1:**

We recommend that USDA Forest Service management:

- 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.

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**Inaccuracies Existed in the Year-end UDO Balance**

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During our year-end testwork over UDO transactions, 34 of 180 sample items were noted as having abnormal balances. The abnormal balances caused the overall UDO balance to be understated and required an audit adjustment.

These abnormal balances occurred because the USDA Forest Service did not have adequate controls and procedures in place to prevent the over-accruing of UDOs when field offices used accrual documents that did not reference the original obligation document. For example, when a UDO contains an accrual transaction that not referenced, it decreases the UDO balance, but the transaction does not appear on the general ledger inquiry history screen. On the other hand, if the accrual transaction is referencing, it decreases the UDO balance and also appears on the general ledger inquiry history screen.

Specifically with regards to the above condition, the UDOs contained accruals using a non-referencing standard voucher document (SV) that was either subsequently paid and not removed from the general ledger or the UDO contained the same accrual twice, which was erroneously recorded using another SV document during a subsequent closing period that required USDA Forest Service personnel to review and update its accruals. These two actions caused certain ULOs to have abnormal debit balances.<sup>1</sup>

Treasury Financial Manual 2004-05, *Yearend Closing*, paragraph 19. Reconciliation of Obligations, states that before the yearend closing, agencies that have not reviewed their unliquidated obligations during the year should do so. This ensures agencies properly record transactions meeting the criteria of valid obligations set forth in 31 U.S.C. 1501. Retain work papers and records on verifications to facilitate future audits.

In addition, CFO Bulletin 2004-001, *Review of Undelivered Orders*, requires that all FS obligations that exceed the threshold of \$10,000 or are 120 days or older shall be reviewed by end of March 31, and by September 30. All obligation amounts determined no longer valid shall be deobligated.

**Recommendation Number 2:**

We recommend that USDA Forest Service management:

- 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.

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<sup>1</sup> Note that although this finding is related to accrual issues, accrual implications are not discussed herein as they are addressed in the open FY 2003 Material Weakness number 2 in Exhibit III.

**REPORTABLE CONDITIONS**

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**Reportable Condition Number 1: A Segregation of Duties Policy related to Electronic Data Processing (EDP) must be Developed and Implemented**

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During our audit, we noted that, although a number of the controls around segregation of duties related to EDP were in place, we found at least one of the following conditions at the sites we visited:

- 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 has an interim directive in place, no formal enterprise-wide policy or procedures have been developed or implemented.

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 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.

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**Reportable Condition Number 2: The Review of Purchase Card Transactions Needs Improvement**

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During our audit, we noted that:

- 5 of 20 quarterly supervisory reviews of purchase card transactions were not accomplished as required.
- Certain purchase card transactions were not reconciled within 30 days as required.

OMB Circular A-123, *Management Accountability and Control* requires:

- 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 examinations.
- Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.

Departmental Regulation 5013-6 requires that supervisors of purchase cardholders monitor the purchasing activity of cardholders in their units. On April 19, 2004, the Director of Acquisition Management reminded the various USDA Forest Service activities of the emphasis placed on the supervisor's review of purchase cardholders. 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 3 years.

The reviews were not performed and the transactions were not reconciled because of lack of adherence to the criteria described above.

Without effective review and reconciliation of these transactions, the USDA Forest Service could pay for inappropriate purchases.

**Recommendation Number 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.

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**Reportable Condition Number 3: The Internal Controls Related to Recording, Classification and Accounting for Information Related to Leases Need Improvement**

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The USDA Forest Service has not implemented automatic posting models for proper recording of leases. The requirement for lease reporting and disclosure in the financial statements is met by periodically compiling information from the regions based on data calls. This method is prone to errors. The USDA Forest Service plans to implement programming changes and new procedures in FY 05, which should result in better reporting and data quality.

In a sample of 15 real property and 15 personal property capital leases, we identified the following errors:

- 13 real property leases did not have acceptable support for their value and/or their estimated economic life.
- 3 personal property leases did not have acceptable support for their value.

We also tested the mathematical accuracy of certain calculations to determine if capital lease assets should be capitalized and determined that capitalized leases were understated by at least \$8 million at September 30, 2004.

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.

**Recommendation Number 5:**

We recommend that USDA Forest Service management establish policies and procedures for the accurate recording of leases, appropriately train reporting unit personnel on such policies and procedures, and monitor reporting units for compliance with its policies and procedures.

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**Reportable Condition Number 4: The Design and/or Implementation of Controls Related to the Accurate Recording of Revenue Related Transactions Need Improvement**

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During our audit, we noted various exceptions related to revenue transactions including:

- Failure to appropriately record prior year transactions or corrections to them;
- Failure to recognize revenue in the correct month and/or year;
- Insufficient or no documentation supporting amounts recorded;
- Failure to reduce unbilled receivables upon the issuance of actual billings; and

### Exhibit III

- Erroneous receivable balances caused by systemlinking problems.

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.

#### **Recommendation Number 6:**

We recommend that USDA Forest Service management review and update its policies and procedures for the accurate recording of revenue, appropriately train reporting unit personnel on such policies and procedures, and monitor reporting units for compliance with its policies and procedures.

**STATUS OF PRIOR YEAR’S REPORTABLE CONDITIONS**

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 Office of the Inspector General (OIG) report where the issue is monitored for audit follow-up. This table contains only those reports that are open.

<b>All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004</b>		
<b>Reported Condition</b>	<b>Recommendation</b>	<b>Status</b>
Material Weakness #1: The USDA Forest Service Needs to Improve its Financial Management and Accountability	1. We recommend that the USDA Forest Service provide Standard General Ledger (SGL) training to selected employees and appoint them to be “resident” SGL experts responsible for preparing as well as reviewing and approving the adjusting journal vouchers (AJVs).	Open
	2. We recommend that the USDA Forest Service modify its AJV form to specifically identify management personnel responsible for reviewing and approving certain aspects of each AJV.	Closed
	3. We recommend that the USDA Forest Service identify those business processes that are causing irregularities in the general ledger and develop an expedited corrective action plan to resolve and correct any deficiencies identified.	Open
	4. We recommend that the USDA Forest Service strive to limit the use of AJVs to only those accounting situations that require their use.	Closed
	5. We recommend that the USDA Forest Service analyze the composition of its budget clearing accounts and make proper disposition at least on a quarterly basis.	Closed
	6. We recommend that the USDA Forest Service identify all revenue generating business processes that are currently maintained in the budget clearing accounts and work with OMB and U.S. Department of the Treasury to establish a separate receipt and expenditure Treasury symbol so that revenue collections will not reside in the 12F3875 clearing account.	Open

<p style="text-align: center;"><b>All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004</b></p>		
Reported Condition	Recommendation	Status
	7. We recommend that the USDA Forest Service revise its posting model for special and non-revolving trust funds to appropriately recognize these resources as transfers-in instead of appropriations received, in accordance with SGL guidance.	Closed
	8. We recommend that the USDA Forest Service follow its procedures in order to perform monthly review, identification, research and correction of all abnormal balances and report the status of all abnormal balances of \$5 million or more to the USDA Office of the Chief Financial Officer.	Open
	9. We recommend that the USDA Forest Service ensure proper entries, especially AJV's, at the Treasury Symbol level for all adjustments so as not to cause abnormal balances in related general ledger accounts.	Open
	10. We recommend that the USDA Forest Service institute an effective management review of the USDA Forest Service identified and corrected abnormal balances.	Open
	11. We recommend that the USDA Forest Service implement an effective monthly process to review general ledger account relationships. The process must include the research, reconciliation, and resolution of all significant differences in a timely manner.	Open
	12. We recommend that the USDA Forest Service require an effective documented manager review and quality assurance review of the account relationship analysis.	Open

<p style="text-align: center;"><b>All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004</b></p>		
Reported Condition	Recommendation	Status
<p>Material Weakness #2: Implementation of the USDA Forest Service Accrual Methodology Needs Strengthening</p>	<p>13. We recommend that the USDA Forest Service’s Washington Office (WO) Office of Finance revise the accrual spreadsheet to prevent the USDA Forest Service units from changing data fields or recording “negative” accruals.</p>	Closed
	<p>14. We recommend that the USDA Forest Service WO Office of Finance provide adequate communication and/or training of the accrual methodology, as well as, a summary of lessons learned from the fiscal year 2003 audit to all of the USDA Forest Service reporting units.</p>	Open
	<p>15. We recommend that the USDA Forest Service WO Office of Finance perform management oversight of the accrual methodology through analysis and follow up on large or unusual items, as well as the USDA Forest Service units that do not report any data.</p>	Open
	<p>16. We recommend that the USDA Forest Service WO Office of Finance establish and implement policies and procedures to perform period end reviews of rejected transactions to ensure that all transactions that are in reject status are corrected, recorded, and properly reflected in the general ledger.</p>	Closed
	<p>17. We recommend that the USDA Forest Service WO Office of Finance and the USDA Forest Service reporting units perform a comprehensive review of its accrual implementation efforts during the second quarter of fiscal year 2004 to identify and resolve any additional deficiencies in the accrual methodology.</p>	Open

<p align="center"><b>All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004</b></p>		
<b>Reported Condition</b>	<b>Recommendation</b>	<b>Status</b>
<p>Material Weakness #3: Controls Over PRCH Data Access, Input, Integrity, and Segregation of Duties Need Improvement</p>	<p>18. USDA Forest Service management has acknowledged the weakness of the PRCH system, and the USDA plans to migrate to a new department-wide Integrated Acquisition System (IAS). We recommend that USDA Forest Service work with the USDA to implement an appropriate information technology capital planning strategy and acquire IAS in a timely manner. In planning for the acquisition, USDA Forest Service and USDA should take steps to ensure the information technology architecture that will replace the PRCH system remedies these control weaknesses. Until completion of the IAS acquisition and migration away from legacy applications, USDA Forest Service management should take steps to ensure the existence and operating effectiveness of compensatory controls to mitigate the effects of noted application control weaknesses.</p>	<p>Open</p>

All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004		
Reported Condition	Recommendation	Status
Material Weakness #4: The USDA Forest Service Needs to Improve Its General Controls Environment	<p>19. For USDA Forest Service-managed systems, it is recommended that FS management immediately perform Certification and Accreditation processes for all application and general support systems material to the USDA Forest Service financial statements or at least give remediation of this situation one of its highest priorities for IT resources with the objective of achieving at least interim authority to process for all its major application and general support systems within FY 2004. Management must then address the lack of controls in place to ensure compliance.</p> <p>For USDA-managed systems, recommendations regarding certification and accreditation of financial management systems used by USDA Forest Service have been issued to USDA management by OIG. USDA Forest Service should follow-up with USDA management on planned actions regarding accreditation of these application systems and their general support systems and monitor progress on these actions. Appropriate compensatory controls must be put in place by FS management, until accreditation of USDA-managed application and general support systems.</p>	Open
	<p>20. We recommend that USDA Forest Service management develop and implement a structured risk assessment policy and process for use by all regions and offices within USDA Forest Service. The risk assessment process should address milestones such as:</p> <p>A. Assignment of roles and responsibilities for undertaking assessment of security-related risks, reporting results to appropriate stakeholders, developing plans for remedial action, and following up on plans for remedial action.</p> <p>B. Documentation and analysis of threats and vulnerabilities that expose FS to risk.</p>	Open

<p style="text-align: center;"><b>All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004</b></p>		
Reported Condition	Recommendation	Status
	<p>C. Development of steps to mitigate risks and improve controls.</p> <p>D. Definition of action plans for carrying out steps to mitigate risks and improve controls.</p> <p>E. Linkage of steps to mitigate risks and improve controls with a mechanism for monitoring the effectiveness of information security management.</p> <p>21. USDA Forest Service management should develop and implement entity-wide policy and procedures for IT security planning for all offices. The policy should state that the management of regional offices and National Forests must ensure that their IT security plans are updated to reflect current conditions and include incident response procedures, are approved and reviewed at least once a year with appropriate adjustments made based on changing conditions and risks, and that they comply with all enterprise-wide guidance.</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 demilitarized 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>Open</p> <p>Open</p>

All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004		
Reported Condition	Recommendation	Status
	<p>23. It is recommended that management develop and implement enterprise-wide policies and procedures regarding software management. These policies and procedures should address:</p> <ul style="list-style-type: none"> <li>■ Installation of the latest software versions, service packs, and security patches (and removal of out-dated versions)</li> <li>■ 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)</li> <li>■ 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).</li> <li>■ System software access controls</li> <li>■ System software change controls</li> </ul>	Open

<p style="text-align: center;"><b>All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004</b></p>		
<p><b>Reported Condition</b></p>	<p><b>Recommendation</b></p>	<p><b>Status</b></p>
	<p>24. It is recommended USDA Forest Service management to 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"> <li>■ Identify the criticality and sensitivity of USDA Forest Service information, systems, and facilities</li> <li>■ 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)</li> <li>■ Implement mandatory training on and periodic testing of recovery procedures</li> <li>■ Implement adequate controls at key data processing support facilities, e.g., automated alert systems to notify data center employees about system and environmental control failures</li> <li>■ Have documented and executed service level agreements with a backup data center(s)</li> <li>■ Develop, test and maintain comprehensive continuity of operations and Critical Infrastructure Protection Plans for its critical information system operations</li> <li>■ Periodically review and update all related procedures and documentation at each site</li> </ul>	<p>Open</p>



<p style="text-align: center;"><b>All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004</b></p>		
<b>Reported Condition</b>	<b>Recommendation</b>	<b>Status</b>
<p>Reportable Condition #2: The Design and/or Implementation of Controls Related to the Accurate Recording of Personal Property Transactions Need Improvement</p>	<p>29. We recommend that the USDA Forest Service continue to train reporting unit personnel on accurate property transaction recording.</p>	Open
	<p>30. We recommend that the USDA Forest Service WO improve its monitoring of reporting units for compliance with the USDA Forest Service property transaction recording policies.</p>	Open
	<p>31. We recommend that the USDA Forest Service ensure the continued, timely performance and refinement of WO compensating controls procedures</p>	Closed
<p>Reportable Condition #3: Controls Related to Physical Inventories of Capitalized Assets Need Improvement</p>	<p>32. We recommend that the USDA Forest Service implement the proper physical inventory procedures.</p>	Closed
	<p>33. We recommend that the USDA Forest Service monitor reporting units for compliance with the USDA Forest Service written physical inventory instructions.</p>	Closed

<p align="center"><b>All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004</b></p>		
<b>Reported Condition</b>	<b>Recommendation</b>	<b>Status</b>
<p>Reportable Condition #4: Postings of Certain Transactions Needs to Contain the Proper Reference Data to Link Related Transactions</p>	<p>34. We recommend that the USDA Forest Service develop a methodology to link transactions that are currently in the financial systems.</p>	Open
	<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>	Open
	<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>	Open
<p>Reportable Condition #5: Compilation of the USDA Forest Service's Required Supplementary Information (RSI) and Required Supplementary Stewardship Information (RSSI) Needs Improvement</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 accuracy of the reported information.</p>	Open

All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004		
Reported Condition	Recommendation	Status
Reportable Condition #6: The USDA Forest Service Application Systems Controls Need Improvement	<p>38. We recommend that USDA Forest Service management complete the System Security Plan (SSP) for the Automated Timber Sale Accounting (ATSA) system. SSP should include finalized USDA Forest Service security policies; 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.</p> <p>ATSA should be modified to distinguish duplicate entries from legitimate, separate accounting events with the same data. Alternatively, the ATSA system could incorporate the capability to identify and print transactions with the same exact values. This would allow field units to perform error checks on these entries. KPMG realizes there is occasionally a business need for transactions with duplicate entries/values, but having a list of possible erroneous transactions would serve as a sufficient compensatory control.</p>	Open

<p style="text-align: center;"><b>All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004</b></p>		
<p><b>Reported Condition</b></p>	<p><b>Recommendation</b></p>	<p><b>Status</b></p>
	<p>USDA Forest Service management should develop and implement procedures for conducting risk assessments of the ATSA application system. This risk assessment approach should take into consideration key risk factors to include: determining the value of the application, exposures, threats, vulnerabilities, and the effectiveness of current or proposed alternatives and safeguards. The National TSA staff should be timely in finalizing the ATSA Administrator's User Guide. This handbook should become official policy and contain all administrative functions in a centralized location. We recommend that the National TSA staff develop and implement a policy regarding a central repository of key system documentation and an off-site storage plan.</p> <p>ATSA should be modified to distinguish duplicate entries from legitimate, separate accounting events with the same data. Alternatively, the ATSA system could incorporate the capability to identify and print transactions with the same exact values. This would allow field units to perform error checks on these entries. KPMG realizes there is occasionally a business need for transactions with duplicate entries/values, but having a list of possible erroneous transactions would serve as a sufficient compensatory control.</p>	

## COMPLIANCE AND OTHER MATTERS

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### **The USDA Forest Service does not Obligate all Transactions as Required by Appropriations Law**

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Obligation testwork performed over approximately 160 transactions disclosed that the following transactions were not obligated as required by appropriation law:

- 19 transactions were not obligated prior to payment. The transactions that were not obligated included temporary travel, GSA automobile leases, and utility type transactions.
- 1 transaction was not obligated until 6 months after the acquisition occurred.

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.

#### **Recommendation Number 8:**

We recommend that the USDA Forest Service management develop policy and procedures to obligate funds for transactions as required by Appropriations Law.

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### **Instances of Non-Compliance with FFMIA were Identified related to Federal Accounting Standards**

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In addition to the open FFMIA recommendation noted in Exhibit V, instances of FFMIA non-compliance relating to compliance with applicable Federal accounting standards were identified during the fiscal year 2004 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.

<b>FFMIA Non-compliance with Federal Accounting Standards</b>	
<b>SFFAS/SFFAC Number</b>	<b>Accounting Deficiencies Noted</b>
SFFAC 2	<ul style="list-style-type: none"> <li>■ Unliquidated Obligation errors</li> <li>■ Problems with preparing proper note disclosures (e.g., dedicated collections, custodial revenue, SBR to Presidents Budget reconciliation, and restatement)</li> <li>■ Not assessing the impact of remaining abnormal balances</li> </ul>
SFFAS 5	<ul style="list-style-type: none"> <li>■ Incorrect accruals</li> </ul>
SFFAS 6	<ul style="list-style-type: none"> <li>■ Improper accounting for leases</li> <li>■ Improper accounting for internal use software</li> </ul>
SFFAS 7	<ul style="list-style-type: none"> <li>■ Errors with recording timber and non-timber revenue</li> </ul>
SFFAS 8	<ul style="list-style-type: none"> <li>■ Improper stewardship reporting</li> </ul>
SFFAS 21	<ul style="list-style-type: none"> <li>■ Incorrect conclusions regarding treatment of prior period adjustments</li> <li>■ Variances existed in Cumulative Results of Operations that were not detected</li> </ul>

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.

**Recommendation Number 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.

**Recommendation Number 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.

**STATUS OF PRIOR YEAR'S NONCOMPLIANCE FINDINGS AND OTHER MATTERS**

<b>All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004</b>		
<b>Reported Condition</b>	<b>Recommendation</b>	<b>Status</b>
The USDA Forest Service Systems are Not Compliant with Federal Financial Management System Requirements	1. We recommend that the USDA Forest Service, working with the NFC, as necessary, take steps to certify and accredit the PONTIUS, ATSA, and Paycheck 7 systems and their general support environment or replace these legacy systems.	Open
The USDA Forest Service Revenue Collections from Certain Business Processes Are Not Recognized As Revenue When Earned	2. We recommend that the USDA Forest Service develop a posting model to ensure that revenue is recognized when earned.	Closed
	3. We recommend that the USDA Forest Service notify and train the USDA Forest Service personnel on the new revenue-posting model.	Closed
Improper Accounting for Budgetary Resources in Special and Non-Revolving Trust Funds	4. We recommend that the USDA Forest Service revise its posting model for special and non-revolving trust funds to appropriately recognize a transfer-in instead of appropriations received in accordance with SGL guidance.	Closed
Other Accounting Errors and Lack of Budgetary/Proprietary Synchronization	5. We recommend that the USDA Forest Service revise its posting models to properly record transactions initially and avoid excessive AJVs.	Closed
	6. We recommend that the USDA Forest Service analyze its business data to determine the nature of, and if necessary correct, transactions that are causing out of balance conditions between budgetary and propriety accounts.	Closed



NOV 10 2004

TO: Wanda Philippi  
Regional Inspector General, Office of Inspector General

Patrick Boyce  
Senior Partner  
Klynveld Peat Marwick Goerdeler (KPMG)

FROM: Jesse L. King   
Deputy Chief for Business Operations/CFO

SUBJECT: Response to the Draft Combined Independent Auditor's Report on the  
Forest Service's (FS) Fiscal Year 2004 Comparative Financial Statements

FILE CODE: 6500

We have reviewed KPMG's Draft Combined Independent Auditor's Report dated November 10, 2004, and agree with its contents. 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 questions or require additional information, please contact Jesse L. King at (703) 605-4938.

cc: Mr. Pat Boyce, Senior Partner, Klynveld Peat Marwick Goerdeler (KPMG)



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

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

**FISCAL YEARS 2004 AND 2003**

**UNITED STATES DEPARTMENT OF AGRICULTURE  
FOREST SERVICE'S  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**(UNAUDITED)**

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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) 2004. The 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 Amendments (referred to hereafter as the Audit Follow-Up), 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 mission of the USDA Forest Service is to:

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

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**

In order to improve the efficiency and effectiveness of Forest Service program delivery, the agency requested approval in 2004 from USDA to reorganize from six deputy areas to five deputy areas, each reporting directly to the Office of the Chief.

