



U.S. Department of Agriculture



Office of Inspector General
Financial & IT Operations

Audit Report

Forest Service's Financial Statements for Fiscal Years 2006 and 2005

Report No. 08401-7-FM
November 2006



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



November 13, 2006

REPLY TO

ATTN OF: 08401-7-FM

TO: Dale Bosworth
Chief
Forest Service

ATTN: Sandy Coleman
Agency Liaison Officer
Forest Service

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

SUBJECT: Forest Service's Financial Statements for Fiscal Years 2006 and 2005

This report presents the auditors' opinion on the Forest Service's (FS) principal financial statements for the fiscal years ending September 30, 2006 and 2005. The report also includes an assessment of FS' internal control structure and compliance with laws and regulations.

KPMG LLP, an independent certified public accounting firm, conducted the audits. We monitored the progress of the audit at all key points, reviewed KPMG's report, reviewed selected audit documentation, and performed other procedures, as we deemed necessary. We determined the audits were conducted in accordance with generally accepted auditing standards, *Government Auditing Standards* (issued by the Comptroller General of the United States), and the Office of Management and Budget Bulletin No. 06-03, "Audit Requirements for Federal Financial Statements."

It is the opinion of KPMG, that the financial statements present fairly, in all material aspects, the FS' financial position as of September 30, 2006, and 2005; and its net costs, changes in net position, budgetary resources, and reconciliation of net cost to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

- Financial management and reporting process (repeat material weakness); and
- general controls environment (repeat material weakness).

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

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

**United States Department of Agriculture
Forest Service**

For the Years Ended September 30, 2006 and 2005

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Independent Auditors' Report



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the United States Department of Agriculture (USDA) Forest Service as of September 30, 2006 and 2005 and the related consolidated statements of net cost, 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 2006 audit, we also considered the USDA Forest Service's internal controls over financial reporting, Required Supplementary Information, Required Supplementary Stewardship Information, and performance measures, and tested the USDA Forest Service's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that the financial statements as of and for the years ended September 30, 2006 and 2005, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 5 to the financial statements, the USDA Forest Service changed its method of reporting for heritage assets and stewardship land in fiscal year 2006 to adopt the applicable provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 29, *Heritage Assets and Stewardship Land*. Also, as discussed in Note 1.P. to the financial statements, the USDA Forest Service changed its method of accounting for and reporting earmarked funds in fiscal year 2006 to adopt the provisions of the SFFAS No. 27, *Identifying and Reporting Earmarked Funds*.

Our consideration of internal controls over financial reporting, Required Supplementary Information, Required Supplementary Stewardship Information, and performance measures resulted in the following conditions being identified as reportable conditions. The first two are considered material weaknesses.

- The USDA Forest Service Needs to Continue to Improve its Financial Management and Reporting Process
- The USDA Forest Service Needs to Improve Its General Controls Environment
- The USDA Forest Service Needs to Refine and Monitor its Expense Accrual
- Accountability for Unliquidated Orders (ULOs) Needs Continued Improvement



- The Review of Purchase Card Transactions and Monitoring of the Program Needs Continued Improvement
- Controls Related to Physical Inventories of Capital Assets Need Continued Improvement
- The Design and/or Implementation of Controls Related to the Accurate Recording of Revenue-Related Transactions Needs Improvement
- The USDA Forest Service Needs to Continue to Improve its Internal Controls over its Reconciliation and Management of Fund Balances with Treasury
- The Design and/or Implementation of Controls Related to the Accurate Recording of Personal Property Transactions Needs Improvement
- The Compilation of Performance Measures Needs Improvement
- The Compilation of the USDA Forest Service's Required Supplementary Information Needs Improvement
- The Posting of Certain Transactions Needs to Contain the Proper Reference Data to Link Related Transactions
- A Segregation of Duties Policy related to Electronic Data Processing Must be Fully Implemented

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

- The USDA Forest Service Does Not Obligate all Transactions Required by Appropriations Law
- The USDA Forest Service's Systems Do Not Comply with the *Federal Financial Management Improvement Act of 1996* (FFMIA)

The following sections discuss our opinion on the USDA Forest Service's financial statements, our consideration of the USDA Forest Service's internal controls over financial reporting, Required Supplementary Information, Required Supplementary Stewardship Information, and performance measures; 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, 2006 and 2005 and the related consolidated statements of net costs, changes in net position, and financing, and combined statements of budgetary resources for the years then ended.