The deputy areas are now Business Operations; Programs, Legislation, and Communication; Research and Development; National Forest System (NFS); and State and Private Forestry (S&PF).

This administrative reorganization:

- Eliminated the Budget and Finance (B&F) Deputy Area and moved B&F to the Business Operations Deputy Area, under the direction of the Associate Deputy Chief for Finance.
- Established the Regulatory and Management Services Staff.
- Separated the Forest and Rangeland Management Staff into the Forest Management Staff and the Range Management Staff.
- Separated the Recreation, Wilderness and Heritage Resources Staff into the Recreation and Heritage Resources Staff and the Wilderness and Wild and Scenic Rivers Staff.
- Established the Tribal Relations Staff.

This improved organizational structure enables the Forest Service to be more agile and to adapt its program delivery to meet the natural resources focus and initiatives of the 21st century.

Beyond the Washington Office and reporting directly to the Office of the Chief are:

- Six forest and range experimental stations.
- The Forest Products Lab in Madison, WI.
- S&PF in the Northeastern Area.

- International Institute of Tropical Forestry at the University of Puerto Rico, Agricultural Experimental Station.
- Nine regional offices.

Please see the FY 2004 Organizational Chart, which has been submitted to USDA for approval, following this section.

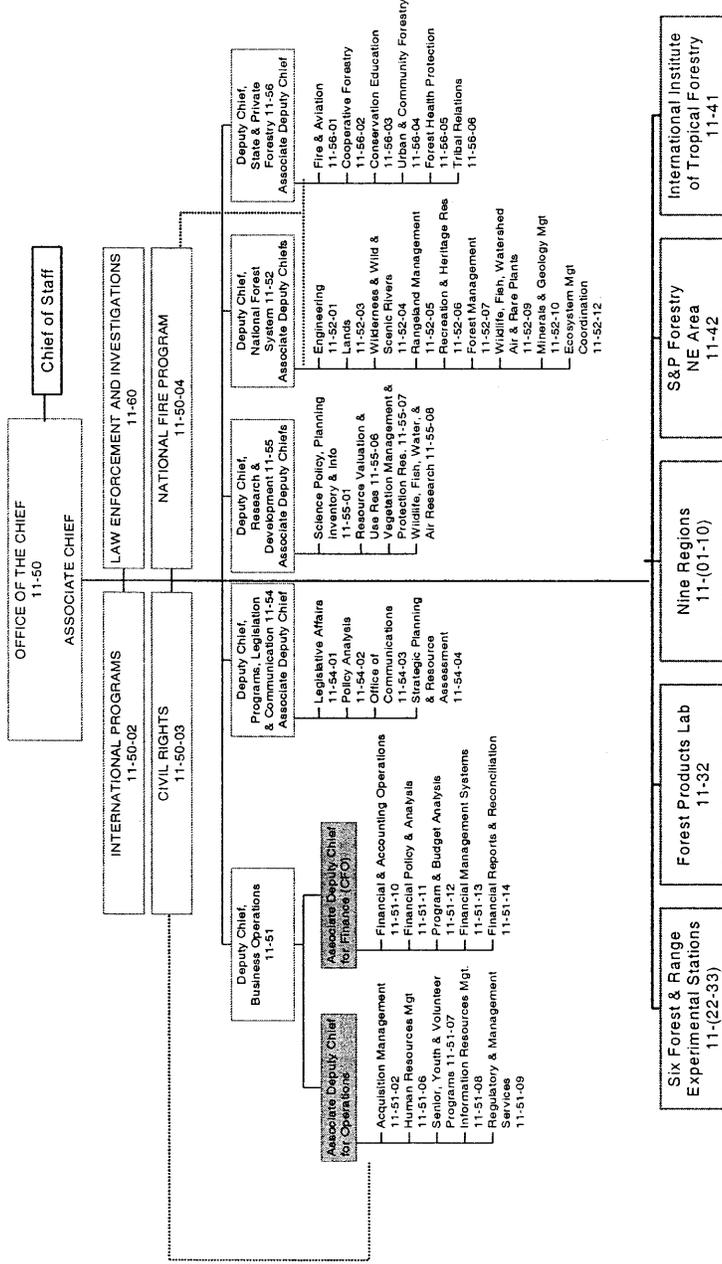
In the later sections of this Performance and Accountability Report pertaining to the financial statements and notes, the discussion revolves around “responsibility segments,” rather than deputy areas. Deputy areas are administrative groupings while segments are constructs used to assess net costs.

The Forest Service's mission includes the following four major segments. Previously, the Working Capital Fund (WCF) was the fifth component listed. It was removed because it does not meet the criteria for a major mission segment, in accordance with the Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. The WCF supports the functions of the remaining four major segments instead of being a unique segment.

- National Forests and Grasslands. Protection and management of an estimated 192 million acres of NFS land that includes an estimated 34 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. 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. Use of 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. Protection of life, property, and natural resources on NFS lands and the estimated 20 million acres of adjacent State and private lands.

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

U.S. Department of Agriculture  
FOREST SERVICE



Supersedes 2003 Organizational Chart  
Prepared by: Human Resources Management Staff, Washington Office

## FUTURE DEMANDS AND RISKS

In FY 2003, the Forest Service defined what it saw as 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 maintain a focus on the uncertainty of wildland fires and invasive species, but also track the agency's performance in mitigating the effects of the loss of open space and unmanaged outdoor recreation.

The following external factors will challenge the Forest Service's ability to achieve the desired outcomes in the FY 2004 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 a pattern of catastrophic wildland fires.
- Continuing serious threat of catastrophic wildfires, especially near communities with a buildup of hazardous fuels in the wildland-urban interface (WUI).
- Continuing 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 to 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.
- Diminishing capability to manage ever-increasing recreation visits—more than 204 million visits to national forests and grasslands in FY 2003—because of increasing high-priority workload in wildland fire activities.
- Diminishing ability to conduct basic stewardship activities—for example, reforestation needs have steadily increased for the past 4 years (primarily within wildland fire areas) while reforestation activities have steadily declined.
- Challenge of timely reporting of the Consolidated Financial Statements and Notes, a critical piece of this FY 2004 Performance and Accountability Report, while integrating the Forest Service's Financial Management reorganization at a highly accelerated pace.
- Unforeseen impacts from competitive sourcing and business process reengineering (BPR), especially in information technology, human resources, and financial management.

## THE PRESIDENT'S MANAGEMENT AGENDA

From its inception, the PMA has served as the focal point for the Forest Service's efforts to improve agency management and performance. All five PMA initiatives are integrated thoroughly into Forest Service management plans. Agency leadership at all levels has emphasized the initiatives.

### *PERFORMANCE AND BUDGET INTEGRATION*

#### *Designing and Implementing a Performance Accountability System*

During the past 2 years, Forest Service leaders designed the framework of the Performance Accountability System (PAS)—as a process and a system, integrated with the budget.

- In December 2002, the Forest Service began designing a performance accountability process and system to integrate planning, budget, performance accountability, and financial management. The PAS meets agency performance management needs, the performance and budget integration goals of the PMA, and the requirements of the Government Performance and Results Act (GPRA).
- Through a series of Credibility Through Accountability (CTA) workshops, the Forest Service has created customer-focused outcomes and performance measures for all programs. The Alaska Region developed a model that will combine these elements into a Regional Strategic Business Plan that will influence 2006 budget allocations. If the model is acceptable, those metrics and the CTA model will be fully implemented by FY 2007.
- Based on a recommendation from a contract assessment concluded at the end of FY 2003, the Executive Leadership Team (ELT) adopted the Hyperion Performance Scorecard System for the PAS, contingent upon a proof-of-concept presentation to the National Leadership Team. A final decision by the ELT to fully deploy the PAS is anticipated based on results of the pilot test in the Alaska Region and the agency's Information Resource Board's recommendation.
- At the project level, the agency launched a project work-planning tool called WorkPlan in May 2003. WorkPlan offers a consistent approach to project planning and tracking across the agency, replacing several variations of an older tool that has been in use since the 1980s. The PAS and WorkPlan will bridge the gaps among the legacy tracking and reporting systems, becoming the integration mechanisms to plan, implement, track, and report Forest Service activities.

### *IMPROVED FINANCIAL MANAGEMENT*

Committed to sustaining an unqualified audit opinion in FY 2004 financial statements, the Forest Service has focused on Business Process Reengineering (BPR) for the agency's financial management functions. Three permanent teams, organized around key issues identified in the 2003 audit, were mobilized in FY 2004 to meet the accelerated timeframes.

The financial management BPR will be fully implemented in the first quarter of FY 2006. The results of this BPR, which will consolidate financial management, will ensure an organizational structure that provides efficient and cost effective service on a sustainable basis while providing substantial cost savings to the agency.

#### *Budget and Finance*

Significant efforts have been made in FY2004 to improve both the effectiveness and efficiency of the B&F organization. B&F has been reorganized under the Deputy Chief for Business Operations and is now led by an Associate Deputy Chief/Chief Financial Office (CFO). Staff Directors for Budget and Finance and Accounting, report to the Associate Deputy Chief/CFO.

The key objectives in FY 2004 were to: (1) to sustain the two, consecutive unqualified audit opinions, and (2) embark on a Financial Management Improvement Project (FMIP) that includes an aggressive plan to centralize finance, accounting, and budget execution functions. This effort is well underway. The Forest Service contracted for consultant support that has assisted in developing a business case, a detailed project plan, and a communications plan. The consultants have provided project support to design new business processes which are now complete, and will provide continuing support to build the new business processes, and migrate them to the centralized service center. They will also provide change management services, such as migration planning and execution, workforce planning and execution, risk mitigation, and on-going project communications support.

The Forest Service has selected Albuquerque, NM, as the site for its centralized financial service center. Teams of Forest Service and consultant resources have been designated and will be trained prior to centralizing the functions. The center is expected to open in February 2005 and business will be migrated during the remainder of 2005, concluding in the first quarter of FY 2006.

In FY 2004, the Forest Service reduced the number of centralized payment centers for emergency equipment rental agreements from four to two and centralized all casual firefighter pay at one center in Ogden, UT. Efforts to enter incident obligations into the Foundation Financial Information System (FFIS) within 3 days of the beginning of an incident were highly successful in FY 2003 and have been continued in FY 2004.

In response to internal and external concerns regarding systems of internal control, the agency initiated the Short Term Internal Control (STIC) Monitoring program with collaboration from B&F personnel in the field and headquarters. This involved ensuring policy and procedures were adequate, developing internal control checklists for business processes, conducting sampling on all 153 accounting centers, and analyzing results to address noted weaknesses. Improvements are being measured and this effort will continue in FY 2005. The STIC effort achieved only a moderate degree of success. Improvements were achieved; however, the improvements were not sufficient to eliminate certain material weaknesses in internal control.

The Forest Service has focused significant attention on financial data quality in FY 2004. These efforts have included analysis of individual Treasury symbol general ledger account balances and prescribed account relationships. While material issues have been identified, researched, and resolved as a result of these efforts, many of the corrections were made late in the year. Forest Service is committed to a more consistent approach to improve data quality in a timely manner.

### *COMPETITIVE SOURCING*

In FY 2004, the Forest Service's competitive sourcing effort focused on completing the 3 standard studies of approximately 1,330 full-time equivalents (FTEs) that were begun in FY 2003. For studies completed in FY 2002 and FY 2003, the agency cancelled 1 standard study involving approximately 20 FTEs and implemented 25 streamlined studies and direct conversions of an estimated 1,150 FTEs. No new competitive sourcing studies were initiated in FY 2004.

Progress thus far includes the following achievements:

- A 1,200 FTE service-wide study of information technology infrastructure resulted in an estimated annual savings of \$20 million.
- Two standard studies of maintenance functions in Region 5 (California) were completed in January, with an estimated annual savings to the agency of \$4 million.
- The Forest Service cancelled its competitive sourcing trails maintenance competition in Region 10 (Alaska) because no private sector or public reimbursable offers were received and no savings were anticipated.
- Studies completed in FY 2003 were estimated to save \$419,000 in FY 2004; the actual savings were \$520,000.

In FY 2005, the Forest Service plans to study approximately 100 FTEs within the communications/public affairs function.

#### *EXPANDED ELECTRONIC GOVERNMENT*

The Forest Service is deeply involved in both Departmental and Government-wide electronic government (e-Gov) activities. The Forest Service has the government-wide e-Gov lead in the Recreation One Stop and Safecom/Wireless programs. The Safecom/Wireless initiative is an umbrella program to help local, tribal, State, and Federal public safety agencies improve their public safety response through more effective, efficient interoperable wireless communications. The program has achieved the following accomplishments:

- Procured the contract for the National Recreation Reservation Service.
- Served as a testing site for integrated acquisition environment.

#### *STRATEGIC MANAGEMENT OF HUMAN CAPITAL*

The Annual Workforce Planning Process continued with both field-level and agencywide analysis of attrition and retirement trends, hiring projections, diversity profiles, and competency needs.

For FY 2004, each field unit incorporated results from workforce planning into unit recruitment plans and produced an agency workforce plan summary.

The agency also undertook the following in FY 2004:

- Tied SES performance elements and GS-14 and GS-15 managers' performance standards to the goals and objectives in the *USDA Forest Service's Strategic Plan for Fiscal Years 2004–08*.
- Deployed competency training through courses such as New Employee Orientation and Basic Supervision.
- Developed enhancements to the Forest Service's Web-based training tracking system.
- Started the first session of Senior Leaders program.
- Produced a manager's desk guide on human resource tools related to competitive sourcing.
- Continued Field Forums to expose emerging leaders to the Washington/Headquarters environment.

#### *Knowledge Management Work in Support of the President's Management Initiative*

In FY 2004, the Forest Service Knowledge (KM) Management Working Group accomplished the following goals:

- Surveyed a range of technologies for capturing knowledge through employee interviews, and currently is testing the most promising candidates.
- Developed a draft decision model for evaluating potential communities of practice as well as KM systems to pursue as pilot projects.
- Chose portal and software packages that provide infrastructure for KM tools.
- Worked with the National Agricultural Library to further develop Forest Service topics in the USDA taxonomy.
- Created intranet-based communication tools to enhance internal communication on KM topics.
- Initiated an agencywide inventory of KM practices, systems, and tools.

## MANAGEMENT CONTROLS, SYSTEMS, AND COMPLIANCE WITH LAWS AND REGULATIONS

### MANAGEMENT CONTROLS

FMFIA requires agencies to provide an assurance statement that Federal programs are operated efficiently and effectively. Agencies also must provide reasonable assurance that obligations and costs comply with applicable laws and regulations; Federal assets are safeguarded against fraud, waste, and mismanagement; and transactions are accounted for and properly recorded.

In FY 2004, the Forest Service took the steps necessary to ensure that evaluations of the system of internal controls for the Forest Service have been conducted in accordance with and comply with the standards prescribed by the Comptroller General. The evaluations include assessments as to whether the financial management systems and internal accounting and administrative controls within the Forest Service are in compliance with the standards prescribed by the Comptroller General and provide reasonable assurance that the following objectives are met.

1. Obligations and costs comply with applicable laws.
2. Funds, property, and other assets are safeguarded against waste, loss, or mismanagement.
3. 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.

The results of the evaluations indicate that the system of internal accounting and administrative control of the Forest Service in effect during the fiscal year ending September 30, 2004, taken as a whole, comply with the requirement to provide reasonable assurance that the above mentioned objectives were achieved within the limits described in the preceding paragraph. The evaluations identified the following material deficiencies as fully corrected or reassessed and determined to be no longer material:

- **FS-91-02:** Adequacy of Financial Systems
- **FS-00-01:** Performance Reporting
- **FS-92-01:** Administration of Lands Special Use Permits
- **FS-01-01:** Timber Sale Environmental Analysis
- **FS-03-01:** Internal Control Weaknesses
- **FS-03-02:** USDA Information Security Weaknesses

Subsequent to the Forest Service filing of the FY 2004 FMFIA Report, financial statement audit activities and agency monitoring indicated the corrective actions related to the material weakness in financial management controls were not fully effective. In addition, the financial statement audit activities disclosed a new material weakness and indicated that the three prior-year financial material weaknesses had not been fully corrected. Accordingly, Forest Service will report a new FMFIA material weakness in financial management controls to include compliance with accounting standards, particularly for certification of undelivered order and reporting accruals. In addition, Forest Service has continuing weaknesses related to system security issues, which are part of a USDA material weakness.

The following pages contain the justification or corrective actions taken for these material deficiencies.

Material Deficiency Number	Material Deficiency	Year Identified	Original Estimated Completion Date	Actual Completion Date	Source of Deficiency
FS-91-02	<b>Adequacy of Financial Systems:</b> The financial accounting system lacks controls needed in the accounting and reporting subsystems to ensure financial information is reliable and funds are adequately controlled.	FY 1989, 1991	FY 2003	4 <sup>th</sup> Qtr FY 2004  (1 item remaining to complete—revisions to handbooks, manuals—2 <sup>nd</sup> quarter FY 2005)	Management reviews, and OIG and GAO audits

**Deficiency Status:** Corrected.

**Detailed Description of the Process Used To Verify and Validate Completion of Corrective Actions:**

Management reviews and Office of Inspector General (OIG) and Government Accountability Office (GAO) audits.

**Detailed Description of Corrective Actions or Milestones Implemented During FY 2004:**

- Developed and provided a set of critical training courses to improve financial management.
- Performed an assessment of training needs and target audiences, in coordination with B&F national training coordinator. Recent training included Financial Management (two courses), Timber Sale Financial Management (three courses), Account Relationship, Real Property Accounting, Acquisition Management/Property/Grants and Agreements conference, Advanced Standard General Ledger, Basic Standard General Ledger, Project Cost Accounting System, FFIS database (weekly February 18 to May 13, and on July 29, 2004.) Financial management training for line officers is being evaluated and pilot offerings considered through corporate training.
- Continued the revisions of financial management manuals and handbooks to update policy. The system of CFO Bulletins, carrying the same force and effect as policy incorporated into the directives system, also continued in FY 2004. Thus far, 17 CFO Bulletins have been published in FY 2004. As of August 25, 2004, published 21 revisions to the Forest Service Handbooks (FSH) / Manual (FSM), had 12 items on hold, and had published 10 interim directives. This is approximately a 47 percent overall completion to date. Agency emphasis leading to management changes in the directives area greatly fostered the issuance of 20 of 21 revisions in FY 2004. With this continued approach, the agency anticipates completion in the second quarter FY 2005.
- Completed the Incident Obligations Pilot in FY 2003, using both manual and electronic transmission of obligations data from incidents to the FFIS database.

**Strategic Plan and Annual Performance Plan Goal and Objective to Which the Corrective Actions Apply, if applicable:**

USDA Goal 5. A—Operate an efficient, effective, and discrimination free organization. *Objective 5.2.A—Improve organizational productivity, accountability, and performance.*

**Section 4 System Nonconformance to Which the Corrective Actions Apply, if Applicable:**

Note: In both FY 2002 and FY 2003, the Forest Service FFIS financial system and feeder systems produced financial reports that subsequently received an unqualified audit opinion.

Material Deficiency Number	Material Deficiency	Year Identified	Original Estimated Completion Date	Actual Completion Date	Source of Deficiency
FS-00-01	<b>Performance Reporting:</b> The Forest Service lacks effective internal controls over the quality of data included in its performance accomplishment report under GPRA.	FY 2000	FY 2003	FY 2004	OIG audit

**Deficiency Status:** Reassessed.

**Detailed Description of the Process Used To Verify and Validate Completion of Corrective Actions:** Management reviews and OIG and GAO audits.

**Detailed Description of Corrective Actions or Milestones Implemented During FY 2004:**

- Continued development of performance reporting and PAS.
- Established PAS implementation plan to guide implementation of a performance-based budgeting process. Designed and developed performance measures and a business model in the Credibility Through Accountability process in the Alaska Region.
- Began development of prototype, completed initial market research and cost-benefit alternative analysis for further evaluation, and planned testing and implementation for FY 2005 and FY 2006.

**Strategic Plan and Annual Performance Plan Goal and Objective to Which the Corrective Actions Apply, if applicable:** USDA Goal 5.A—Operate an efficient, effective, and discrimination free organization. *Objective 5.2.A—*Improve organizational productivity, accountability, and performance.

**Section 4 System Nonconformance to Which the Corrective Actions Apply, if Applicable:** Not applicable.

Material Deficiency Number	Material Deficiency	Year Identified	Original Estimated Completion Date	Actual Completion Date	Source of Deficiency
FS-92-01	<b>Administration of Lands Special Use Permits:</b> Lands Special Use Permits are not being administered to a standard consistent with law, regulation, or policy.	FY 1992	FY 2003	2 <sup>nd</sup> quarter FY 2005 projected	GAO audit

**Deficiency Status:** Reassessed.

**Detailed Description of the Process Used To Verify and Validate Completion of Corrective Actions:** Management and analytical reviews.

**Detailed Description of Corrective Actions or Milestones Implemented During FY 2004:**

- Published final interim directive in National Environmental Policy Act (NEPA) handbook on July 6, 2004. OMB re-determined that the Forest Service cost recovery rule is significant for purposes of interagency consistency with Bureau of Land Management’s final rule (rights-of-way regulation). However, evolving changes in the BLM rule, as well as reduced staffing levels in Forest Service Lands, has slowed progress on finalizing the agency’s rule, which put publication of the final rule at risk. Additionally, the pilot authority to retain and spend cost recovery fees is due to expire September 30, 2004, and has yet to be extended. Updating the FSM and FSH is contingent upon publication and implementation of Cost Recovery Regulations.

**Strategic Plan and Annual Performance Plan Goal and Objective to Which the Corrective Actions Apply, if applicable:** USDA Goal 3.A—Maintain and enhance the Nation’s natural resources and environment. *Objective 3.3.A*—Provide multiple benefits to people from the Nation’s natural resources.

**Section 4 System Nonconformance to Which the Corrective Actions Apply, if Applicable:** Not applicable.

Material Deficiency Number	Material Deficiency	Year Identified	Original Estimated Completion Date	Actual Completion Date	Source of Deficiency
FS-01-01	<b>Timber Sale Environmental Analysis:</b> Administrative controls over the analysis and preparation of environmental documents and implementation of mitigation measures applicable to timber sales have not been effective. Heritage resources, water quality, and threatened, endangered, or sensitive species and their habitat may be adversely affected.	FY 2001	FY 2004	4 <sup>th</sup> quarter FY 2004	Management review and OIG audit

**Deficiency Status:** Corrected.

**Detailed Description of the Process Used To Verify and Validate Completion of Corrective Actions:**  
Management reviews and OIG and GAO audits.

**Detailed Description of Corrective Actions or Milestones Implemented During FY 2004:**

- Completed revisions to FSM and FSH for standard review procedures of environmental assessments and published on July 6, 2004.
- Completed revisions to applicable FSM and FSH for implementing NEPA and other environmental regulations and published on July 6, 2004.
- Completed training and tool listing for NEPA and Endangered Species Act completed in the fourth quarter of 2003.
- Established new training for forest NEPA Coordinators in the second quarter of FY 2004.
- Awarded contract during fourth quarter of FY 2004 to identify additional NEPA training needs. This is a continuous process of evaluation and development of new tools and training.

**Strategic Plan and Annual Performance Plan Goal and Objective to Which the Corrective Actions Apply, if applicable:** USDA Goal 3.A—Maintain and enhance the Nation’s natural resources and environment. *Objective 3.1.A*—Maintain the productive capacity of the natural resource base for future generations; *3.2.A*—Protect the quality of the Nation’s environment; and *3.3.A*—Provide multiple benefits to people from the Nation’s natural resources.

**Section 4 System Nonconformance to Which the Corrective Actions Apply, if Applicable:** Not applicable.

Material Deficiency Number	Material Deficiency	Year Identified	Original Estimated Completion Date	Actual Completion Date	Source of Deficiency
FS-03-01	<b>Internal Control Weaknesses:</b> Overall financial management controls were not adequate to ensure that misstatements in amounts that would be material could occur and not be detected within a timely period.	FY 2003	FY 2003	FY 2004	OIG audit 08401-1-FM

**Deficiency Status:** Reassessed. Completion of action items underway.

**Detailed Description of the Process Used To Verify and Validate Completion of Corrective Actions:** Management reviews and OIG and GAO audits.

**Detailed Description of Corrective Actions or Milestones Implemented During FY 2004:**

Corrective Action Description	Complete Description of Corrective Action	Completion Date of Corrective Action
Service level agreements	Developed service level agreements with USDA NFC, including specific responsibilities, roles, clearing timelines, and escalation procedures for resolution with the agreement terms.	1 <sup>st</sup> quarter 2004
Budget and clearing accounts	Analyzed the composition of budget and clearing accounts and determined the proper disposition of the balances in accounts 12F3875 and 12F3885 on at least a quarterly basis. (Analysis has begun on a monthly basis.)	4 <sup>th</sup> quarter 2004
Revenue generating business processes	Identified all revenue generating sources maintained in the budget clearing account and determined disposition. (Identified revenue sources and issued direction to field requiring monthly transfer or justification of balances in budget clearing.)	4 <sup>th</sup> quarter 2004
Supervisory approval of timesheets	Implemented adequate system controls in Paycheck to ensure that employee's supervisor of record appropriately reviews and approves timesheets. (PAYCHECK7 implemented; Job Corps sites to be completed in next 2 months.)	4 <sup>th</sup> quarter 2004
Accurate transaction recording for PP&E	Developed training materials, trained the trainers, and held training classes for staffs responsible for PP&E transactions. (Completed.)	3 <sup>rd</sup> quarter 2004
Supervisory review of property transactions	Issued new policy direction requiring supervisory review of data input of property transactions. (Identified and issued compensating controls to ensure the accuracy of data input.)	4 <sup>th</sup> quarter 2004
Capitalization controls	Issued new policy guidance regarding improving the design and operation of labor cost and other cost capitalization controls. (Final review of Chapter 20 of PP&E Handbook completed; and approved and signed by management. Sent to Directives for issuance in August 2004.)	4 <sup>th</sup> quarter 2004
Certify payroll	Determined a process where line officers certify that payroll records are correct. (Issued June 23 letter requiring line officers/unit managers complete a quarterly certification of all employees on payroll.)	4 <sup>th</sup> quarter 2004

**Strategic Plan and Annual Performance Plan Goal and Objective to Which the Corrective Actions Apply, if applicable:** USDA Goal 5. A—Operate an efficient, effective, and discrimination free organization. *Objective 5.2.A—* Improve organizational productivity, accountability, and performance.

**Section 4 System Nonconformance to Which the Corrective Actions Apply, if Applicable:** Not applicable.

Material Deficiency Number	Material Deficiency	Year Identified	Original Estimated Completion Date	Actual Completion Date	Source of Deficiency
FS-03-02	USDA Information Security Weaknesses	FY 2003	FY 2003	FY 2004	OIG audit 08401-2-FM

**Deficiency Status:** Reassessed.

**Detailed Description of the Process Used To Verify and Validate Completion of Corrective Actions:**  
Management reviews and OIG and GAO audits.

**Detailed Description of Corrective Actions or Milestones Implemented During FY 2004:**

Corrective Action Description	Complete Description of Corrective Action	Completion Date of Corrective Action
Infra applications	Updated the Infra application's security plan to require management review of user activity logs. (Recommendations were addressed as part of Forest Service certification and accreditation of applications.)	4 <sup>th</sup> quarter 2004
Assess IT security risks	Developed and implemented an agency-wide IT risk assessment process. (Drafted the information security risk assessment policy. The final review is in progress.)	4 <sup>th</sup> quarter 2004
IT security plans	Issued direction that requires that security plans be updated when there are major changes to the plan and that they be reviewed and changed, if needed, at least annually. Formally chartered Computer Incident Response Team (CIRT). Completed IT security plans for all units and in compliance with USDA regulations. (When new IT organization is in place, individual unit plans will no longer be a requirement at regional levels. There will only be one plan incorporating all units.)	July 14, 2004
Use of badges	Required the use of badges for all employees and visitors at all data processing facilities and the use of a log in which all visitors sign in and out. (To prepare for new organization, completed draft policy on physical security requiring badges. Currently, this is under review by technical team. Provided all employees with access to required high-standard Security Awareness Training.)	4 <sup>th</sup> quarter 2004
Background investigations	Completed the servicewide "background investigations" and "security clearances" policy for IRM positions and functions requiring background investigations. Policy is currently in review. Due to the new IT organization, this policy will be implemented, proactively, as the new organization positions are filled.	4 <sup>th</sup> quarter 2004
Access to separated employees	Established direction for reporting separation of employees and removing access privileges. (Direction will be implemented with new organization to facilitate enforcement and servicewide policy and procedures on access controls.) Made dramatic changes in computer access procedures to strengthen security (e.g., completed process for supervisory approval and annual authentication for remote access dial-up users on July 14.)	4 <sup>th</sup> quarter 2004
User access lists	Implemented operational and technical improvements that enable maintenance of a servicewide list of users with access to the Forest Service network, e-mail system, and critical business applications. (Reviewed risks posed by existing network account management procedures and implemented changes (e.g., new security warning banner, draft network perimeter policy.)	4 <sup>th</sup> quarter 2004
Internet points of presence	Developed plan to transition valid services to authorized Internet points of presences based on analysis of discovery and technical solutions required. (Implemented specific access control vulnerabilities noted on	3 <sup>rd</sup> quarter 2004 (more to implement)

	FSWeb servers. Obtained waiver from USDA to enter into contract with ISP as back-up to Internet Web servers. ISP provides additional security and firewall.)	with new organization)
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**Strategic Plan and Annual Performance Plan Goal and Objective to Which the Corrective Actions Apply, if Applicable:** USDA Goal 5. A—Operate an efficient, effective, and discrimination free organization. *Objective 5.2.A—Improve organizational productivity, accountability, and performance.*

**Section 4 System Nonconformance to Which the Corrective Actions Apply, if Applicable:** Forest Service systems are not compliant with Federal Financial Systems requirements; the agency is working with the USDA to address these issues.

**FINANCIAL SYSTEMS**

Under FFMIA, agencies are required to report whether financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level. If an agency is not in compliance with the FFMIA, a remediation plan is required to bring the agency's financial management systems into substantial compliance.

The Forest Service has evaluated its financial management systems under the FFMIA for the fiscal year-ended September 30, 2004, and certifies that the financial management systems are not in full compliance with FFMIA. While Forest Service posting models are now SGL compliant at the transaction level, current audit activities and agency monitoring indicate issues with implementation of accounting standards, including those for revenue recognition and reporting of accruals. With regards to information security policies, procedures, and practices, Forest Service completed certification and accreditation of four agency systems; however, the auditors have not confirmed the results. The Forest Service continues to have issues with general control environment.

**Exhibit 1: The Forest Service Remediation Plan for FY 2004**

<b>Section</b>	<b>Instance</b>	<b>Remediation</b>	<b>Target Date</b>
Accounting standards	Revenue recognition at the point of sale for maps and the national recreation reservations system.	Implement a business process to recognize revenue at point of sale for remaining business processes.	June 2004 Completed
Standard General Ledger (SGL) compliance at the transaction level	Proper SGL posting at the transaction level.	Modify posting model for special and non-revolving trust funds to remove improper accounting for budgetary resources.	December 2003 Completed
		Identify, analyze and correct invalid posting models.	September 2004 Completed
Information security policies, procedures, and practices	The four financial systems are undergoing Certification and Accreditation (C&A) this fiscal year:  - Automated Timber Sale Accounting System (ATSA) - Travel - PAYCHECK - Infra	All four systems were initially targeted to be completed by September 30; however, due to delays with the contractors and GSA, the C&A will be completed by October 29, 2004.	September 2004 Completed

## FOREST SERVICE'S FINANCIAL HIGHLIGHTS FOR 2004

The Forest Service produces an annual series of financial statements to summarize the activity and associated financial position of the agency. The principal statements include a Consolidated Balance Sheet, Statement of Net Cost, Statement of Change in Net Position, Statement of Budgetary Resources, and 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, 2004, financial statements highlights the following key points.

### ASSETS

The Forest Service reports \$7.5 billion in assets at the end of September 30, 2004. This represents an increase of 3 percent over FY 2003 amounts. This change is attributed to an increase in fund balance with Treasury and related to an increase in funds for firefighting. The Forest Service restated its FY 2003 financial statements. The tables below reflect the restated amounts for FY 2003.

The three major asset categories are shown in exhibit 2.

#### Exhibit 2: Assets

	2004	2003	Difference	
	(In Millions)		Dollars	Percentages
General Property, Plant, and Equipment	\$3,807	\$3,851	(\$44)	(1%)
Fund Balance with Treasury	3,506	3,263	243	7%
Accounts Receivable, Intragovernmental and Other	163	146	17	12%
Total of Major Categories	\$7,476	\$7,260	\$216	3%
Other Asset Categories	14	15	(1)	(7%)
Grand Total Assets	\$7,490	\$7,275	\$215	3%

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 assets (agency assets that are historical or significant for their natural, cultural, aesthetic, or other important attributes that are expected to be preserved indefinitely) or the value of stewardship assets (primarily land held by the agency as part of the NFS and not acquired for, or in connection with, other General PP&E). 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 section.

The fund balance with Treasury consists primarily of funds derived from congressional appropriations and funds held in trust for accomplishing purposes specified by law. Finally, 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.

Fund Balance with Treasury (congressional appropriations and trust funds) is available to the agency to pay authorized expenses and to finance purchase commitments based on apportionments by the OMB.

### LIABILITIES AND NET POSITION

The Forest Service reported \$1.9 billion in liabilities at the end of September 30, 2004, representing probable future expenditures arising from past events. This amount represents a decrease of 16 percent

from September 30, 2003, amounts. Part of this decrease was due to a \$188 million payment to Treasury Judgment Fund in FY 2004. The major liability amounts, unfunded leave, Federal Employees' Compensation Act (FECA) benefits, and custodial liabilities appear in exhibit 3.

**Exhibit 3: Liabilities**

	2004	2003	Difference	
	(In Millions)		Dollars	Percentages
Unfunded Leave and FECA Benefits	\$602	\$634	(\$32)	(5%)
Payments to States	380	288	92	32%
Other Liability Categories	906	1,316	(410)	(31%)
<b>Grand Total Liabilities</b>	<b>\$1,888</b>	<b>\$2,238</b>	<b>(\$350)</b>	<b>(16%)</b>

Federal agencies, by law, cannot make any payments unless Congress has appropriated funds for such payments and the OMB has apportioned the funds. A portion of liabilities reported by the Forest Service on September 30, 2004, however, is currently not funded by congressional appropriations. For example, the unfunded amounts needed to pay for 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. Another major category is the Payments to States. These represent funds held by the agency in special receipt accounts pending transfer to the appropriate party.

A net position of \$5.6 billion is reported for FY 2004. This represents an increase of 11 percent over FY 2003 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, as well as unobligated funds and the cumulative results of operations, as shown in exhibit 4.

**Exhibit 4: Net Position**

	2004	2003	Difference	
	(In Millions)		Dollars	Percentages
Unexpended Appropriations	\$1,511	\$1,350	\$161	12%
Cumulative Results of Operations	4,091	3,687	404	11%
<b>Total Net Position</b>	<b>\$5,602</b>	<b>\$5,037</b>	<b>\$565</b>	<b>11%</b>

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.

**NET COST OF OPERATIONS**

The Forest Service's net cost of operations was \$5 billion for the year ended September 30, 2004.

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 and pays for local forest stewardship projects.

## EXPENSES

Forest Service program costs for the year ended September 30, 2004, are \$5.9 billion. This represents a 7 percent decrease from FY 2003. The decrease results from a much less intense fire season, as compared to FY 2003, and less costs attributable to intragovernmental activities associated with national emergencies such as the Columbia space shuttle recovery and containment of exotic Newcastle Disease. In addition, the agency spent \$100 million less on land acquisition in FY 2004 as a result of changing priorities.

Exhibit 5 illustrates program costs by segment for the years ended September 30, 2004 and 2003. The 2003 presentation has been reclassified to eliminate the previously reported Working Capital Fund.

### Exhibit 5: Gross Expenses

	2004	2003	Difference	
	(In Millions)		Dollars	Percentages
Program Costs				
National Forests and Grasslands	\$3,444	\$3,638	(\$194)	(5%)
Forest and Rangeland Research	342	315	27	9%
State and Private Forestry	418	382	36	9%
Wildland Fire Management	1,715	2,011	(296)	(15%)
Total Program Costs	\$5,919	\$6,346	(427)	(7%)

## BUDGETARY RESOURCES

The Forest Service had budget authority of approximately \$5.9 billion in FY 2004 and \$5.8 billion in FY 2003. The funding received in FY 2004 represents a slight increase (1 percent) over that received in FY 2003.

## IMPROPER PAYMENTS INFORMATION ACT OF 2002

The Improper Payments Information Act<sup>1</sup> (IPIA), the Recovery Auditing Act,<sup>2</sup> and OMB's M-03-07<sup>3</sup> provide guidance to assist Federal agencies in identifying and collecting erroneous disbursements. The Forest Service is complying with these requirements by working under a USDA pilot program through an interagency agreement with US Treasury's FedSource. The majority of the Forest Service's procurement data mining, error identification, and subsequent recovery are scheduled to take place in the second quarter of FY 2005. The following is information that USDA and the Forest Service have shared with OMB and others regarding progress to date in carrying out the intent of these laws.

### Risk Susceptible Area

Wildland Fire Suppression Management.

### Statistical Sampling Process Estimating Program Error Rate Analysis

The risk for erroneous payments in the Wildland Fire Suppression Management program is through the procurement contracts. To fulfill the requirements of both IPIA and the recovery-audit initiative, the Forest Service entered into a contract with a recovery-audit contractor. In addition to the procurement contracts, the recovery auditors will have access to disbursement data to find possible disbursing errors. The number of erroneous payments detected through the recovery-audit work will determine the erroneous-payment rate for this program. The Forest Service will work with OMB and USDA's Office of the Chief Financial Officer (OCFO) to ensure that the program is fully tested and meets the goals of IPIA.

<sup>1</sup> IPIA was authorized in Public Law 107-300.

<sup>2</sup> The Recovery Auditing Act was authorized in 31USC 3561-3567, Section 831.

<sup>3</sup> This report is OMB's FY 2004 Performance and Accountability Reports and Reporting Requirements for the *Financial Report of the United States Government*, July 22, 2004.

Corrective Actions Planned

The recovery auditing contract includes recommendations for control improvements, if any, to mitigate future overpayments. Management improvement plans will be developed based on the type and number of erroneous payments found and the control improvements recommended by the recovery auditor. Data mining activity is expected to begin in November 2004, with preliminary results available by December 31, 2004. The first recoveries are expected to occur in the second quarter of FY 2005.

## FOREST SERVICE'S PERFORMANCE HIGHLIGHTS FOR 2004

### *THE EXECUTIVE PRIORITIES*

The ELT of the Forest Service selected the FY 2004 performance measures included in this MD&A. These measures, termed Executive Priorities, were identified as key performance measures aligned to the *USDA Forest Service Strategic Plan for Fiscal Years 2004-2008*.

The measures dealing with associated national and unit commitments were communicated to the regions, stations, and area (RSAs) line officers, as well as Washington Office staff, through the annual program direction. These measures were confirmed and final commitments provided for each RSA in the mid-year review letter. The RSAs responded to this letter by providing a forecast as to whether they expected to meet, exceed, or fall short of their commitments.

Starting this year, the Executive Priorities were also included in individual performance plans for all members of the Senior Executive Service (SES) and for supervisory GS-14s and GS-15s.

To meet accelerated reporting timelines, the Forest Service used 9-month actual and 3-month estimated or projected<sup>4</sup> accomplishments for the commitment associated with the performance measures in the MD&A. These items are reported through various databases and consolidated for review and analysis by the Program and Budget Analysis Staff. Actual results for projected performance information will be available mid-December 2004.