In our 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, 2006 and 2005, 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 U.S. generally accepted accounting principles.

As discussed in Note 5 to the financial statements, the USDA Forest Service changed its method of reporting for heritage assets and stewardship land in fiscal year 2006 to adopt the applicable provisions of the SFFAS No. 29, *Heritage Assets and Stewardship Land*. Also, as discussed in Note 1.P. to the financial statements, the USDA Forest Service changed its method of accounting for and reporting earmarked funds in fiscal year 2006 to adopt the provisions of the SFFAS No. 27, *Identifying and Reporting Earmarked Funds*.

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 U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and accordingly, we express no opinion on it. As a result of such limited procedures, we believe that the Required Supplementary Information related to deferred maintenance, heritage assets, and stewardship land may not be consistently prepared across all USDA Forest Service locations and controls have not been effectively designed to ensure the accuracy, completeness, and timeliness of the reported information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, 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. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

In our fiscal year 2006 audit, we noted certain matters, described in Exhibits I and II, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the two reportable conditions presented in Exhibit I are material weaknesses. 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 noted certain additional matters that we have reported to management of the USDA Forest Service in a separate letter.



INTERNAL CONTROLS OVER REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION AND PERFORMANCE MEASURES

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. 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 caused by error or fraud, in amounts that would be material in relation to the Required Supplementary Stewardship Information or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the Required Supplementary Stewardship Information and the design and operation of internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the internal control and its operation related to Required Supplementary Stewardship Information or the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

In our fiscal year 2006 audit, we noted a reportable condition involving the design and operation of internal controls over the existence and completeness assertions related to key performance measures described in Exhibit II that, in our judgment, could adversely affect the USDA Forest Service's ability to collect, process, record, summarize and report performance measures in accordance with management's criteria. However, the reportable condition is not believed to be a material weakness as defined above.

COMPLIANCE AND OTHER MATTERS

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed noncompliance with appropriation law as described in Exhibit IV that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03.

The majority of the deficiencies for noncompliance with appropriation law result from the USDA Forest Service's travel system limitations. The USDA Forest Service's current system does not allow them to obligate funds for travel.

The results of our tests of compliance with certain provisions of other laws and regulations, 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* or OMB Bulletin No. 06-03.

The results of our tests of FFMIA disclosed instances, described in Exhibit IV, where the USDA Forest Service's financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

RESPONSIBILITIES

Management's Responsibilities. The United States Code Title 31 Sections 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, the USDA Forest Service prepares and submits financial statements in accordance with OMB Circular No. A-136.



Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining effective internal controls; and
- Complying with laws, regulations, contracts, and grant agreements applicable to the USDA Forest Service, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2006 and 2005 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*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the USDA Forest Service's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2006 audit, we considered the USDA Forest Service's internal control over financial reporting by obtaining an understanding of the USDA Forest Service's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. 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 the USDA Forest Service's internal controls over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, we considered 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 limited our testing to those controls necessary to test and report on the internal controls over the Required Supplementary Stewardship Information in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, with respect to internal controls related to performance measures determined by management to be key and reported in the Management Discussion and Analysis section, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over reported 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 2006 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. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the USDA Forest Service. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 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.

RESTRICTED USE

This report is intended for the information and use of the USDA Forest Service's management, the USDA Office of the Inspector General (OIG), OMB, the U.S. 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, 2006

INTRODUCTION

In FY 2004, the USDA Forest Service began a major transformation of business operations throughout the agency, beginning with two business functions. The first involved its Information Resources Management organization for which some segments were offered for competitive bid under OMB Circular No. A-76, *Performance of Commercial Activities*. Government employees in the USDA Forest Service were the successful bidders which resulted in a realignment of both organization and operations. The second was the effort to consolidate its finance and accounting operations from 153 accounting centers to the Albuquerque Service Center (ASC) in New Mexico. Significant work was accomplished in FY 2004 and 2005 to design and staff the new organization, re-engineer finance and accounting business processes, and migrate work from field locations. In FY 2006, new system design efforts were undertaken to accommodate for operational gaps identified in the new business structure.