The following Forest Service Performance Scorecard highlights the agency's achievements toward the FY 2004 Executive Priorities, as identified by desired strategic outcomes. All achievements are *projected* and may change based on 12-month actual performance information, due mid-December 2004. Three of the Executive Priorities do not have specific measurement protocols.

For a discussion on the projected results and a schedule of planned actions for actual unmet or exceeded Executive Priorities, refer to the section following the Performance Scorecard.

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<sup>4</sup> Projected results for FY 2004 (9-month actuals and 3-month estimates) come from P&BA's Essbase (version dated October 1, 2004 at 12:45).

**USDA Forest Service's Performance Scorecard for FY 2004**

<b><i>Projected Accomplishments by Executive Priorities</i></b>	<b><i>RESULTS</i></b>
<b><i>Reduced risk from catastrophic wildland fire</i></b>	
<b>1,294,598 acres</b> of hazardous fuels within the WUI that are treated with Direct Hazardous Fuels dollars <sup>5</sup>	<b>EXCEEDED</b>
<b>313,770 acres</b> of hazardous fuels within the WUI that are treated with Other (Not Direct Hazardous Fuels) dollars	<b>EXCEEDED</b>
<b>100 percent</b> of acres of hazardous fuels treated within the WUI are identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan	<b>MET</b>
<b>398,319 acres</b> treated with Direct Hazardous Fuels dollars that are in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the WUI <sup>2</sup>	<b>UNMET<sup>6</sup></b>
<b>253,114 acres</b> treated with Other (NOT Direct Hazardous Fuels) dollars that are in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the WUI	<b>UNMET</b>
<b>100 percent</b> of acres treated are in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the WUI that are identified as high priority through collaboration consistent with the 10-year Plan	<b>MET</b>
<b>29,711 acres</b> brought into stewardship contracts	New Baseline
Communities at risk with completed and current fire management plans or risk assessments	No specific measurement protocol in FY 2004
<b>125,000 acres</b> covered by partnership agreements	New Baseline
<b><i>Reduced impact from invasive species</i></b>	
<b>85,081 acres</b> of noxious weeds acres treated	<b>EXCEEDED</b>
<b>1,046,482 acres</b> treated for selected invasives species	<b>MET</b>
<b><i>High-quality recreation provided</i></b>	
<b>64,866 miles</b> of road maintained to standard (high clearance and passenger)	<b>EXCEEDED</b>
<b>22 percent</b> of road maintained to standard (high clearance and passenger)	<b>EXCEEDED</b>
<b>19,743 facilities</b> maintained to standard	<b>EXCEEDED</b>
<b>49.2 percent</b> of facilities maintained to standard	<b>EXCEEDED</b>
<b>22,657 miles</b> of trail maintained to standard	<b>EXCEEDED</b>

<sup>5</sup> This Executive Priority is also a performance measure reported at the Department level.

<sup>6</sup> For all UNMET or EXCEEDED Executive Priorities, please see the following section on Notes to the FY 2004 Performance Scorecard.

<b><i>Projected Accomplishments by Executive Priorities</i></b>	<b><i>RESULTS</i></b>
<b>17 percent</b> of trail maintained to standard	<b>EXCEEDED</b>
<b>215</b> rights-of-way acquired to provide public access	<b>UNMET</b>
National Forest System lands covered by travel management implementation plans	No specific measurement protocol in FY 2004
<b><i>Improved watershed condition</i></b>	
<b>130</b> watershed assessments completed	<b>EXCEEDED</b>
<b>1,618,000 acres</b> of nonindustrial private forest land under approved stewardship management plans <sup>7</sup>	<b>MET</b>
<b>217,999 acres</b> of terrestrial habitat enhanced to achieve desired ecological conditions	<b>UNMET</b>
<b>14,771 acres</b> of lake habitat enhanced to achieve desired ecological conditions	<b>EXCEEDED</b>
<b>1,797 miles</b> of stream habitat enhanced to achieve desired ecological conditions	<b>MET</b>
<b><i>Improved productivity and efficiency</i></b>	
<b>76 percent</b> of the Nation for which forest inventory and analysis (FIA) information is accessible to external customers	New Baseline
<b>86 percent</b> of performance data were current and complete	New Baseline
<b>640,481 acres</b> of land adjustments to conserve the integrity of undeveloped lands and habitat quality (sum of next three rows)	<b>UNMET</b>
<b>54,896 acres</b> adjusted (exchanged) to conserve the integrity of undeveloped lands and habitat quality	<b>UNMET</b>
<b>50,954 acres</b> acquired to conserve the integrity of undeveloped lands and habitat quality	<b>UNMET</b>
<b>534,632 acres</b> protected by Legacy Program to conserve the integrity of undeveloped lands and habitat quality	<b>EXCEEDED</b>
<b>12</b> Land Management Plans (LMPs) revisions completed	<b>UNMET</b>
<b>9 percent</b> of LMPs revisions completed	<b>UNMET</b>
Proportion of data within information systems that are current to standard	No specific measurement protocol in FY 2004
<b>112</b> forest plan monitoring reports completed	<b>EXCEEDED</b>
<b>94 percent</b> of forest plan monitoring reports completed	<b>EXCEEDED</b>

<sup>7</sup> Data from States for this Executive Priority are for July 1, 2003 to June 30, 2004.

## *NOTES TO THE FY 2004 PERFORMANCE SCORECARD*

The Forest Service developed a process that enables the agency to project annual accomplishments, prior to the close of the fiscal year, using existing data sources and tools. For FY 2004, the Forest Service developed and tested a report that compared the planned accomplishments with the projected accomplishments in WorkPlan or other databases of record, such as NFORS, Infra, and TIMS/STARS. These reports were available for the field to use in validating accomplishment data for the Executive Priorities.

By July 23, 2004, all field units recorded actual performance numbers for the first 9 months of the fiscal year in WorkPlan<sup>8</sup> or other data sources of record. In early August, the Washington Office pulled the field units' data for the first 9-month accomplishments to consolidate the data and making reports available by unit and Executive Priority for validation.

In late August, the field units provided their 3-month estimates, providing explanations for all UNMET or EXCEEDED accomplishments that deviated more than 5 percent below or above the planned FY 2004 numbers. The regional offices summarized their units' data and each regional forester certified that performance information for the first 9 months and the year-end projections for the Executive Priorities had been validated, with supporting documentation that was available upon request.

Finally, in mid-September, Washington Office program staffs completed their review, validation, and analysis of the FY 2004 projected performance information. The 12-month actual performance data will be available in early December 2004, as field units update WorkPlan and the other data sources to reflect the actual accomplishments for FY 2004. All Executive Priorities with an UNMET or EXCEEDED achievement will be handled as discussed below.

### *PLANNED ACTIONS AND SCHEDULE FOR ACHIEVING AN UNMET EXECUTIVE PRIORITY*

For every Executive Priority whose projected FY 2004 performance was unmet or exceeded, OMB Circular A-11 requires the agency to develop planned remedial actions and a schedule for these actions. The actions and schedule, which will occur in FY 2005, will be addressed in the FY 2005 performance budget.

OMB states that a description of the actions being taken, and the accompanying schedule, may be omitted for an unachieved performance measure where external factors, such as a natural disaster, were the sole cause for non achievement, and the agency lacks the capacity or authority to affect these factors or entities. There have been instances in the past several years where catastrophic wildland fires affected the Forest Service's capacity to accomplish its targets. This has not been the case in FY 2004.

Also, the Forest Service may conclude that it is not practical or feasible to report accomplishments for a performance measure. In this case, the agency may choose to discontinue or adjust the Executive Priority in the future.

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<sup>8</sup> Roads data will be recorded in WorkPlan for the 9-month actual performance, but full-year actual performance will be recorded in the Roads Analysis Report (RAR).

**PERFORMANCE TRENDS**

The Forest Service's FY 2004 Executive Priorities are the key performance measures for the agency in this Performance and Accountability Report. For several Executive Priorities, this is the first year for reporting these measures as they may be the result of OMB's PART findings or are important to our stakeholders. Consequently, there will be no trend information for these first-year Executive Priorities.

**Exhibit 6: Performance Trends for 2000-2004**

TRENDS IN PERFORMANCE MEASURES	2000	2001	2002	ACTUAL 2003 PERFORMANCE	PROJECTED 2004 PERFORMANCE
<b>Goal 1: Reduce the risk from catastrophic wildland fire</b>					
Number of acres of hazardous fuels within the WUI that are treated with Direct Hazardous Fuels (FN) dollars	--	--	--	--	1,294,598 <sup>9</sup>
Number of acres of hazardous fuels within the WUI that are treated with Other (FNOTH) dollars	NA <sup>10</sup>	611,551	764,367	1,114,106	313,770
Number of acres treated with Direct Hazardous Fuels (FN) dollars that are in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the WUI	--	--	--	--	398,319 <sup>11</sup>
Number of acres treated with Other (FNOTH) dollars that are in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the WUI	772,375	750,146	493,536	339,239	253,114
<b>Goal 2: Reduce the impacts from invasive species</b>					
Noxious weeds acres treated	121,946	143,938	130,868	138,742	85,081
<b>Goal 3: Provide high-quality recreation while sustaining natural resources</b>					
Miles of road maintained to standard (high-clearance and passenger)	(69,984+51,733)	(51,576+30,056)	(49,299+27,499)	(56,696 + 53,980)	64,866 <sup>12</sup>
Miles of trail maintained to standard	24,065	40,800	30,649	30,608	22,657
<b>Goal 5: Improve watershed condition</b>					
Watershed assessments completed	130	154	134	115	130
Acres of nonindustrial private forest land under approved stewardship management plans	1,437,360	1,616,986	1,640,000	1,717,000	1,618,000
Acres of terrestrial habitat enhanced to achieve desired ecological conditions	192,373	241,123	209,472	230,528	217,999
Miles of stream habitat enhanced to achieve desired ecological conditions	1,687	2,193	2,001	1,375	1,797

<sup>9</sup> In FY 2003, two measures were combined, and performance by funding categories FN and FNOTH was not broken out.

<sup>10</sup> Not applicable.

<sup>11</sup> In FY 2003, two measures were combined, and performance by funding categories FN and FNOTH was not broken out.

<sup>12</sup> In prior years, high-clearance road miles and passenger car miles were reported separately. The trend numbers are reported above as (high-clearance miles and passenger miles).

TRENDS IN PERFORMANCE MEASURES	2000				2001			2002		ACTUAL 2003 PERFORMANCE		PROJECTED 2004 PERFORMANCE
Acres of lake habitat enhanced to achieve desired ecological conditions		18,147	18,428	18,217	16,429	14,771						
<b>Goal 6: Improve productivity and efficiency</b>												
Acres adjusted (exchanged) to conserve the integrity of undeveloped lands and habitat quality		139,445	128,913	42,817	29,171	54,896						
Acres acquired to conserve the integrity of undeveloped lands and habitat quality		139,445	128,913	42,817	75,476	50,954						
Acres protected by Legacy Program to conserve the integrity of undeveloped lands and habitat quality <sup>13</sup>		31,263	84,709	57,009	128,349	534,632						
Number of forest plan monitoring reports completed <sup>14</sup>		87	104	92	91	112						

<sup>13</sup> This performance measure was previously reported as "Conservation of environmentally important forests threatened by conversion to non-forest uses."

<sup>14</sup> This performance measure was previously reported as "LMP monitoring and evaluation reports."

## DATA SOURCES FOR THE EXECUTIVE PRIORITIES

The following discussion describes the data sources used for the Executive Priorities. Management of invasive species and accessibility of Forest Service programs and facilities had incomplete or unreliable data sources.

### *WorkPlan*

At the project level, the Forest Service launched a work-planning tool—**WorkPlan**—in May 2003. Full implementation of WorkPlan occurred at the beginning of FY 2004. WorkPlan continues to make significant enhancements to improve functionality; providing timely and useful planning, financial, and accomplishment information for managers at all agency levels; and integrating data from a number of systems.

WorkPlan offers a consistent approach to project planning and tracking across the agency, replacing several variations of an older tool used since the 1980s. The PAS and WorkPlan will bridge the gaps among the legacy tracking and reporting systems, becoming the integration mechanisms to plan, implement, track, and report Forest Service activities.

### *Infra*

The Forest Service uses Infra as an integrated data management tool to manage and report accurate information and associated financial data on the inventory of constructed features, such as buildings, dams, bridges, water systems, roads, trails, developed recreation sites, range improvements, administrative sites, heritage sites, general forest areas, and wilderness.

Forest Service tracks NEPA analysis and recent decisions using Infra's Range Module. This Range Module, which is used on all national forests with a livestock grazing program, contains current information for nearly all grazing allotments on NFS lands.

Database queries are used to report the number of allotment acres administered to standard. The Forest Service's Wilderness Program continued its national upward reporting exercise using Infra-WILD, first conducted in FY 2002. Infra-WILD data is used for program management and public information dissemination and forms the basis for the State of the Wilderness Report, currently under development.

Most roads, trails, and facilities data are obtained through the Forest Service Infra corporate database system. Infra data entry takes place at the field level; therefore, limitations or inconsistencies exist in the data's accuracy. Currently, the only active process for data verification and validation are condition surveys throughout the year. The facilities program began reviewing existing data for accuracy and will edit the data as needed. These surveys provide a look at the progress of the performance measures.

Although trail data are currently incomplete, the Forest Service expects the Infra trails module, complemented by cost information, and assessment and condition data from the trails Assessment and Condition Survey, to provide complete trail information by local, regional, and national levels, as well as by State and political divisions.

The facilities program uses the facilities condition index in Infra as a measure to assess the condition of every building.

### *Performance Measures Accountability System*

The Performance Measures Accountability System (PMAS) is the S&PF Deputy Area performance management system. It relates measurements to the corresponding national and unit commitments.

The PMAS is used by S&PF staff to meet reporting requirements of GPRA for year-end accomplishment reporting, to meet legal requirements (i.e., Title VI), and in accordance with Forest Service directives. Data are captured from the States, forests, and other cooperators to generate these reports.

*National Fire Plan Operations and Reporting*

The National Fire Plan Operations and Reporting System (NFPORS) is an interagency system mandated by Congress. The Forest Service is the primary owner of this system, but it partners in its use with the Department of the Interior's Bureau of Indian Affairs, Bureau of Land Management, U.S. Fish and Wildlife Service, and National Park Service.

The following exhibit identified the data source for the Executive Priorities and how the accomplishments were measured in FY 2004.

**Exhibit 7: Accomplishment Reporting for the Executive Priorities**

Executive Priority	Data Source	How Accomplishments Are Reported
Hazardous fuels treated within the WUI	NFPORS	<p>The Forest Service tracked this performance measure as two separate Executive Priorities: one was treating acres using Hazardous Fuels Program funds (FN), and one treating acres using other funding (FNOTH).</p> <p>Accomplishment data are entered by field units (districts or forests) as accomplishments are contracted (for contracts) or carried out (for force account).</p>
Hazardous fuels treated within the WUI	NFPORS	<p>This accomplishment is reported as what percent of acres of hazardous fuels treated were identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan.</p>
Hazardous fuels treated outside WUI but in condition class 2 or 3 in fire regimes 1, 2, or 3	NFPORS	<p>The Forest Service tracked this performance measure as two separate Executive Priorities: one was treating acres using Hazardous Fuels Program funds (FN), and one treating acres using other funding (FNOTH).</p> <p>Accomplishment data are entered by field units (districts or forests) as accomplishments are contracted (for contracts) or carried out (for force account).</p>
Hazardous fuels treated outside WUI but in condition class 2 or 3 in fire regimes 1, 2, or 3	NFPORS	<p>This accomplishment is reported as what percent of acres of hazardous fuels treated were identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan.</p>
Stewardship contract improvements	WorkPlan	<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>
Communities at risk with completed and current fire management plans or risk assessments	Washington Office Staff, NFPORS	<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>
Lands covered by partnership agreements	Washington Office S&PF Staff	<p>This is a new indicator. The measure is the number of acres of non-Federal hazardous fuels treated through partnership. State Foresters report accomplishments to Forest Service regional office contacts or NFPORS directly.</p>
Noxious weeds treated	WorkPlan	<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 treatments completed. Units reported 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 where 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.</p>

Executive Priority	Data Source	How Accomplishments Are Reported
Selected species treated	Washington Office FHP and NFS Staffs	Accomplishments for biological control agents are claimed for the year of release only. Natural expansions of the biocontrol agent's population are not considered additional accomplishments.
Miles of trails maintained to standard	WorkPlan	Acres treated for Gypsy moth, Hemlock woolly adelgid, White pine blister rust, and invasive plants from FHP and NFS programs.
Miles of high clearance and passenger roads maintained to standard	WorkPlan	The Forest Service tracked miles of trails maintained to standard as identified in Meaningful Measures trails component. This accomplishment is reported in miles and as percent of total.
Number of facilities maintained to standard	WorkPlan (12-month actual performance reported in the Roads Accomplishment Report)	This accomplishment is reported in miles and percent and is the sum of the following:  Miles of objective maintenance level 1 and 2 roads that are maintained in accordance with standards for the applicable maintenance level at year-end.  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.
Rights-of-way acquired	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.
Percent of NFS lands covered by travel management implementation plans	WorkPlan	The Forest Service tracks the total number of road and trail right-of-way 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).
Watershed assessments completed	WorkPlan	The Forest Service tracks the percentage of acres of NFS land that is covered by contemporary access and travel management (ATM) decisions that address OHV 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.
	WorkPlan	Watershed (landscape scale ecosystem) assessments are characterizations of ecosystems at the landscape or watershed scale that provide integrated assessment of information relevant to a broad range of possible resource management activities. These assessments identify resource management opportunities necessary to implement land management plans and achieve desired conditions, as well as Forest Service strategic goals and other policy requirements.
		Assessments do not produce decision documents, but do identify options that managers can evaluate during formal planning activities, including identifying current and reference conditions, addressing changes in conditions and explaining their significance, identifying management issues, and making recommendations based on the assessment. They are based on existing information and do not include additional resource inventories.
		This accomplishment is reported as the number of watershed or landscape assessments completed using guidelines for ecosystem analysis at the landscape or watershed scale.

Executive Priority	Data Source	How Accomplishments Are Reported
Terrestrial wildlife habitat restored or enhanced	WorkPlan	<p>This accomplishment is the sum of acres of terrestrial habitat and acres of TES terrestrial habitat.</p> <p><b>Terrestrial habitat:</b> 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><b>TES terrestrial habitat:</b> 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>
Streams restored or enhanced	WorkPlan	<p>This accomplishment is the sum of miles of inland fish streams and anadromous fish streams restored or enhanced.</p> <p><b>Inland fish:</b> 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><b>For example:</b> 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><b>Anadromous fish:</b> 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>
Lakes restored or enhanced	WorkPlan	<p>This accomplishment is the sum of: inland fish-bearing lakes, ponds, and reservoirs and anadromous fish-bearing lakes, ponds, and reservoirs.</p> <p><b>Inland fish:</b> 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 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><b>Anadromous fish:</b> 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</p>

Executive Priority	Data Source	How Accomplishments Are Reported
		<p>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>
Nonindustrial private forest land under approved stewardship management plans.	PMAS	NOTE: FY 2004 data is not available from States until November 19, 2004. Acres reported are for FY 2003.  This accomplishment is reported as the number of acres of land under approved Forest Stewardship Plans in FY 2003.
Percent of the Nation for which forest inventory and analysis information is accessible to external customers	FIA Staff	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.
Land adjustments to conserve the integrity of undeveloped lands and habitat quality	WorkPlan	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.  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.  Acres acquired: The number of acres that are acquired through land purchase or donation, including conservation easements or interest in land, for NFS purposes.  Acres protected: The number of acres that are protected by purchase or by conservation easements.
Land Management Plan (LMP) revisions/new plans completed	WorkPlan	This accomplishment is reported when a Record of Decision (ROD) based on the Final Environmental Impact Statement (FEIS) 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.
Land Management Plan (LMP) monitoring and evaluation reports	WorkPlan	This accomplishment is reported when a NFS unit completes an "Annual Monitoring and Evaluation Report" in accordance with respective plan requirements; regional direction; FSH, FSM, and planning regulation guidance on what to monitor; and associated Washington Office policy direction.  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, with specific attention to the effects of management on ecological system structure and function.

Executive Priority	Data Source	How Accomplishments Are Reported
Performance data are current and complete	Washington Office P&BA Staff	The accomplishment is the percent of PSAs 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.
Grazing allotment decisions signed (analyzed/NEPA)	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.