In the current FY, the USDA Forest Service also began to consolidate its human capital management (HCM) operations from its field offices throughout the country to Albuquerque, New Mexico. Currently, HCM is undergoing business processing re-engineering and new system design efforts, and expects to be fully operational in FY 2007.

The USDA Forest Service is beginning to reap the benefits of consolidating its finance and accounting operations at the ASC through improvements in its financial management, strengthened internal controls, and consistency in the executing of its operations. Although the USDA Forest Service continues to make year over year progress in correcting several prior year noted weaknesses, we believe the depth of many weaknesses may require years to resolve. As with any major reorganization and/or implementation of new systems, some additional control weaknesses have been identified.

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

Exhibits I and II provide an update to prior year material weaknesses and reportable conditions, respectively, as of and for the year ended September 30, 2006, and include applicable new recommendations. Exhibit III summarizes the status of prior year recommendations. Exhibit IV provides an update of those instances of noncompliance with laws and regulations and other matters and applicable new instances of noncompliance. Exhibit V summarizes the status of prior year recommendations for noncompliance with laws and regulations. USDA Forest Service management's response is presented in Exhibit VI.

MATERIAL WEAKNESSES

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

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

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

General Ledger Clean-up of Prior Year Non-routine Transactions is Necessary

During our current year testwork it was noted that the USDA Forest Service is not identifying, researching, and correcting adjusting entries that no longer belong in the general ledger. Specifically, 50 samples (i.e., Transaction codes JVs, YEs, SVs, and RCs) which related to prior FY activity were invalid. These documents were identified in general ledger accounts 4221, *Unfilled Customer Orders without Advance*, 2190, *Other Liabilities*, and 48XX, *Undelivered Orders*. The table below summarizes the dollar value of the exceptions by transaction code and general ledger account.

<i>Transcode</i>	<i>Standard General Ledger Account</i>			<i>Total</i>
	<i>4221</i>	<i>2190</i>	<i>48XX</i>	
JV	(\$84,645,944)	(\$5,675,243)	(\$10,939,034)	(\$101,260,221)
RC	-	(10,837,494)	-	(\$10,897,494)
SV	-	102,690	(97,888)	\$4,802
YE	-	14,172	(15,333)	(\$1,161)
Total	(\$84,645,944)	(\$16,455,875)	(\$11,052,255)	(\$112,154,074)

OMB Circular A-123, *Management Responsibility for Internal Control* states that financial reporting means that management can reasonably make the following assertions:

- All reported transactions actually occurred during the reporting period...; and
- All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included...

Recommendation Number 1:

We recommend that the USDA Forest Service management assign the Treasury Symbol analysis team the responsibility to research and analyze all of the general ledger accounts to identify and remove potentially erroneous entries from the general ledger.

Improvement in the Recording of Non-routine Transactions is Necessary to Improve the Accuracy of ULOs and Accruals

At the end of FY 2006, the USDA Forest Service continued to use mass general ledger entries, via an SV, for delivered orders and ULOs that were not recorded into the various sub-systems due to the early year-end cutoff. This policy was designed and implemented in FY 2005 to ensure completeness of data in the general ledger. In order to accommodate the volume of both undelivered and delivered orders to be entered, summary documents with detailed information were used to enter transactions.

As part of our non-routine year-end sampling, 17 ULO and 63 accrual transactions were selected as of September 30, 2006. Of this sample the following errors were noted:

- 14 of the 17 ULO transactions were for delivered orders and therefore not properly recorded in the general ledger, and
- 36 of the 63 accrual transactions were not valid accruals and therefore not properly recorded in the general ledger.

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

- The USDA Forest Service's general ledger contains security profiles and a system configuration that require two separate employees to enter and approve SV transactions.
- In addition, Chief Financial Officer (CFO) Bulletin 2002-010 *SV Documentation Policy* states "SV documents require approval by an approving official and will process similar to balance vouchers, internal vouchers, working capital fund vouchers and journal vouchers in that one individual will create the SV and another (approving official) will approve the document before it is accepted in the Foundation Financial Information System (FFIS). Approving the SV document means the approving official has reviewed the supporting documentation and agrees that the SV transaction is appropriate, adequately documented and should be made in the current accounting period."

Although the USDA Forest Service does have these internal controls in place, they are not operating effectively based on the errors cited above. As a result of the lack of adherence to the USDA Forest Service's policies and procedures for reviewing and approving period-end standard vouchers, erroneous ULO and accrual transactions existed.

Recommendation Number 2:

We recommend that the USDA Forest Service management develop a plan to improve the operating effectiveness of its review and approval of all period-end accrual adjustments.

Other Financial Reporting Issues

Although the USDA Forest Service has made significant improvements in its financial reporting process the following areas for improvement were noted:

- The USDA Forest Service did not perform timely research to determine the reasons for abnormal general ledger account balances, especially when abnormal balances were identified in general ledger flow

accounts (i.e., revenues, expenses and budgetary accounts that close). As a result, our testwork disclosed transactions that were identified as current year activity but in reality had a prior year effect.

- The USDA Forest Service needs to continue to refine its account relationship formulas to ensure that if variances exist, they are legitimate when taking into consideration standard general ledger account posting logic and the USDA Forest Service's business processes. For example, during our review of the formula for the account relationship entitled unexpended appropriations equals general ledger accounts 4450 through 4899, it was noted that general ledger account 4802, *Undelivered Orders – Obligations Prepaid/Advanced* is considered in the account relationship formula. However it should not be, because the unexpended appropriations account balance is not affected by advance transactions that are posted to general ledger account 4802.
- The USDA Forest Service needs to develop a process for analyzing its budget clearing, suspense and deposit funds at the end of each accounting period. At the end of the FY 2006, an abnormal balance of \$53 million was identified in general ledger account 2400, *Liability for Deposit Funds, Clearing Accounts, and Undeposited Collections*. This general ledger account is used to record transactions, often between other Federal agencies, when the offsetting obligation or other document attributes are not known and need to be researched by the USDA Forest Service. If timely research is not performed, liabilities are overstated and expenses and expended appropriations are understated.

Recommendation No. 3:

We recommend that the USDA Forest Service management develop a process for analyzing its budget clearing, suspense and deposit funds at the end of each accounting period.

Also, we continue to recognize the need for the USDA Forest Service to provide Standard General Ledger (SGL) training to employees; identify business processes that are causing irregularities in the general ledger and develop an expedited corrective action plan; and to perform an effective monthly review, identification, research and correction of all abnormal balance and account relationships as reported in the prior recommendations 3 and 8 of Audit Report No. 08401-3-FM.

Number 2: The USDA Forest Service Needs to Improve its General Controls Environment (*Repeat Condition*)

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

While we commend USDA Forest Service's efforts to centralize and improve its IT infrastructure functions, more actions are necessary to fully address the general control weaknesses identified in prior years, as well as to ensure an appropriate level of confidentiality, integrity, and availability of sensitive information systems and resources.

Specifically, eight prior general control recommendations remain open. A description of the eight issues comprising this material weakness follows. Furthermore, at the USDA level, the parent organization, the OIG has identified a security weakness related to IT general controls. Actions to resolve the USDA issue are incumbent upon resolution of the USDA Forest Service general control material weakness.

The criteria for this finding is based on the guidance in the *Federal Information Security Management Act (FISMA)*, passed as part of the *Electronic Government Act of 2002*, which mandates that the Federal entities maintain IT security programs in accordance with the OMB and National Institute of Standards and Technology (NIST) guidance. OMB Circular A-130, *Management of Federal Information Resources*, and various NIST guidelines describe specific essential criteria for maintaining effective general IT controls.