**Exhibit 8: 2004 Planned and Actual Performance for the Executive Priorities**

<b>2004 PERFORMANCE MEASURES</b>		<b>2004 PLANNED</b>	<b>9-MONTH ACTUAL</b>	<b>3-MONTH ESTIMATE</b>	<b>PROJECTED 2004 PERFORMANCE</b>	<b>PERCENT (%) ACCOMPLISHED</b>
<b>Goal 1: Reduce the risk from catastrophic wildland fire</b>						
Number of acres of hazardous fuels within the WUI that are treated with Direct Hazardous Fuels dollars						
		1,016,759	1,180,870	113,728	1,294,598	127%
Number of acres of hazardous fuels within the WUI that are treated with Other (Not Direct Hazardous Fuels) dollars						
		292,720	150,485	163,285	313,770	107%
Percent of acres of hazardous fuels treated within the WUI that are identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan						
		100%	100%	100%	100%	100%
Number of acres treated with Direct Hazardous Fuels dollars that are in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the WUI						
		590,876	372,417	25,902	398,319	67%
Number of acres treated with Other (NOT Direct Hazardous Fuels) dollars that are in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the WUI						
		317,084	135,583	117,531	253,114	80%
Percent of acres treated that are in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the WUI that are identified as high priority through collaboration consistent with the 10-year Plan						
		100%	100%	100%	100%	100%
Number of acres brought into stewardship contracts						
		90,000 <sup>15</sup>	9,160	20,551	29,711	New Baseline
Percent of communities at risk with completed and current fire management plans or risk assessments						
		NA	NA	NA	No specific measurement protocol in FY 2004	NA
Number of acres covered by partnership agreements						
		NA	NA	NA	125,000	New Baseline
<b>Goal 2: Reduce the impacts from invasive species</b>						
Noxious weeds acres treated						
		67,438	36,912	48,169	85,081	126%
Number of acres treated for selected invasives species						
		1,046,482	784,862	261,620	1,046,482	100%
<b>Goal 3: Provide high-quality recreation while sustaining natural resources</b>						
Miles of road maintained to standard (high clearance and passenger)						
		54,800	43,238	21,628	64,866	118%

<sup>15</sup> Planned performance for this measure was adjusted to 55,000 acres based on mid-year reviews, but the correction was not made to the master performance reporting data.

<b>2004 PERFORMANCE MEASURES</b>		<b>2004 PLANNED</b>	<b>9-MONTH ACTUAL</b>	<b>3-MONTH ESTIMATE</b>	<b>PROJECTED 2004 PERFORMANCE</b>	<b>PERCENT (%) ACCOMPLISHED</b>
Percent of road maintained to standard (high clearance and passenger)	18%	15%	7%	22%	118%	
Number of facilities maintained to standard	15,465	15,871	3,872	19,743	128%	
Percent of facilities maintained to standard	38.5%	39.6%	09.6%	49.2%	128%	
Miles of trail maintained to standard	19,630	12,471	10,186	22,657	115%	
Percent of trail maintained to standard	15%	9%	8%	17%	115%	
Number of ROW acquired to provide public access	244	123	92	215	88%	
Percent of NFS lands covered by travel management implementation plans	NA	NA	NA	No specific measurement protocol in FY 2004	NA	
<b>Goal 5: Improve watershed condition</b>						
Watershed assessments completed	122	41	90	130	107%	
Acres of nonindustrial private forest land under approved stewardship management plans	1,618,000	1,213,000	405,000	1,618,000	100%	
Acres of terrestrial habitat enhanced to achieve desired ecological conditions	232,350	123,531	94,468	217,999	94%	
Miles of stream habitat enhanced to achieve desired ecological conditions	1,860	930	868	1,797	97%	
Acres of lake habitat enhanced to achieve desired ecological conditions	10,953	10,335	4,436	14,771	135%	
<b>Goal 6: Improve productivity and efficiency</b>						
Percent of the Nation for which forest inventory and analysis information is accessible to external customers	NA	76%	0	76%	New Baseline	
Extent to which performance data are current and complete	NA	NA	NA	86%	New Baseline	
Acres of land adjustments to conserve the integrity of undeveloped lands and habitat quality to conserve the integrity of undeveloped lands and habitat quality (sum of next 3 rows)	699,461	606,111	34,370	640,481	84%	
Acres adjusted (exchanged) to conserve the integrity of undeveloped lands and habitat quality	341,536	42,315	12,581	54,896	16%	
Acres acquired to conserve the integrity of undeveloped lands and habitat quality	57,925	38,985	11,968	50,954	0%	
Acres protected by Legacy Program to conserve the integrity of undeveloped lands and habitat quality	300,000	524,811	9,821	534,632	178%	
Number of Land Management Plans (LMPs) of revisions completed	14	9	3	12	86%	
Percent of LMPs of revisions completed	11%	7%	2%	9%	86%	
Proportion of data within information systems that are current to standard	NA	NA	NA	No specific measurement protocol in FY 2004	NA	

<b>2004 PERFORMANCE MEASURES</b>					
	<b>2004 PLANNED</b>	<b>9-MONTH ACTUAL</b>	<b>3-MONTH ESTIMATE</b>	<b>PROJECTED 2004 PERFORMANCE</b>	<b>PERCENT (%) ACCOMPLISHED</b>
Number of forest plan monitoring reports completed	105	29	82	112	106%
Percent of forest plan monitoring reports completed	88%	25%	69%	94%	106%

## **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 Sheets  
As of September 30, 2004 and 2003  
(in millions)**

	2004	2003 (As Restated)
<b>Assets:</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 3,506	\$ 3,263
Investments	4	3
Accounts Receivable (Note 4)	62	36
Total Intragovernmental	3,572	3,302
Accounts Receivable, Net (Note 4)	101	110
General Property, Plant, and Equipment, Net (Note 5)	3,807	3,851
Advances	10	12
<b>Total Assets (Note 2)</b>	<b>\$ 7,490</b>	<b>\$ 7,275</b>
<b>Liabilities:</b>		
Intragovernmental (Note 7):		
Accrued Liabilities	\$ 118	\$ 69
Treasury Judgment Fund	7	192
Deposit Liabilities	90	201
Other Liabilities	152	98
Total Intragovernmental	367	560
Accounts Payable	47	112
Federal Employee Benefits (Note 7)	343	390
Environmental and Disposal Liabilities	8	8
Other (Note 7)		
Accrued Liabilities	859	820
Annual Leave Liability	194	178
Other Liabilities	70	170
Total Liabilities (Note 6)	1,888	2,238
Commitments and Contingencies (Note 7)		
<b>Net Position:</b>		
Unexpended Appropriations	1,511	1,350
Cumulative Results of Operations	4,091	3,687
Total Net Position	5,602	5,037
<b>Total Liabilities and Net Position</b>	<b>\$ 7,490</b>	<b>\$ 7,275</b>

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

**U.S. Department of Agriculture  
Forest Service  
Consolidated Statements of Net Cost  
For the years ended September 30, 2004 and 2003  
(in millions)**

	<b>2004</b>	<b>2003 (As Restated)</b>
<b>Program Costs</b>		
Intragovernmental Gross Cost:		
Benefit Program Costs	\$ 350	\$ 326
Imputed Costs	244	229
Reimbursable Costs	613	392
Total Intragovernmental Gross Cost	1,207	947
Less: Intragovernmental Earned Revenues	121	315
Intragovernmental Net Costs	1,086	632
 Gross Costs With the Public:		
Grants and Indemnities	887	681
Stewardship Land Acquisition (Note 10)	87	191
Other:		
Operating Costs	3,212	3,962
Depreciation Expense	286	306
Reimbursable Costs	240	259
Total Other	3,738	4,527
Total Gross Costs with the Public	4,712	5,399
Less: Earned Revenues from the Public	538	482
Net Costs with the Public	4,174	4,917
 <b>Net Cost of Operations (Note 9)</b>	<b>\$ 5,260</b>	<b>\$ 5,549</b>

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

**U.S. Department of Agriculture  
Forest Service  
Consolidated Statements of Changes in Net Position  
For the years ended September 30, 2004 and 2003  
(in millions)**

	2004		2003 (As Restated)	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	\$		\$	
Prior Period Adjustments (Note 12)	3,473	1,517	2,899	1,762
Beginning Balances, as adjusted	214	(167)	258	(154)
<b>Budgetary Financing Sources:</b>	3,687	1,350	3,157	1,608
Appropriations Received	-	5,368	-	5,036
Appropriations Transfer - in/out	-	88	-	65
Other Adjustments (recissions, etc.)	-	(56)	-	(22)
Appropriations Used	5,239	(5,239)	5,337	(5,337)
Donations and Forfeitures of Cash	1	-	1	-
Transfers -in/out without Reimbursement	172	-	511	-
<b>Other Financing Sources:</b>				
Donations and Forfeitures of Property	4	-	1	-
Transfers In (Out) without Reimbursement	4	-	-	-
Imputed Financing from Costs Absorbed by Others	244	-	229	-
Total Financing Sources	5,664	161	6,079	(258)
Net Cost of Operations	(5,260)	-	(5,549)	-
<b>Ending Balances</b>	<b>\$ 4,091</b>	<b>\$ 1,511</b>	<b>\$ 3,687</b>	<b>\$ 1,350</b>

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

**U.S. Department of Agriculture  
Forest Service  
Combined Statements of Budgetary Resources  
For the years ended September 30, 2004 and 2003  
(in millions)**

	<u>2004</u>	<u>2003 (As Restated)</u>
<b>Budgetary Resources:</b>		
Budget Authority:		
Appropriations Received	\$ 5,923	\$ 5,845
Net Transfers	(12)	70
Unobligated Balance:		
Beginning of Period	1,256	834
Net Transfers, Actual	4	(129)
Spending Authority from Offsetting Collections:		
Earned:		
Collected	428	710
Receivable from Federal Sources	(13)	100
Change in Unfilled Customer Orders:		
Advances Received	(10)	(1)
Without Advance from Federal Sources	20	(46)
Subtotal	<u>425</u>	<u>763</u>
Recoveries of prior year obligations	97	113
Permanently/Temporarily Not Available Pursuant to Public Law	(54)	(26)
Total Budgetary Resources	<u>\$ 7,639</u>	<u>\$ 7,470</u>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred: (Note 11)		
Direct	\$ 5,632	\$ 5,583
Reimbursable	269	631
Subtotal	<u>5,901</u>	<u>6,214</u>
Unobligated Balance:		
Apportioned	1,262	823
Exempt from Apportionment	-	28
Unobligated Balances not Available	476	405
Total Status of Budgetary Resources	<u>\$ 7,639</u>	<u>\$ 7,470</u>
<b>Relation of Obligations to Outlays:</b>		
Obligated Balance, Net, Beginning of Period	\$ 1,597	\$ 1,401
Obligated Balance, Net, End of Period:		
Accounts Receivable	(213)	(227)
Unfilled Customer Orders from Federal Sources	(120)	(100)
Undelivered Orders	1,232	1,099
Accounts Payable	594	825
Outlays:		
Disbursements	5,900	5,851
Collections	(418)	(710)
Subtotal	<u>5,482</u>	<u>5,141</u>
Less: Offsetting Receipts	384	438
Net Outlays	<u>\$ 5,098</u>	<u>\$ 4,703</u>

The accompanying Notes are an integral part of the Financial Statements

**U.S. Department of Agriculture  
Forest Service  
Consolidated Statements of Financing  
For the years ended September 30, 2004 and 2003  
(in millions)**

	2004	2003 (As Restated)
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 5,901	\$ 6,214
Less: Spending Authority from Offsetting Collections and Recoveries	522	876
Obligations Net of Offsetting Collections and Recoveries	5,379	5,338
Less Offsetting Receipts	384	438
Net Obligations	4,995	4,900
Other Resources:		
Donations and Forfeitures of Property	4	1
Transfers in/out without reimbursement	4	-
Imputed Financing from Costs Absorbed by Others	244	229
Net Other Resources Used to Finance Activities	252	230
<b>Total Resources Used to Finance Activities</b>	<b>5,247</b>	<b>5,130</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided		
	131	184
Resources that Fund Expenses Recognized in Prior Periods	244	29
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	-	(223)
Resources that Finance the Acquisition of Assets	214	220
Total Resources Used to Finance Items not Part of the Net Cost of Operations	589	210
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>4,658</b>	<b>4,920</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Periods (Note 15):		
Increase in Annual Leave Liability	16	8
Increase in Environmental and Disposal Liability	-	1
Decrease (Increase) in Exchange Revenue Receivable from the Public	10	(56)
Increase in Accrued Liability for Payments to States	92	180
Other	70	94
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	188	227
Components not Requiring or Generating Resources:		
Depreciation and Amortization	286	306
Revaluation of Assets or Liabilities	(6)	17
Allocation of Transfers and Other (Note 16)	134	79
Total Components of Net Cost of Operations that will not Require or Generate Resources	414	402
<b>Total components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>	<b>602</b>	<b>629</b>
<b>Net Cost of Operations</b>	<b>\$ 5,260</b>	<b>\$ 5,549</b>

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

*U. S. Department of Agriculture*  
*Forest Service*  
**Notes to the Consolidated and Combined Financial Statements**

**For the years ended September 30, 2004 and 2003**

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**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 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*  
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**Notes to the Consolidated and Combined Financial Statements**

**For the years ended September 30, 2004 and 2003**

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**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 generally accepted accounting principles (GAAP) and in accordance with the Office of Management and Budget (OMB) Bulletin 01-09, *Form and Content of Agency Financial Statements*. 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 Bulletin 01-09.

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 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**

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*  
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**Notes to the Consolidated and Combined Financial Statements**  
**For the years ended September 30, 2004 and 2003**

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**E. INVENTORY AND RELATED PROPERTY**

Costs associated with nursery stock are expensed as incurred.

**F. GENERAL PROPERTY, PLANT AND EQUIPMENT**

General property, plant, and equipment (PP&E) includes real and personal property used in ordinary business operations. Real and personal property is recorded at cost or estimated fair market value and must have a useful life of 2 years or more. The USDA Forest Service capitalization threshold for acquisition of real property is \$25 thousand or more, effective fiscal year (FY) 2002. The capitalization threshold for personal property is \$25 thousand or more, effective FY 2003. The capitalization threshold for both real and personal property was \$5 thousand prior to these changes. Effective FY 2001, internal use software is capitalized in accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 10, *Accounting for Internal Use Software*, if the value meets or exceeds \$100 thousand. Prior to that period, software was not capitalized. Effective FY 2003, USDA Forest Service reported 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*.

**G. 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.

**H. 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.

**I. 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

*U. S. Department of Agriculture*  
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**Notes to the Consolidated and Combined Financial Statements**

**For the years ended September 30, 2004 and 2003**

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of the USDA Forest Service from a permanent appropriation for judgments and from other appropriations.

**J. 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) and are ultimately paid by the U.S. Department of Agriculture. 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 USDA through the current fiscal year and (2) an actuarial liability that represents the expected liability for USDA approved compensation cases to be paid beyond the current fiscal year.

**K. 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.

**L. 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

*U. S. Department of Agriculture*  
*Forest Service*  
**Notes to the Consolidated and Combined Financial Statements**

**For the years ended September 30, 2004 and 2003**

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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.

**M. REVENUES AND OTHER FINANCING SOURCES**

The USDA Forest Service is funded principally through Congressional appropriations and other authorizations from 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.

**N. 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 and claims paid for workers' compensation under the Federal Employees Compensation Act (FECA) are also recognized as imputed financing. Imputed financing for the years ended September 30, 2004 and 2003 was \$244 million and \$229 million, respectively.

*U. S. Department of Agriculture*  
*Forest Service*  
**Notes to the Consolidated and Combined Financial Statements**

**For the years ended September 30, 2004 and 2003**

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**O. COMBINED STATEMENTS OF BUDGETARY RESOURCES**

The USDA Forest Service receives two transfer allocations from appropriations of other agencies - the Department of Labor, Job Corps Civilian Conservation, and the Department of Transportation, Federal Aid to Highways. Job Corps Civilian Conservation is a Department of Labor 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 Bulletin number 01-09, *Form and Content of Agency Financial Statements*, 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.

**P. 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.

*U. S. Department of Agriculture*  
*Forest Service*  
**Notes to the Consolidated and Combined Financial Statements**

**For the years ended September 30, 2004 and 2003**

**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 contractors' performance bonds, 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, 2004 and 2003, total non-entity assets consisted of:

	(in millions)	
	<u>2004</u>	<u>2003 (As Restated)</u>
Intragovernmental:		
Fund Balance with Treasury:		
a) Balance in Receipt Accounts	\$168	\$171
b) Balance in Clearing Accounts	61	168
Total Intragovernmental	229	339
Accounts Receivable	10	27
Total Non-Entity Assets	239	366
Total Entity Assets	7,251	6,909
Total Assets	\$7,490	\$7,275

*U. S. Department of Agriculture*  
*Forest Service*  
**Notes to the Consolidated and Combined Financial Statements**

**For the years ended September 30, 2004 and 2003**

**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, 2004 and 2003 consisted of the following:

	(in millions)	
	<b>2004</b>	<b>2003 (As Restated)</b>
A. Fund Balances:		
(1) Trust Funds	\$533	\$400
(2) Revolving Funds	139	134
(3) Appropriated Funds	2,757	2,575
(4) Other Fund Types	77	154
Total	\$3,506	\$3,263
B. Status of Funds:		
(1) Unobligated Balance		
(a) Available	\$1,262	\$851
(b) Unavailable	476	405
(2) Obligated Balance not yet Disbursed	1,493	1,597
(3) Other Balances	275	410
Total	\$3,506	\$3,263

*U. S. Department of Agriculture*  
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**Notes to the Consolidated and Combined Financial Statements**

**For the years ended September 30, 2004 and 2003**

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**NOTE 4. ACCOUNTS RECEIVABLE**

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, 2004 and 2003, the intragovernmental accounts receivable balances were \$62 million and \$36 million (as restated), 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 transferred to an outside agency for collection (ex. Department of Justice, Department of the Treasury, etc.) is established at 100%. Non-intragovernmental accounts receivable as of September 30, 2004 and 2003 consisted of the following:

	(in millions)	
	<u>2004</u>	<u>2003 (As Restated)</u>
Accounts Receivable	\$212	\$202
Allowance for Doubtful Accounts	(111)	(92)
Accounts Receivable, Net	\$101	\$110

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**NOTE 5. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET**

Depreciation of general property, plant and equipment (PP&E) for the USDA Forest Service is recorded on the straight-line method based on the useful lives listed below. Capitalization thresholds are provided in Note 1, Section F.

As of September 30, 2004 and 2003 the USDA Forest Service's PP&E consisted of the following:

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

<b>September 30, 2003</b>				
(in millions)				
<b>Property Class</b>	<b>Useful Life (Years)</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
Personal Property	4-20	\$1,024	(\$696)	\$328
Real Property	10-50	7,345	(3,822)	3,523
<b>Total</b>		<u>\$8,369</u>	<u>(\$4,518)</u>	<u>\$3,851</u>

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**NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

Liabilities not covered by budgetary resources as of September 30, 2004 and 2003 consisted of the following:

	(in millions)	
	<u>2004</u>	<u>2003 (As Restated)</u>
Intragovernmental:		
Treasury Judgment Fund	\$7	\$192
Unfunded FECA (Note 7)	65	66
Total Intragovernmental	72	258
Federal Employee Benefits	343	390
Annual Leave Liability	194	178
Contingent Liabilities (Note 7)	1	8
Accrued Liability for Payments to States (Note 7)	380	288
Environmental and Disposal Liabilities	8	8
Total Liabilities Not Covered by Budgetary Resources	998	1,130
Total Liabilities Covered by Budgetary Resources	890	1,108
Total Liabilities	\$1,888	\$2,238

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**NOTE 7. INTRAGOVERNMENTAL AND OTHER LIABILITIES**

The following table segregates other liabilities between those covered and not covered by budgetary resources and between intragovernmental and other as of September 30, 2004 and 2003.

	(in millions)					
	<u>2004</u>			<u>2003 (As Restated)</u>		
<b>Other Liabilities Covered by Budgetary Resources</b>	<b>Non-Current</b>	<b>Current</b>	<b>Total</b>	<b>Non-Current</b>	<b>Current</b>	<b>Total</b>
<b>Intragovernmental</b>						
Employer Contributions & Payroll Tax	-	\$12	\$12	-	\$8	\$8
Accrued Liabilities	-	118	118	-	69	69
Advances from Others	-	17	17	-	25	25
Deposit Liabilities	-	90	90	-	201	201
Custodial Liabilities	-	58	58	-	(1)	(1)
<b>Total Intragovernmental</b>	<b>-</b>	<b>295</b>	<b>295</b>	<b>-</b>	<b>302</b>	<b>302</b>
Accrued Liabilities	-	479	479	-	532	532
Advances from Others	-	30	30	-	30	30
Deposit Liabilities	-	(2)	(2)	-	(25)	(25)
Purchaser Road Credits	-	16	16	-	21	21
Capital Leases (Note 8)	-	23	23	-	23	23
Custodial Liabilities	-	2	2	-	113	113
<b>Total Other Liabilities Covered by Budgetary Resources</b>	<b>-</b>	<b>\$843</b>	<b>\$843</b>	<b>-</b>	<b>\$996</b>	<b>\$996</b>
<b>Other Liabilities Not Covered by Budgetary Resources</b>						
<b>Intragovernmental</b>						
Treasury Judgment Fund	\$7	-	\$7	-	\$192	\$192
Unfunded FECA	36	29	65	39	27	66
<b>Total Intragovernmental</b>	<b>43</b>	<b>29</b>	<b>72</b>	<b>39</b>	<b>219</b>	<b>258</b>
Accrued Liability for Payments to States	-	380	380	-	288	288
Annual Leave Liability	18	176	194	14	164	178
Contingent Liabilities	1	-	1	8	-	8
<b>Total Other Liabilities Not Covered by Budgetary Resources</b>	<b>62</b>	<b>585</b>	<b>647</b>	<b>61</b>	<b>671</b>	<b>732</b>
<b>Total Intragovernmental and Other Liabilities</b>	<b>\$62</b>	<b>\$1,428</b>	<b>\$1,490</b>	<b>\$61</b>	<b>\$1,667</b>	<b>\$1,728</b>

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As of September 30, 2004 and 2003, the USDA Forest Service's major components of other liabilities are as follows:

***Intragovernmental Other Accrued Liabilities Covered by Budgetary Resources:*** Intragovernmental accrued liabilities covered by budgetary resources consist primarily of accruals for receipt of goods and services.

***Advances from Others:*** Advances from others consist primarily of monies on deposit for cooperative work project agreements with the public.

***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 Liabilities Covered by Budgetary Resources:*** Accrued liabilities covered by budgetary resources consist primarily of accruals for payroll and for receipt of goods and services.

***Purchaser Road Credits:*** Under the terms of certain timber sales contracts, timber purchasers are required to construct roads to gain access to the timber sold under the contract. Each month as the road is being completed, the timber purchaser is given a credit (referred to as a purchaser road credit or PRC), based on an engineer's estimate of the percentage of the roads that have been completed. These PRCs may be used to offset above-base timber stumpage value or may be transferred to another timber sale to the same purchaser on the same proclaimed national forest. Unused PRC is reported on the financial statement as a liability. Effective April 1, 1999, in accordance with 16 U.S.C. § 535a, PRC's are prohibited on newly issued timber contracts.

***Treasury Judgment Fund:*** Consistent with the provisions of the Federal Tort Claims Act, the USDA Forest Service pays small tort claim awards (\$2.5 thousand or less) out of its own funds. Tort claim awards exceeding \$2.5 thousand, however, are paid from the Claims, Judgments, and Relief Acts Fund (Judgment Fund) maintained by the Department of the Treasury. Absent a specific statutory requirement, the USDA Forest Service is not required to record a liability or reimburse the Judgment Fund for tort claims paid on its behalf. These payments, however, are recognized as an expense and an imputed financing source in the Consolidated Statements of Net Cost and Changes in Net Position. Payments reported from torts and court claims as of September 30, 2004 and 2003, amounted to \$2.4 and \$6.5 million, respectively.

The Contract Disputes Resolution Act (CDRA) governs litigation arising from contract disputes (such as those from timber sales contracts). Subsection 612(c) provides that CDRA payments made on behalf of Federal agencies by the Judgment Fund shall be reimbursed to the Fund. As of September

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30, 2004 and 2003, the USDA Forest Service owed the Judgment Fund \$7 million and \$192 million, respectively, for such payments.

**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, 2004 and 2003 consisted of the following:

	(in millions)	
	<u>2004</u>	<u>2003</u>
Not Covered by Budgetary Resources, Intragovernmental Liability for FECA	\$65	\$66
Not Covered by Budgetary Resources, Expected Future Liability for FECA	343	390
Total	<u>\$408</u>	<u>\$456</u>

**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.

**Pending Litigation and Unasserted Claims (Contingent Liabilities):** As of September 30, 2004, the USDA Forest Service had four legal actions pending. Based on information provided by legal counsel, management believes some adverse decisions are probable. The estimated loss for these claims is \$1 million.

No amounts have been accrued in the financial statements for claims where the amount or probability of judgment is uncertain. The USDA Forest Service's potential liability for these claims is approximately \$57 million.

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**NOTE 8. 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 cancelable upon certain funding conditions. The USDA Forest Service's assets under capital leases as of September 30, 2004 and 2003 and future capital and operating lease agreement payments as of September 30, 2004, consisted of the following:

<b>Capital Leases:</b>	<b>(in millions)</b>	
	<b>2004</b>	<b>2003</b>
<hr/>		
Summary of Assets Under Capital Leases		
Land, Building Machinery, & Equipment	\$40	\$40
Accumulated Amortization	<u>(17)</u>	<u>(17)</u>
Total	<u>\$23</u>	<u>\$23</u>
Future Payments Due:		
	Land & Buildings	
Fiscal Year		
2005	\$11	
2006	11	
2007	11	
2008	11	
2009	10	
After 5 Years	88	
<hr/>		
Total Future Lease Payments	\$142	
Less: Imputed Interest	38	
Less: Executory Costs	<u>48</u>	
Subtotal	\$56	
Less: Lease Renewal Options	33	
<hr/>		
Net Capital Lease Liability, covered by Budgetary Resources	\$23	
<hr/>		

<b>Operating Leases:</b>	<b>(in millions)</b>		
<hr/>			
Future Payments Due:			
	Fiscal Year	Land & Buildings	Machinery & Equipment
			Total
	2005	\$66	\$1
	2006	61	1
	2007	56	1
	2008	50	-
	2009	45	-
	After 5 Years	257	-
<hr/>			
Total Future Lease Payments		\$535	\$3
			\$538
<hr/>			

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**NOTE 9. 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, 2004 and 2003. The 2003 presentation has been reclassified to eliminate the previously reported Working Capital Fund and incorporates the restatement disclosed in Note 12.

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**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
<b>Total Intragovernmental Gross Costs</b>	<b>890</b>	<b>36</b>	<b>121</b>	<b>160</b>	<b>1,207</b>
Less: Intragovernmental Earned Revenue	80	24	7	10	121
<b>Intragovernmental Net Costs</b>	<b>810</b>	<b>12</b>	<b>114</b>	<b>150</b>	<b>1,086</b>
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
<b>Total Other</b>	<b>1,768</b>	<b>304</b>	<b>128</b>	<b>1,538</b>	<b>3,738</b>
<b>Total Gross Costs with the Public</b>	<b>2,554</b>	<b>306</b>	<b>297</b>	<b>1,555</b>	<b>4,712</b>
Less: Earned Revenues from the Public	458	5	1	74	538
<b>Net Costs with the Public</b>	<b>2,096</b>	<b>301</b>	<b>296</b>	<b>1,481</b>	<b>4,174</b>
<b>Net Cost of Operations</b>	<b>\$2,906</b>	<b>\$313</b>	<b>\$410</b>	<b>\$1,631</b>	<b>\$5,260</b>

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**USDA Forest Service**  
**Program Costs by Segment**  
**For the year ended September 30, 2003**

(in millions)

	National Forests and Grasslands	Forest and Rangeland Research	State and Private Forestry	Wildland Fire Management	Total
Intragovernmental Gross Costs:					
Benefit Program Costs	\$316	\$1	\$ -	\$9	\$326
Imputed Costs	229	-	-	-	229
Reimbursable Costs	201	21	12	158	392
<b>Total Intragovernmental Gross Costs</b>	<b>746</b>	<b>22</b>	<b>12</b>	<b>167</b>	<b>947</b>
Less: Intragovernmental Earned Revenue	129	48	10	128	315
<b>Intragovernmental Net Costs</b>	<b>617</b>	<b>(26)</b>	<b>2</b>	<b>39</b>	<b>632</b>
Gross Costs With the Public :					
Grants and Indemnities	431	6	237	7	681
Stewardship Land Acquisition	191	-	-	-	191
Other:					
Operating Costs	1,904	258	126	1,674	3,962
Depreciation Expense	270	3	1	32	306
Reimbursable Costs	96	26	6	131	259
<b>Total Other</b>	<b>2,270</b>	<b>287</b>	<b>133</b>	<b>1,837</b>	<b>4,527</b>
<b>Total Gross Costs with the Public</b>	<b>2,892</b>	<b>293</b>	<b>370</b>	<b>1,844</b>	<b>5,399</b>
Less: Earned Revenues from the Public	328	29	2	123	482
<b>Net Costs with the Public</b>	<b>2,564</b>	<b>264</b>	<b>368</b>	<b>1,721</b>	<b>4,917</b>
<b>Net Cost of Operations</b>	<b>\$3,181</b>	<b>\$238</b>	<b>\$370</b>	<b>\$1,760</b>	<b>\$5,549</b>

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**NOTE 10. COST OF STEWARDSHIP PROPERTY PLANT AND EQUIPMENT**

Stewardship assets acquired through purchase in fiscal years 2004 and 2003 amounted to \$87 and \$191 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.

**NOTE 11. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED**

The Office of Management and Budget (OMB) usually distributes budgetary resources in an account or fund by specific time periods, activities, projects, objects or a combination of these categories, 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 FY2004. All obligations incurred for FY2003 were category B apportionments.

**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
<b>Total Obligations Incurred</b>	<b>\$3,641</b>	<b>\$2,260</b>	<b>\$5,901</b>

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**NOTE 12. RESTATEMENTS AND RECLASSIFICATIONS**

***Restatements***

In fiscal year 2004, the USDA Forest Service corrected its fiscal year 2003 financial statements to:

- A. Properly align budgetary and proprietary account relationships and correct certain related budgetary and proprietary posting errors in:
  - The Wildland Fire Management Fund
  - The National Forest System Fund
  - The Roads and Trails Special Fund
  - The Land Between the Lakes Management Trust
  - Other various special and trust funds
- B. Correct errors in various suspense and deposit clearing funds.
- C. Correct an overstatement in Fund Balance with Treasury and associated custodial liability.
- D. Correct errors in recording certain revenue transactions.
- E. Correct offsetting receipts.

***Reclassifications***

The USDA Forest Service reclassified certain fiscal year 2003 amounts to conform to the fiscal year 2004 financial statement presentation primarily to provide more detail regarding liabilities and intragovernmental gross costs.

The following tables summarize the fiscal year 2003 restatements and reclassifications described above by financial statement.

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**CONSOLIDATED BALANCE SHEET**  
**(Affected Line Items)**

(dollars in millions)	As Originally Reported	Restatements	Ref.	Reclassifications	Restated 2003
<b>Assets:</b>					
Fund Balance with Treasury	\$3,294	(\$31)	C	\$ -	\$3,263
Intragovernmental Accounts Receivable	\$56	(\$20)	A	\$ -	\$36
		\$18	D		
		(4)	B		
Accounts Receivable, Net	\$96	\$14		\$ -	\$110
<b>Total Assets</b>	<b>\$7,312</b>	<b>(\$37)</b>		<b>\$ -</b>	<b>\$7,275</b>
<b>Liabilities:</b>					
Accrued Liabilities	\$ -	\$ -		\$69	\$69
Treasury Judgement Fund	\$ -	\$ -		\$192	\$192
Deposit Liabilities	\$ -	\$ -		\$201	\$201
		(\$39)	C		
		15	A		
Intragovernmental Other Liabilities	\$584	(\$24)		(\$462)	\$98
Federal Employee Benefits	\$ -	\$ -		\$390	\$390
Accrued Liabilities	\$ -	\$ -		\$820	\$820
Annual Leave Liability	\$ -	\$ -		\$178	\$178
		(\$88)	A		
		(1)	B		
		30	C		
Other Liabilities	\$1,617	(\$59)		(\$1,388)	\$170
<b>Total Liabilities</b>	<b>\$2,321</b>	<b>(\$83)</b>		<b>\$ -</b>	<b>\$2,238</b>
<b>Net Position:</b>					
Unexpended Appropriations	\$1,517	(\$167)	A	\$ -	\$1,350
		\$221	A		
		(3)	B		
		(23)	C		
		18	D		
Cumulative Results of Operations	\$3,474	\$213		\$ -	\$3,687
Total Net Position	\$4,991	\$46		\$ -	\$5,037
<b>Total Liabilities and Net Position</b>	<b>\$7,312</b>	<b>(\$37)</b>		<b>\$ -</b>	<b>\$7,275</b>

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**CONSOLIDATED STATEMENT OF NET COST**  
**(Affected Line Items)**

(dollars in millions)	As Originally Reported	Restatements	Ref.	Reclassifications	Restated 2003
<b>Program Costs</b>					
Intragovernmental Gross Costs	\$955	\$ -		(\$955)	\$ -
Benefit Program Costs	\$ -	\$ -		\$326	\$326
Imputed Costs	\$ -	\$ -		\$229	\$229
Reimbursable Costs	\$ -	\$ -		\$392	\$392
Total Intragovernmental Gross Costs	\$955	\$ -		(\$8)	\$947
Intragovernmental Earned Revenues	\$331	(\$16)	A	\$ -	\$315
Intragovernmental Net Costs	\$624	\$16	A	(\$8)	\$632
<b>Gross Costs With the Public:</b>					
Grants	\$670	\$ -		(\$670)	\$ -
Indemnities	\$11	\$ -		(\$11)	\$ -
Grants and Indemnities	\$ -	\$ -		\$681	\$681
		\$49	A		
		(9)	C		
Operating Costs	\$3,920	\$40		\$2	\$3,962
Total Gross Costs with the Public	\$5,357	\$40		\$2	\$5,399
		(\$19)	A		
		\$18	D		
Earned Revenues from the Public	\$489	(\$1)		(\$6)	\$482
Net Costs with the Public	\$4,868	\$41		\$8	\$4,917
<b>Net Cost of Operations</b>	<b>\$5,492</b>	<b>\$57</b>		<b>\$ -</b>	<b>\$5,549</b>

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**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
**(Affected Line Items)**

(dollars in millions)	As Originally Reported	Restatements	Ref.	Restated 2003
<b>Cumulative Results of Operations</b>				
Beginning Balance	<u>\$2,899</u>	<u>\$258</u>	A	<u>\$3,157</u>
<b>Budgetary Financing Sources:</b>				
Appropriations Used	<u>\$5,323</u>	<u>\$14</u>	A	<u>\$5,337</u>
Net Cost of Operations	<u>\$5,492</u>	<u>\$57</u>		<u>\$5,549</u>
<b>Ending Balances</b>	<b><u>\$3,472</u></b>	<b><u>\$215</u></b>		<b><u>\$3,687</u></b>
<b>Unexpended Appropriations</b>				
Beginning Balance	<u>\$1,762</u>	<u>(\$154)</u>	A	<u>\$1,608</u>
<b>Budgetary Financing Sources:</b>				
Appropriations Used	<u>(\$5,323)</u>	<u>(\$14)</u>	A	<u>(\$5,337)</u>
<b>Ending Balances</b>	<b><u>\$1,518</u></b>	<b><u>(\$168)</u></b>		<b><u>\$1,350</u></b>

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**STATEMENT OF BUDGETARY RESOURCES**  
**(Affected Line Items)**

(dollars in millions)	As Originally Reported	Restatements	Ref.	Restated 2003
<b>Budgetary Resources:</b>				
Unobligated Balance:				
Beginning of Period	\$842	(\$8)	A	\$834
Net Transfers, Actual	(115)	(14)	A	(129)
Spending Authority from Offsetting Collections:				
		(\$12)	A	
		18	D	
Receivable from Federal Sources	\$94	\$6		\$100
Recoveries of prior year obligations	\$101	\$12	A	\$113
<b>Total Budgetary Resources</b>	<b>\$7,474</b>	<b>(\$4)</b>		<b>\$7,470</b>
<b>Status of Budgetary Resources:</b>				
Obligations Incurred:				
Direct	\$5,438	\$145	A	\$5,583
Reimbursable	\$697	(\$66)	A	\$631
Unobligated Balance:				
Apportioned	\$832	(\$9)	A	\$823
Unobligated Balances not Available	\$479	(\$74)		405
<b>Total Status of Budgetary Resources</b>	<b>\$7,474</b>	<b>(\$4)</b>		<b>\$7,470</b>
<b>Relation of Obligations to Outlays:</b>				
Obligated Balance, Net, Beginning of Period	\$1,378	\$23	A	\$1,401
Obligated Balance, Net, End of Period:				
		\$12	A	
		(18)	D	
Accounts Receivable	(221)	(\$6)		(227)
Undelivered Orders	\$962	\$137	A	\$1,099
Accounts Payable	\$873	(\$48)	A	\$825
Less: Offsetting Receipts	\$404	\$34	E	\$438
<b>Net Outlays</b>	<b>\$4,737</b>	<b>(\$34)</b>		<b>\$4,703</b>

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**STATEMENT OF FINANCING**  
**(Affected Line Items)**

(dollars in millions)	As Originally Reported	Restatements	Ref.	Reclassifications	Restated 2003
<b>Resources Used to Finance Activities:</b>					
Obligations Incurred	\$6,135	\$79	A	\$ -	\$6,214
Less: Spending Authority from Offsetting Collections and Recoveries	\$858	\$18	A	\$ -	\$876
Less Offsetting Receipts	\$404	\$34	E	\$ -	\$438
<b>Total Resources Used to Finance Activities</b>	<b>\$5,103</b>	<b>\$27</b>		<b>\$ -</b>	<b>\$5,130</b>
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet provided	\$51	\$133	A	\$ -	\$184
		(\$5)	A		
		(\$31)	C		
		(\$34)	E		
Budgetary Offsetting Collections and Receipts that do not affect Net Cost of Operations	(\$153)	(\$70)	A	\$ -	(\$223)
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>\$4,956</b>	<b>(\$36)</b>		<b>\$ -</b>	<b>\$4,920</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>					
Increase in Exchange Revenue Receivable from the Public	(\$41)	(\$15)	A	\$ -	(\$56)
Increase in Accrued Liability for Payments to States	\$ -	\$ -		\$180	\$180
		\$97	A	(\$180)	
		(\$9)	C	(\$77)	
		\$18	D	\$ -	
Other	\$245	\$106		(\$257)	\$94
<b>Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods</b>				<b>\$77</b>	<b>\$79</b>
Allocation Transfers and Other	\$ -	\$2		\$77	\$79
<b>Net Cost of Operations</b>	<b>\$5,492</b>	<b>\$57</b>		<b>\$ -</b>	<b>\$5,549</b>

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**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.

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

The differences between the fiscal 2003 Statement of Budgetary Resources (SBR) as restated and the fiscal 2003 actual numbers presented in the fiscal 2005 Budget of United States Government (Budget) are summarized below.

SBR Line Description	(in millions)				Note
	SBR Amount	Budget Amount	Dollar Variance	Percentage Variance	
Total Budgetary Resources/Status of Resources	\$7,470	\$7,887	(\$417)	-5%	
New Budget Authority	5,845	5,838	7	-	
Net transfers, current year authority	70	52	18	35%	
Offsetting Collections - Earned	810	708	102	14%	<b>a</b>
Change in Unfilled Customer Orders	(47)	66	(113)	-171%	<b>b</b>
Unobligated Balance-Beginning of Year	834	1,136	(302)	-27%	<b>c</b>
Net transfers, prior year balances, actual	(129)	20	(149)	-745%	<b>d</b>
Recoveries of Prior Year Obligations	113	94	19	20%	
Permanently not Available	(26)	(27)	1	-4%	
Total New Obligations	6,214	6,516	(302)	-5%	<b>c</b>
Unobligated Balance-End of Year	1,256	1,371	(115)	-8%	<b>c</b>
Obligated Balance-Beginning of Year	1,401	964	437	45%	<b>c</b>
Obligated Balance-End of Year	1,597	1,456	141	10%	<b>c</b>
Outlays	5,141	5,149	(8)	-	

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Certain amounts in the SBR as restated differ from those presented in the Budget primarily because the following items were not properly recorded in the accounting records at the time the USDA Forest Service completed its budget submission:

- a. An expenditure transfer for \$110 million to the Wildland Fire Management Fund.
- b. Reductions in new customer orders (i.e., reimbursable agreements) for the State and Private Forestry and National Forest System funds in the amount of \$45 and \$52 million, respectively.
- c. Obligations at the beginning and end of the fiscal year in the amount of \$437 and \$141 million, respectively. This also caused the beginning unobligated balance and total new obligations to be overstated by \$302 million and ending unobligated to be overstated by \$115 million.
- d. Transfer of \$115 million from a special fund receipt account to the Payments to States expenditure account.