The Entity-Wide Process for Assessing IT Risks Has Not Been Fully Implemented (Repeat Condition)

We previously reported that the USDA Forest Service did not have a formal risk assessment policy, procedure, or guidance to allow for appropriate and complete risk assessments (RAs). During fiscal year (FY) 2006, we reviewed the RAs for the USDA Forest Service Computer Base (FSCB), which is the USDA Forest Service General Support System (GSS); Paycheck 7; Automated Timber Sale Accounting (ATSA); All Service Receipts (ASR); and the Financial Transaction Request System (FTRS). The following weaknesses were noted:

Risk Assessment (RA) Conditions	Application
No RA existed	ASR FTRS
The RAs were not current	FSCB
The vulnerability lists did not classify risk levels for AIX (IBM Operating System)	ATSA PAYCHECK 7

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

System Security Plans and the Computer Incident Response Team Charter Are Incomplete (Repeat Condition)

We previously reported that the USDA Forest Service did not have policies to govern the development of system security plans (SSPs). In fiscal year 2006, we reviewed the SSPs for FSCB, Paycheck 7, Infrastructure (INFRA), ATSA, ASR and FTRS and noted the following weaknesses:

SSP Conditions	Application
The SSP was not updated after the reorganization and transition to the Information Solution Organization (ISO)	FSCB
There are no current SSPs	ASR FTRS
The SSP did not identify a system owner	INFRA
No Memorandums of Understandings (MOUs) are documented	ATSA PAYCHECK 7

Additionally, we noted that the Computer Incident Response Team (CIRT) charter, which grants the CIRT its authority, is still in draft.

Furthermore, we found that training for staff with specific information technology duties has not been provided.

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

Access Controls at Data Processing Facilities Need Improvement (Repeat Condition)

We previously reported that there were weak logical and physical access controls across the USDA Forest Service entity-wide. Specifically, we found:

- Management had not periodically reviewed individual logical access privileges, unauthorized access attempts or audit logs.
- Standard forms were not used to document the approval of data sharing, archiving, and deletion.

During our FY 2006 general controls review, we noted that improvements were made, such as:

- System software access paths had been identified and documented; and
- Health and Human Services (HHS) Payment Management System (PMS) access reviews were performed and documented.

Although improvements were made to access controls, the following weaknesses still existed at the Washington Office, the ASC, regional office in Atlanta, and regional office in Portland:

- *Policies not communicated and enforced* – While policies and processes surrounding logical and physical access controls, wireless access, Intrusion Detection Software (IDS) or firewall software, audit logging, and resource classification were all established in July of 2006; we found that the USDA Forest Service had not established and finalized policies early enough in the fiscal year to allow for the policy to be properly disseminated and promulgated throughout the agency.
- *Unauthorized Remote Access to the USDA Forest Service Network* – Four (4) out of thirty (30) USDA Forest Service employees and contractors had remote access to the USDA Forest Service network without proper approval.
- *Weak logical access controls over system software and sensitive utilities* – USDA Forest Service does not have procedures in place for monitoring, logging, and reviewing system software access and system utility use. Furthermore, access to system software is controlled through root access. Root access is controlled through the Oracle “Password Application,” however; access to the password application is not documented and maintained, and quarterly system software access reviews are not documented and maintained. In addition, users have the ability to grant and remove access.
- *Weak logical access controls over servers* – All servers are not “hardened”, which means that users could gain root server access anonymously, and actions could not be tracked to individual users. Currently forty

(40) percent of USDA Forest Service servers, maintaining applications such as the INFRA database and FFIS, have not been hardened.