Also, the SBR includes balances in expired accounts no longer available for obligations.

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

The USDA Forest Service's fiscal year 2004 and 2003 differences between the liabilities not covered by budgetary resources and the change in components requiring or generating resources in future periods result from liabilities not covered by budgetary resources being recorded in current year to the Consolidated Statements of Net Cost; while liabilities not covered by budgetary resources are cumulative over fiscal years. The components of the Consolidated Statements of Net Cost that will require or generate resources in the future are as follows:

	(in millions)	
	<u>2004</u>	<u>2003 (As Restated)</u>
Increase in Annual Leave Liability	\$16	\$8
Increase in Environmental and Disposal Liability	-	1
Decrease (Increase) in Exchange Revenue Receivable from the Public	10	(56)
Increase in Accrued Liability for Payments to States	92	180
Other	70	94
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	\$188	\$227

**NOTE 16. DESCRIPTION OF TRANSFERS THAT APPEAR AS A RECONCILING ITEM ON THE CONSOLIDATED STATEMENT OF FINANCING**

The USDA Forest Service has the following routine transfers without reimbursement that are reconciling items on the Consolidated Statement of Financing:

**Transfers In**

<b>Trading Partner</b>	<b>Account Title</b>	<b>Purpose</b>
Department of Labor	Job Corps Civilian Conservation	Provide training for under-employed youths.
Department of Transportation	Federal Highway Trust Fund	Maintenance and upkeep of federal highways traversing National Forest lands.

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**NOTE 17. DEDICATED COLLECTIONS**

The USDA Forest Service recognizes the following funds as dedicated collections. 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 all significant dedicated collections is shown below. Following the financial information is the related descriptive narrative for each of the significant dedicated collection funds.

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

	Cooperative Work	Land Acquisition	Payments to States, National Forest Fund		Timber Salvage Sales	Timber Maintenance of Recreation Facilities	Fee, Operations and	Timber Roads, Purchaser Election	Expenses, Brush Disposal	Recreation Fee Demonstration Program	Roads and Trails for States, National Forest Fund		Reforestation Trust Fund	Other Funds	Total
			Land Acquisition	Timber Salvage Sales							States, National Forest Fund	States, National Forest Fund			
<b>ASSETS</b>															
Fund Balance with Treasury	\$472	\$99	\$131	\$98	\$93	\$61	\$56	\$42	\$26	\$26	\$26	\$59	\$1,163		
Investments	-	-	-	-	-	-	-	-	-	-	-	4	4		
Accounts Receivable, Net	2	-	-	1	-	-	-	2	-	-	-	9	14		
General Property, Plant & Equipment, Net	16	48	2	1	-	2	-	3	15	-	-	3	90		
<b>TOTAL ASSETS</b>	<b>\$490</b>	<b>\$147</b>	<b>\$133</b>	<b>\$100</b>	<b>\$93</b>	<b>\$63</b>	<b>\$56</b>	<b>\$47</b>	<b>\$41</b>	<b>\$26</b>	<b>\$26</b>	<b>\$75</b>	<b>\$1,271</b>		
<b>LIABILITIES</b>															
Accounts Payable	(\$1)	\$-	\$1	(\$2)	\$-	\$-	\$-	\$1	\$1	\$-	\$-	\$-	\$-		
Other Liabilities	49	2	63	7	12	-	-	2	2	3	3	5	145		
<b>TOTAL LIABILITIES</b>	<b>48</b>	<b>2</b>	<b>64</b>	<b>5</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>5</b>	<b>145</b>		
Total Net Position	442	145	69	95	81	63	56	44	38	23	23	70	1,126		
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$490</b>	<b>\$147</b>	<b>\$133</b>	<b>\$100</b>	<b>\$93</b>	<b>\$63</b>	<b>\$56</b>	<b>\$47</b>	<b>\$41</b>	<b>\$26</b>	<b>\$26</b>	<b>\$75</b>	<b>\$1,271</b>		
<b>CHANGE IN NET POSITION</b>															
Beginning Balances	\$300	\$76	\$53	\$56	\$81	\$28	\$35	\$28	\$38	\$26	\$26	\$44	\$765		
Prior Period Adjustments	-	-	-	-	-	-	-	-	1	-	-	2	3		
Beginning Balances, as adjusted	300	76	53	56	81	28	35	28	39	26	26	46	768		
<b>Budgetary Financing Sources:</b>															
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	13	29	29	14	570		
Total Financing Sources	154	162	93	35	-	35	20	14	13	29	29	15	570		
Net Cost of Operations	12	93	77	(4)	-	-	(1)	(2)	14	32	32	(9)	212		
<b>ENDING BALANCES</b>	<b>\$442</b>	<b>\$145</b>	<b>\$69</b>	<b>\$95</b>	<b>\$81</b>	<b>\$63</b>	<b>\$56</b>	<b>\$44</b>	<b>\$38</b>	<b>\$23</b>	<b>\$23</b>	<b>\$70</b>	<b>\$1,126</b>		

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**Dedicated Collections**  
**As of and for the year ended September 30, 2003**  
(In millions)

	Cooperative Work	Land Acquisition	Payments to States, National Forest Fund	Timber Salvage Sales	Operations and Maintenance of Recreation Facilities	Timber Roads, Purchaser Election	Expenses, Brush Disposal	Recreation Fee Demonstration Program	Roads and Trails for States, National Forest Fund	Reforestation Trust Fund	Other Funds	Total
<b>ASSETS</b>												
Fund Balance with Treasury	\$325	\$32	\$104	\$52	\$89	\$27	\$33	\$25	\$29	\$28	\$46	\$790
Investments	-	-	-	-	-	-	-	-	-	-	-	3
Accounts Receivable, Net	8	-	-	6	-	-	1	1	-	-	-	19
General Property, Plant & Equipment, Net	13	48	-	1	-	1	1	2	13	-	-	80
<b>TOTAL ASSETS</b>	<b>\$346</b>	<b>\$80</b>	<b>\$104</b>	<b>\$59</b>	<b>\$89</b>	<b>\$28</b>	<b>\$35</b>	<b>\$28</b>	<b>\$42</b>	<b>\$28</b>	<b>\$53</b>	<b>\$892</b>
<b>LIABILITIES</b>												
Accounts Payable	(\$1)	\$2	\$-	(\$2)	\$-	\$-	\$-	\$-	\$1	\$-	\$2	\$2
Other Liabilities	47	2	51	5	8	-	-	-	2	2	5	122
<b>TOTAL LIABILITIES</b>	<b>46</b>	<b>4</b>	<b>51</b>	<b>3</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>2</b>	<b>7</b>	<b>124</b>
Total Net Position	300	76	53	56	81	28	35	28	39	26	46	768
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$346</b>	<b>\$80</b>	<b>\$104</b>	<b>\$59</b>	<b>\$89</b>	<b>\$28</b>	<b>\$35</b>	<b>\$28</b>	<b>\$42</b>	<b>\$28</b>	<b>\$53</b>	<b>\$892</b>
<b>CHANGE IN NET POSITION</b>												
Beginning Balances	\$213	\$59	(\$116)	\$90	\$81	\$8	\$38	\$26	\$2	\$30	\$9	\$440
Prior Period Adjustments	(16)	(1)	116	(14)	-	-	(2)	(1)	(11)	(1)	6	76
Beginning Balances, as adjusted	197	58	-	76	81	8	36	25	(9)	29	15	516
Budgetary Financing Sources:												
Donations and Forfeitures of Cash	-	-	-	-	-	-	-	-	-	-	-	1
Transfers -in/out without Reimbursement	129	176	107	(5)	-	8	-	-	16	30	21	482
Other Financing Sources:												
Transfers-in/out without Reimbursement	-	-	-	(1)	-	-	-	-	-	-	(1)	(2)
Total Financing Sources	129	176	107	(6)	-	8	-	-	16	30	21	481
Net Cost of Operations	26	158	54	14	-	(12)	1	(3)	(32)	33	(10)	229
<b>ENDING BALANCES</b>	<b>\$300</b>	<b>\$76</b>	<b>\$53</b>	<b>\$56</b>	<b>\$81</b>	<b>\$28</b>	<b>\$35</b>	<b>\$28</b>	<b>\$39</b>	<b>\$26</b>	<b>\$46</b>	<b>\$768</b>

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**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.

**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).

**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.

**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).

**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 amounts already provided in the National Forest System appropriation. The Land and Water Conservation Fund 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.

**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

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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).

**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.

**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.

**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).

**Reforestation Trust Fund**

The Reforestation Trust Fund Treasury 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 Reforestation Trust Fund for use by the Secretary of Agriculture for reforestation and timber-stand improvement activities. The Act of October 14, 1980, as amended (16 U.S.C. 1606 a(d)) established the Reforestation Trust Fund.

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**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 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, 2004 and 2003, the amount of marijuana on hand was 32,685(kg) and 66,516(kg), respectively. The large decrease is primarily the result of an error in the FY2003 ending balance. The agency is unable to determine the amount of the error due to limitations of the legacy system in preparing a roll forward schedule with additions and deletions for seized property.

Additionally, the amount of marijuana seeds on hand as of September 30, 2004 was 48,330 units. The amount of seeds on hand as of September 30, 2003 was not available.

The USDA Forest Service implemented a new data base at the end of fiscal year 2004 to track by transaction the amount of seized and forfeited property. This data base will maintain the necessary data for compilation of a roll forward schedule in the future.

**REQUIRED SUPPLEMENTARY INFORMATION**

**(Unaudited)**

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(Unaudited)**

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**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 Government has elected not to fund and, therefore, the costs are not reflected in the financial statements. Maintenance is defined to include preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieve its expected life. 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), stewardship assets, and heritage 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.

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.

**Exhibit 9: Deferred Maintenance Totals (in thousands) by Asset Class as of September 30, 2004**

<b>Asset Class</b>	<b>Overall Condition (1)</b>	<b>Cost To Return to Acceptable Condition</b>	<b>Critical Maintenance (2)</b>	<b>Noncritical Maintenance (3)</b>
Buildings and admin. facilities <sup>16</sup>	Varies	\$462,549	\$129,350	\$333,199
Dams	Varies	28,255	9,594	18,661
Heritage Assets	Varies	9,570	4,866	4,704
Range improvements <sup>17</sup>	Varies	464,462	464,105	357
Recreation facilities <sup>18</sup>	Varies	178,115	51,949	126,166
Roads and bridges	Varies	5,279,789	773,999	4,505,790
Trails <sup>19</sup>	Varies	106,558	36,459	70,099
Wildlife, fish, and threatened and endangered species <sup>20</sup>	Varies	6,169	4,419	1,750
<b>Totals*</b>		<b>\$6,535,467</b>	<b>\$1,474,741</b>	<b>\$5,060,726</b>

\* Overall agency indirect cost of managing the program is 19 percent (not included in the figures above).

<sup>16</sup> Buildings and administrative facilities include buildings and 25 percent of water and wastewater systems.

<sup>17</sup> Range improvements include fences and stock handling facilities.

<sup>18</sup> Recreation facilities include developed recreation sites, general forest areas, and 75 percent of water and wastewater systems.

<sup>19</sup> Trails include trails and trail bridges.

<sup>20</sup> Wildlife, fish, threatened and endangered species also includes watershed and wilderness improvements.

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*(Unaudited)*

*For the years ended September 30, 2004 and 2003*

**(1) Overall Condition.** Condition of major classes of property range from poor to good depending on location, age, and type of property. Currently no comprehensive national assessment of Forest Service property exists. The current deferred maintenance estimates were based on regularly scheduled condition surveys and inspections. Condition surveys were performed on a statistical sample of closed and very low traffic volume roads.

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

**(3) Noncritical Maintenance.** This is a requirement that addresses 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.

Condition of Administrative Facilities. The condition of administrative facilities ranges from poor to good. Approximately one-half of these buildings are obsolete or in poor condition needing major repairs or renovation. Approximately one-fourth of these buildings are in fair condition, and the remaining are in good condition.

Condition of Dams. 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. Also, in order to be in acceptable condition, the agency needs to restore the dams to the original functional purpose, correct unsightly conditions, or prevent more costly repairs.

The standards for acceptable operating condition for various classes of general PP&E, stewardship, and heritage assets are as follows:

- Buildings. Comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys. These requirements are found in Forest Service Manual (FSM) 7300.
- Dams. Managed according to FSM 7500, Water Storage and Transmission, and Forest Service Handbook (FSH) 7509.11, Dams Management, as determined by condition surveys.
- Heritage Assets. These assets include archaeological sites that require determinations of National Register of Historic Places status, National Historic Landmarks, and significant historic properties. Some heritage assets may have historical significance, but their primary function in the agency is as visitation or recreation sites and, therefore, may not fall under the management responsibility of the heritage program.
- Range Structures. The condition assessment was 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 long-standing range methodology is used to gather this data.
- Developed Recreation Sites. This category includes campgrounds, trailheads, trails, wastewater facilities, interpretive facilities, and visitor centers. All developed sites are managed in accordance with Federal laws and regulations (CFR 36). Detailed management guidelines are contained in FSM 2330, Publicly Managed Recreation Opportunities, and regional- and forest-level user

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guides. Standards of quality for developed recreation sites were structured under the meaningful measures of system and established for the following categories: health and cleanliness, settings, safety and security, responsiveness, and the condition of the facility.

- Roads and Bridges. Conditions of the National Forest System (NFS) road system are measured by various standards that include applicable regulations for the Highway Safety Act developed by the Federal Highway Administration, best management practices for road construction and maintenance developed by the Environmental Protection Agency and the States to implement the nonpoint source provisions of the Clean Water Act, road management objectives developed through the forest planning process prescribed by the National Forest Management Act, and the requirements of the Forest Service manual and handbooks (FSM 7730, FSH 7709.56a, and FSH 7709.56b).
- Trails. Trails 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 Forest Service Trails Management Handbook (FSH 2309.18).
- Wildlife, Fish, and Threatened and Endangered Species Structures. Field biologists at the forest used their professional judgment to determine deferred maintenance. Deferred maintenance was considered upkeep that had not occurred regularly. The amount was considered critical if resource damage or species endangerment would likely occur if maintenance were deferred much longer.

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Combined Statements of Budgetary Resources  
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(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
<b>Budgetary Resources</b>								
<b>Budget Authority:</b>								
1a. Appropriations Received	\$1,657	\$270	\$333	\$562	\$2,369	\$732	\$-	\$5,923
1d. Net Transfers	85	28	105	51	(337)	51	5	(12)
Subtotal	1,742	298	438	613	2,032	783	5	5,911
<b>Unobligated Balance:</b>								
2a. Beginning of Period	173	43	59	78	311	524	68	1,256
2b. Net Transfers, Actual	66	5	34	43	(200)	52	4	4
Subtotal	239	48	93	121	111	576	72	1,260
<b>Spending Authority from Offsetting Collections:</b>								
3a. Earned:								
3a1. Collected	97	33	9	10	44		235	428
3a2. Receivable from Federal	(6)	(20)	(10)	1	20	(2)	4	(13)
3b1. Advances Received	-	(5)	(1)	-	-	(4)	-	(10)
3b2. W/out Advance from Fed.	18	4	1	2	(5)	-	-	20
3e. Subtotal	109	12	(1)	13	59	(6)	239	425
4a. Recoveries of prior year obligations	9	1	11	1	8	64	3	97
<b>Permanently/ Temporarily not Available</b>	(19)	(3)	(3)	(7)	(22)	-	-	(54)
<b>Total Budgetary Resources</b>	<b>\$2,080</b>	<b>\$356</b>	<b>\$538</b>	<b>\$741</b>	<b>\$2,188</b>	<b>\$1,417</b>	<b>\$319</b>	<b>\$7,639</b>

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**Status of Budgetary Resources:**

<b>Obligations Incurred</b>													
8a. Direct	\$1,777	\$290	\$448	\$622	\$1,771	\$516	\$208	\$5,632					
8b. Reimbursable	107	37	9	13	103	(1)	1	269					
8c. Subtotal	1,884	327	457	635	1,874	515	209	5,901					
<b>Unobligated Balance:</b>													
9a. Apportioned	179	28	76	105	64	768	42	1,262					
10d. Unobligated Balances not Available	17	1	5	1	250	134	68	476					
9+10. Subtotal	196	29	81	106	314	902	110	1,738					
<b>Total Status of Budgetary Resources</b>	<b>\$2,080</b>	<b>\$356</b>	<b>\$538</b>	<b>\$741</b>	<b>\$2,188</b>	<b>\$1,417</b>	<b>\$319</b>	<b>\$7,639</b>					

**Relation of Obligations to Outlays:**

<b>Obligated Balance, Net, Beg. of Period</b>	\$166	\$71	\$449	\$225	\$457	\$163	\$66	\$1,597					
<b>Obligated Balance, Net, End of Period</b>													
14a. Accounts Receivable	(45)	(7)	(31)	(9)	(109)	(9)	(3)	(213)					
14b. Unfilled Orders from Fed.	(73)	(26)	1	(24)	2	-	-	(120)					
14c. Undelivered Orders	216	85	445	221	196	47	22	1,232					
14d. Accounts Payable	106	34	108	58	240	38	10	594					
<b>Outlays:</b>													
15a. Disbursements	1,825	326	382	609	1,977	540	241	5,900					
15b. Collections	(97)	(28)	(8)	(9)	(43)	4	(237)	(418)					
15c. Subtotal	1,728	298	374	600	1,934	544	4	5,482					
<b>Less: Offsetting Receipts</b>													
<b>Net Outlays</b>	<b>\$1,727</b>	<b>\$298</b>	<b>\$374</b>	<b>\$600</b>	<b>\$1,934</b>	<b>\$161</b>	<b>\$4</b>	<b>\$5,098</b>					

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(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
<b>Budgetary Resources</b>								
<b>Budget Authority:</b>								
1a. Appropriations Received	\$1,518	\$252	\$287	\$552	\$2,298	\$938	\$-	\$5,845
1d. Net Transfers	47	34	137	30	(216)	8	30	70
Subtotal	1,565	286	424	582	2,082	946	30	5,915
<b>Unobligated Balance:</b>								
2a. Beginning of Period	230	20	29	131	7	363	54	834
2b. Net Transfers, Actual	2	5	-	10	13	(139)	(20)	(129)
Subtotal	232	25	29	141	20	224	34	705
<b>Spending Authority from Offsetting Collections:</b>								
3a. Earned:								
3a1. Collected	133	29	12	10	289	1	236	710
3a2. Receivable from Federal	52	53	45	1	(27)	(21)	(3)	100
3b. Change in Unfilled Customer Orders:								
3b1. Advances Received	(1)	(1)	(1)	-	-	2	-	(1)
3b2. W/out Advance from Fed.	(24)	(19)	(3)	2	(2)	-	-	(43)
3e. Subtotal	160	62	53	13	260	(18)	233	763

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(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
4a. Recoveries of prior year obligations	52	4	9	4	32	4	8	113
Permanently/ Temporarily not Available	(10)	(2)	(2)	(4)	(8)	-	-	(26)
<b>Total Budgetary Resources</b>	<b>\$1,999</b>	<b>\$375</b>	<b>\$513</b>	<b>\$736</b>	<b>\$2,386</b>	<b>\$1,156</b>	<b>\$305</b>	<b>\$7,470</b>

**Status of Budgetary Resources:  
Obligations Incurred**

8a. Direct	\$1,776	\$303	\$444	\$645	\$1,806	\$633	\$(24)	\$5,583
8b. Reimbursable	51	29	9	13	269	-	260	631
8c. Subtotal	1,827	332	453	658	2,075	633	236	6,214
<b>Unobligated Balance:</b>								
9a. Apportioned	57	15	36	67	115	475	58	823
9b. Exempt from Apportionment	-	-	-	-	-	(4)	32	28
10d. Unobligated Balances not Available	115	28	24	11	196	52	(21)	405
9+10. Subtotal	172	43	60	78	311	523	69	1,256
<b>Total Status of Budgetary Resources</b>	<b>\$1,999</b>	<b>\$375</b>	<b>\$513</b>	<b>\$736</b>	<b>\$2,386</b>	<b>\$1,156</b>	<b>\$305</b>	<b>\$7,470</b>

**Relation of Obligations to Outlays:**

Obligated Balance, Net, Beg. of Period	\$69	\$93	\$378	\$131	\$621	\$54	\$55	\$1,401
Obligated Balance, Net, End of Period	(52)	(25)	(41)	(8)	(89)	(11)	(1)	(227)
14a. Accounts Receivable								

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(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
14b. Unfilled Orders from Fed.	(55)	(22)	2	(22)	(3)	-	-	(100)
14c. Undelivered Orders	180	85	405	210	133	54	32	1,099
14d. Accounts Payable	93	33	84	44	417	119	35	825
	166	71	450	224	458	162	66	1,597
<b>Outlays:</b>								
15a. Disbursements	1,649	316	332	558	2,236	540	220	5,851
15b. Collections	(132)	(28)	(11)	(10)	(290)	(3)	(236)	(710)
15c. Subtotal	1,517	288	321	548	1,946	537	(16)	5,141
<b>Less: Offsetting Receipts</b>	(187)	-	-	-	-	625	-	438
<b>Net Outlays</b>	<b>\$1,704</b>	<b>\$288</b>	<b>\$321</b>	<b>\$548</b>	<b>\$1,946</b>	<b>(\$88)</b>	<b>(\$16)</b>	<b>\$4,703</b>

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**Intragovernmental Trading Partners**

<b>Consolidated Intragovernmental Assets (in millions) as of September 30, 2004)</b>			
<b>Trading Partner (Code)</b>	<b>Fund Balance with Treasury</b>	<b>Accounts Receivable</b>	<b>Investments</b>
Unknown (00)	\$ -	\$ 6	\$ -
Department of Agriculture (12)	-	3	-
Department of Interior (14)	-	25	-
Department of the Navy (17)	-	1	-
Department of the Treasury (20)	3,506	-	4
Department of the Army (21)	-	1	-
Department of Transportation (69)	-	13	-
Department of Homeland Security (70)	-	10	-
Agency for International Development (72)	-	1	-
Department of Energy (89)	-	2	-
<b>Total Assets</b>	<b>\$ 3,506</b>	<b>\$ 62</b>	<b>\$ 4</b>

<b>Consolidated Intragovernmental Assets (In millions) as of September 30, 2003)</b>			
<b>Trading Partner (Code)</b>	<b>Fund Balance with Treasury</b>	<b>Accounts Receivable</b>	<b>Investments</b>
Unknown (00)	\$ -	\$ 4	\$ -
Department of Agriculture (12)	-	3	-
Department of Interior (14)	-	7	-
Department of Labor (16)	-	4	-
Department of the Treasury (20)	3,263	-	3
Department of the Army (21)	-	4	-
Department of Transportation (69)	-	2	-
Department of Homeland Security (70)	-	6	-
Agency for International Development (72)	-	1	-
Department of Energy (89)	-	4	-
Office of the Secretary of Defense-Defense Agencies (97)	-	1	-
<b>Total Assets</b>	<b>\$ 3,263</b>	<b>\$ 36</b>	<b>\$ 3</b>

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**Intragovernmental Trading Partners**

<i>Liabilities (in millions as of September 30, 2004)</i>		
<b>Trading Partner (Code)</b>		<b>Other</b>
Unknown (00)	\$	192
Department of Agriculture (12)		14
Department of Commerce (13)		4
Department of Interior (14)		129
Department of Justice (15)		19
Department of Labor (16)		69
Department of the Treasury (20)		9
Department of the Army (21)		1
Office of Personnel Management (24)		15
General Services Administration (47)		13
Tennessee Valley Authority (64)		1
Environmental Protection Agency (68)		1
Agency for International Development (72)		1
Department of Health and Human Services (75)		28
Department of Energy (89)		1
U.S. Army Corps of Engineers (96)		(133)
Office of the Secretary of Defense-Defense Agencies (97)		3
<b>Total Liabilities</b>	<b>\$</b>	<b>367</b>

<i>Liabilities (In millions as of September 30, 2003)</i>		
<b>Trading Partner (Code)</b>		<b>Other</b>
Unknown (00)	\$	294
Department of Agriculture (12)		10
Department of Commerce (13)		1
Department of Interior (14)		18
Department of Justice (15)		20
Department of Labor (16)		89
Department of the Treasury (20)		191
Department of the Army (21)		2
Office of Personnel Management (24)		10
General Services Administration (47)		20
Agency for International Development (72)		4
U.S. Army Corps of Engineers (96)		(100)
Office of the Secretary of Defense-Defense Agencies (97)		1
<b>Total Liabilities</b>	<b>\$</b>	<b>560</b>

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**Intragovernmental Trading Partners**

<i>Earned Revenue Federal (in millions) For the Year ended September 30, 2004</i>	
<b>Trading Partner (Code)</b>	<b>Earned Revenue Federal</b>
Unknown (00)	\$ (3)
Department of Agriculture (12)	12
Department of Interior (14)	51
Department of Justice (15)	6
Department of Labor (16)	19
Department of the Navy (17)	1
U.S. Postal Service (18)	1
Department of State (19)	1
Department of the Army (21)	7
Department of Transportation (69)	6
Department of Homeland Security (70)	4
Agency for International Development (72)	10
Department of Energy (89)	3
U.S. Army Corps of Engineers (96)	2
Office of the Secretary of Defense-Defense Agencies (97)	1
<b>Total Earned Revenue Federal</b>	<b>\$ 121</b>

<i>Earned Revenue Federal (In millions) For the Year ended September 30, 2003</i>	
<b>Trading Partner (Code)</b>	<b>Earned Revenue Federal</b>
Unknown (00)	\$ 28
Department of Agriculture (12)	23
Department of Commerce (13)	1
Department of Interior (14)	70
Department of Labor (16)	27
U.S. Postal Service (18)	1
Department of the Army (21)	13
Department of the Air Force (57)	(5)
Environmental Protection Agency (68)	1
Department of Homeland Security (70)	113
Department of Transportation (69)	8
Agency for International Development (72)	8
National Aeronautics and Space Administration	2
Department of Energy (89)	16
U.S. Army Corps of Engineers (96)	2
Office of the Secretary of Defense-Defense Agencies (97)	7
<b>Total Earned Revenue Federal</b>	<b>\$ 315</b>

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Intragovernmental Trading Partners

<i>Cost to Generate Earned Revenue Federal (in millions)</i>	
<i>For the Year ended September 30, 2004</i>	
Functional Classification	Federal and Non-Federal
300 Natural Resources and Environment	\$ 121
<b>Total Cost to Generate Revenue</b>	<b>\$ 121</b>

<i>Cost to Generate Earned Revenue Federal (In millions)</i>	
<i>For the Year ended September 30, 2003</i>	
Functional Classification	Federal and Non-Federal
300 Natural Resources and Environment	\$ 315
<b>Total Cost to Generate Revenue</b>	<b>\$ 315</b>

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**Intragovernmental Trading Partners**

<i>Cost Federal (in millions) For the Year ended September 30, 2004</i>	
<b>Trading Partner (Code)</b>	<b>Cost Federal</b>
Government Printing Office (04)	\$ 8
Department of Agriculture (12)	143
Department of Commerce (13)	3
Department of Interior (14)	47
Department of Justice (15)	2
Department of Labor (16)	50
Department of the Treasury (20)	173
Department of the Army (21)	2
Office of Personnel Management (24)	519
Department of Veterans Affairs (36)	1
General Services Administration (47)	123
Tennessee Valley Authority (64)	1
Environmental Protection Agency (68)	1
Department of Transportation (69)	2
Department of Homeland Security (70)	(9)
Department of Health and Human Services (75)	119
Department of Energy (89)	2
U.S. Army Corps of Engineers (96)	14
Office of the Secretary of Defense-Defense Agencies (97)	6
<b>Total Cost Federal</b>	<b>\$ 1,207</b>

<i>Cost Federal (in millions) For the Year ended September 30, 2003</i>	
<b>Trading Partner (Code)</b>	<b>Cost Federal</b>
Unknown (00)	\$ 15
Government Printing Office (04)	8
Department of Agriculture (12)	124
Department of Commerce (13)	3
Department of Interior (14)	83
Department of Justice (15)	3
Department of Labor (16)	92
Department of the Treasury (20)	16
Department of the Army (21)	4
Office of Personnel Management (24)	478
Department of Veterans Affairs (36)	1
General Services Administration (47)	102
Tennessee Valley Authority (64)	1
Environmental Protection Agency (68)	1
Department of Transportation (69)	3
Department of Energy (89)	2
U.S. Army Corps of Engineers (96)	7
Office of the Secretary of Defense-Defense Agencies (97)	4
<b>Total Cost Federal</b>	<b>\$ 947</b>

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**Intragovernmental Trading Partners**

<i>Non-exchange Revenue Federal (in millions) For the Year ended September 30, 2004</i>				
<b>Trading Partner (Code)</b>	<b>Transfers-In</b>	<b>Transfers-Out</b>	<b>Other</b>	
Unknown (00)	\$ 130	\$ 127	\$ -	
Department of Agriculture (12)	346	346	47	
Department of Interior (14)	132	1	-	
Department of the Treasury (20)	-	-	3	
Office of Personnel Management (24)	-	-	194	
Department of Transportation (69)	12	-	-	
Department of Homeland Security (70)	30	-	-	
<b>Total Non-exchange Revenue Federal</b>	<b>\$ 650</b>	<b>\$ 474</b>	<b>\$ 244</b>	

<i>Non-exchange Revenue Federal (In millions) For the Year ended September 30, 2003</i>				
<b>Trading Partner (Code)</b>	<b>Transfers-In</b>	<b>Transfers-Out</b>	<b>Other</b>	
Unknown (00)	\$ 1,176	\$ 715	\$ -	
Department of Agriculture (12)	50	-	44	
Department of the Treasury (20)	-	-	6	
Office of Personnel Management (24)	-	-	179	
<b>Total Non-exchange Revenue Federal</b>	<b>\$ 1,226</b>	<b>\$ 715</b>	<b>\$ 229</b>	

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Fiscal Year 2004 Segment Information as of September 30, 2004 (in thousands of dollars)

	Departmental Working Capital Fund	Forest Service Working Capital Fund	Total Working Capital Funds
Condensed Information:			
Fund Balance	\$ --	138,985	138,985
Accounts Receivable	--	3,076	3,076
Property, Plant, and Equipment	--	242,080	242,080
Other Assets	--	12	12
<b>Total Assets</b>	<b>--</b>	<b>384,153</b>	<b>384,153</b>
Liabilities and Net Position:			
Accounts Payable	--	1,235	1,235
Deferred Revenues	--	--	--
Other Liabilities	--	23,709	23,709
Unexpended Appropriations	--	8,971	8,971
Cumulative Results of Operations	--	350,238	350,238
<b>Total Liabilities and Net Position</b>	<b>--</b>	<b>384,153</b>	<b>384,153</b>
	Cost of Goods and Services Provided	Related Exchange Revenue	Excess of Costs Over Exchange Revenue
Product or Business Line			
Departmental Working Capital Fund:			
Finance and Management	--	--	--
Communications	--	--	--
Information Technology	--	--	--
Administration	--	--	--
Executive Secretariat	--	--	--
Total Departmental Working Capital Fund	--	--	--
Forest Service Working Capital Fund:			
Other	262,924	238,392	24,532
<b>Total Working Capital Funds</b>	<b>\$ 262,924</b>	<b>238,392</b>	<b>24,532</b>

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Fiscal Year 2003 Segment Information as of September 30, 2003 (In thousands of dollars)

	Departmental Working Capital Fund	Forest Service Working Capital Fund	Total Working Capital Funds
Condensed Information:			
Fund Balance	\$ --	133,972	133,972
Accounts Receivable	--	599	599
Property, Plant, and Equipment	--	275,216	275,216
Other Assets	--	13	13
<b>Total Assets</b>	<b>--</b>	<b>409,800</b>	<b>409,800</b>
Liabilities and Net Position:			
Accounts Payable	--	1,102	1,102
Deferred Revenues	--	--	--
Other Liabilities	--	33,931	33,931
Unexpended Appropriations	--	--	--
Cumulative Results of Operations	--	374,767	374,767
<b>Total Liabilities and Net Position</b>	<b>--</b>	<b>409,800</b>	<b>409,800</b>
Product or Business Line			
Departmental Working Capital Fund:			
Finance and Management	--	--	--
Communications	--	--	--
Information Technology	--	--	--
Administration	--	--	--
Executive Secretariat	--	--	--
Total Departmental Working Capital Fund	--	--	--
Forest Service Working Capital Fund:			
Other	365,795	224,415	141,380
<b>Total Working Capital Funds</b>	<b>\$ 365,795</b>	<b>224,415</b>	<b>141,380</b>
	<b>Cost of Goods and Services Provided</b>	<b>Related Exchange Revenue</b>	<b>Excess of Costs Over Exchange Revenue</b>

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (Unaudited)**

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(Unaudited)**

*For the years ended September 30, 2004 and 2003*

*Stewardship—Property, Plant and Equipment*

The Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards No. 8, provides the following definitions:

- Stewardship Assets. Property owned by the Federal Government that physically resembles Property, Plant and Equipment, but differs in that the value may be indeterminable or have little meaning.
  - Heritage assets
  - Stewardship land
- Stewardship Investments. 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.
- Stewardship Responsibilities. Information on the financial impact of continuing to provide current programs and services.

*Heritage Assets*

The Forest Service estimates that more than 300,000 heritage assets are on land that it manages. Assets held at museums and universities are managed by those entities. This information was estimated from the nine Forest Service regions and annual Department of the Interior report to Congress. Some of these assets are listed on the National Register of Historic Places, and some are designated as National Historic Landmarks. 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. A module in the agency's real property management Infrastructure (INFRA) system has been developed and implemented for 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. Exhibit 10 shows the major heritage assets by category and condition for FY 2003<sup>21</sup>.

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<sup>21</sup> Data totaled through fiscal year (FY) 2003. FY 2004 data is gathered in the first half of FY 2005.

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**Exhibit 10: Major Heritage Assets by Category and Condition, FY 2003**

Category	2003 Final (Sites)	Condition
Total heritage assets	310,611	Poor to fair
Eligible for the National Register of Historic Places	58,669	Poor to fair
Listed on the National Register	3,380	Fair
Sites with structures listed on the National Register	1,870	Poor to fair
National Historic Landmarks	18	Fair to good

*Heritage Assets Definitions*

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

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

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

Eligible for the National Register. Those sites formally determined as eligible for the National Register through the Keeper of the National Register or documented by consultation with State Historic Preservation Offices. Previous reports included all sites potentially eligible for the National Register.

*Stewardship Land*

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.
- Resource commodities and revenue they provide to the Federal Government, States, and counties.

Exhibit 11 shows the net change in acres between FY 2003 and FY 2004 in national forests by various purposes.

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**Exhibit 11: Net Change in Acres in National Forests by Various Purposes (FY 2003 to FY 2004)**

Description	FY 2003	FY 2004	FY 2004	Condition (1)
	Ending Balance (Acres)	Net Change (Acres) (2)	Ending Balance (Acres) (5) As of 9/30/2004	
National Forests	187,873,890	361,348	188,235,238	Varies
National Forest Purposes*	143,843,276	233,515	144,076,791	Varies
National Forest Wilderness Areas	34,828,502	124,868	34,953,370	Varies
National Forest Primitive Areas	173,762	0	173,762	Varies
National Wild and Scenic River Areas	947,999	2,907	950,906	Varies
National Recreation Areas	2,911,239	0	2,911,239	Varies
National Scenic Areas	130,435	58	130,493	Varies
National Scenic—Research Areas	6,637	0	6,637	Varies
National Game Refuges and Wildlife Preserve Areas	1,198,099	0	1,198,099	Varies
National Monument Areas	3,659,974	0	3,659,974	Varies
National Monument Volcanic Areas	167,427	0	167,427	Varies
National Historic Areas	6,540	0	6,540	Varies
National Grasslands	3,839,167	376	3,839,543	Varies
Purchase Units	359,351	10,675	370,026	Varies
Land Utilization Projects	1,876	0	1,876	Varies
Research and Experiment Areas	64,871	0	64,871	Varies
Other Areas	295,814	236	296,050	Varies
National Preserves	89,716	0	89,716	Varies
<b>Total NFS acreage</b>	<b>192,524,685</b>	<b>372,635</b>	<b>192,897,320</b>	
Road Miles (3)	378,004	749	378,753	
Trail Miles (4)	133,087	0	133,087	

(1) Condition of NFS land. The Forest Service monitors the condition of NFS lands based on information compiled by two national inventory and monitoring programs. Annual inventories of forest status and trends are conducted by the Forest Inventory and Analysis (FIA) program in 44 States covering 76 percent of the forested land of the United States. The Forest Health Monitoring (FHM) program, active in 50 States, provides surveys and evaluations of forest health conditions and trends. Although most of the 149 million acres of forest land on NFS 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 Map). Nearly 73 million acres 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). Based on these two maps, approximately 9.5 million acres are at risk to pest-caused mortality and/or 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

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and suppress future fires adequately and restore acres that are at risk. Hazardous fuel reduction projects treated 1.7 million acres, with record accomplishments in all regions. Other vegetation management projects to improve wildlife habitat, prevent insect outbreaks, and meet other resource values that contribute to improving condition class treated nearly 640,000 acres. Insect and disease prevention and suppression treatments were completed on 1.1 million acres in 2004.

- (2) Net change. At the time of submission of this information the net change values include the net effects of the Forest Service land transactions with the exception of completed 2004 transactions for the Southwestern region. 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.
- (3) Road miles. Net change to the total road miles occurs through new construction, decommissioning, and correction of errors in the NFS road system's inventory to include miles of unclassified roads that had previously been excluded. Forest Services road miles by maintenance level as of date. FY 2004 ending was not available at current time. The change is an update to FY 2003 ending balance.
- (4) Trail miles. The number of miles reported continues to be based on a 1996 inventory. The number of trail miles has not since been updated. Reconstruction of existing trails has been the predominant activity over the previous 7 years.
- (5) Ending balance acres. The numbers provided as of September 30, 2004 are still subject final verification.

***Stewardship Land Definitions***

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

**National Forests.** A unit formally established and permanently set aside and reserved for national forest purposes. The following categories of NFS 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.
- 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.

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

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

Research and Experimental Areas. A unit reserved and dedicated by the Secretary for forest and range research experimentation.

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

**STEWARDSHIP INVESTMENTS**

*Human Capital—Job Corps Civilian Conservation Center, FY 2004*

Net Cost of Operations: \$106 Million

The Forest Service's Job Corps Civilian Conservation (Job Corps) Centers, in coordination with the National Parks Service, Fish and Wildlife Service, and Bureau of Reclamation, celebrated its 40th anniversary, "40 Years of Empowering Youth and Enhancing Communities and Natural Resources." Secretary of Agriculture Ann Veneman was the keynote speaker at the 40th anniversary celebration held at the Forest Service's Schenck Job Corps Center in Brevard, NC, from September 10 to 12, 2004.

The anniversary event highlighted that in the last 40 years, all the Job Corps Centers combined have contributed an appraised value of work of approximately \$1.5 billion in community projects, community and public structures, natural resources, and fighting wildland fires. Some of the anniversary events were a presentation of the 40th anniversary video; the unveiling of the Job Corps Wall of Names (erected at the entrance of the Schenck Job Corps Center), visits to the Lyndon B. Johnson (the first Forest Service Job Corps Center) and the Oconaluftee Job Corps Centers; and remarks by past and present staff, center directors, and students.

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 2004, accomplishments included the following:

- 8,133 participants received 3,780 placements with an average starting hourly wage of \$8.41, 32 cents more than the DOL national average.
- Approximately 1,857 female students received training in nontraditional vocations.
- 617 students received high school diplomas, and 1,438 students obtained general equivalency diplomas.

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- Approximately 3,000 Job Corps students and staff assisted the agency in its firefighting efforts.
- Students accomplished conservation work on NFS lands appraised at \$17.4 million.

Since 1964, the Forest Service's Job Corps Centers have trained and educated more than 235,000 young men and women. The agency is actively pursuing the transfer of two Department of Interior's Fish and Wildlife Job Corps Centers and their personnel to the Forest Service.

*Research and Development—Forest and Rangeland Research*  
FY 2004 Net Cost of Operations: \$313 Million

Forest Service Research and Development provides reliable, science-based information that is incorporated into natural resource decisionmaking. Responsibilities include 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 is 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 2004 accomplishments include the following:

- 250 new interagency agreements and contracts.
- 445 interagency agreements and contracts continued.
- 1,539 articles published in journals.
- 2,419 articles published in all other publications.
- 8 patents granted.
- 27 rights to inventions established.