- *No maintenance or review of audit trails* – Procedures and processes for enabling, maintaining, and reviewing audit logs have not been approved and disseminated. Currently, the USDA Forest Service is in the process of implementing audit logging, which is scheduled to be implemented in phases. Logging and monitoring of root access, remote access, Oracle Database (DBA) access, and network access is currently not in place to document successful and unsuccessful logins attempts.
- *Inadequate physical access controls over sensitive areas* – Physical access to sensitive areas is not restricted to individuals with pertinent job responsibilities. We found three (3) individuals out of forty-two (42) with inappropriate physical access to sensitive areas at the ASC. Furthermore, one individual did not have a documented access authorization form. We also noted that non-USDA Forest Service employees have access to the USDA Forest Service server room located in Portland, OR and access to the server room is not periodically reviewed. In addition, the authorization and periodic review of physical access to sensitive areas in Atlanta is not documented and maintained.
- *No safeguards for protecting sensitive personnel information* – The USDA Forest Service records and maintains sensitive personnel information within Office Personnel Folders (OPFs). The USDA Forest Service has established an MOU with the Office of Personnel Management (OPM) to scan all OPFs and convert them into electronic files (eOPF); however, no safeguards have been established to protect the confidentiality and sensitivity of the OPF data. Furthermore, physical access to the HCM building was not properly controlled as the badge entry system was not activated at the time of our review.
- *No assignment of ownership of shared resources* – USDA Forest Service has agreed to share resources with the Bureau of Land Management (BLM), however no agreement exists establishing controls and responsibilities for safeguarding resources and data.

We continue to recognize the need for the USDA Forest Service management to establish logical and physical access controls to data processing facilities as reported in prior recommendation 6 of Audit Report No. 08401-6-FM and prior recommendation 22 of Audit Report No. 08401-3-FM.

Network Account Management and Access Controls Needs Improvement (Repeat Condition)

We previously reported that USDA Forest Service has not established a formal password policy. Additionally, insufficient password parameters and login information existed across the USDA Forest Service. Weak password controls existed on a significant number of hosts within the USDA Forest Service information technology infrastructure. Specifically, several hosts were identified with weak administrator and other power user account passwords, including blank passwords.

An external assessment was completed and identified several File Transfer Protocol (FTP) servers that allowed anonymous users write access to the public directory, default FTP accounts, writable FTP directories, and several default user names and password combinations present for various FTP accounts.

During the FY 2006 general controls review, we conducted an internal vulnerability assessment of the Washington DC Office (WO), the ASC, and the regional office in Portland. The following weaknesses were noted during the review:

- USDA Forest Service did not finalize Forest Service Manual (FSM) 6600 Chapter 6680 directive 6684.1, “Password Management,” until July 19, 2006. As a result, this policy was not effective for the majority of the fiscal year.
- At the WO we identified:
 - Four instances of a Microsoft Windows 2000 local administrator account password equal to the user account name.
 - Five instances of a blank Microsoft Windows 2000 local administrator account password.
 - Five instances of a Microsoft Windows 2000 power user account password equal to the user account name.
 - 98 instances of a Microsoft Windows 2000 local user account password equal to the user account name.
 - Two instance of a blank Microsoft SQL Server System Administrator (SA) password (Spida Worm).
 - Six instances of the Microsoft Windows 2000 Autologin feature in use.
- At the regional office in Portland we identified:
 - One instance of default Oracle database user name and password combinations present, including the user name Scott and the password Tiger.
 - 19 instances of a Microsoft Windows 2000 local user account password equal to the user account name.
 - One instance of a blank Microsoft SQL Server SA password (Spida Worm).
 - Two instances of the Oracle TNS Listener service with a blank password.
 - Five instances of the Microsoft Windows 2000 Autologin feature were in use.
 - Two instances of TELNET with a blank username and password.
- At the ASC we identified:
 - Seven instances of a Microsoft Windows 2000 local administrator account password equal to the user account name.
 - 22 instances of a Microsoft Windows 2000 local user account password equal to the user account name.
 - Two instances of the Oracle TNS brand listener service with a blank password.
 - 11 instances of TELNET brand access with a blank username and password.
- As part of the FY 2006 external vulnerability assessment of USDA Forest Service, the following prior year conditions were repeat conditions, including:
 - Three hosts were identified as having default user name and password combinations present for various FTP accounts, including oracle and anonymous.
 - Three hosts were identified as having a writable FTP root directory.

We continue to recognize the need for the USDA Forest Service to develop access controls and to improve the management of network accounts as reported in prior recommendation 7 of Audit Report No. 08401-6-FM.

Patch Management and Configuration Guidance is Not Complete and There is a Lack of General Policy Around System Software and Change Control (Repeat Condition)

We previously reported several findings in the area of system software and change control, and service continuity related to the operating system software. Additionally, we found:

- The FSM 6600, *Systems Management*, subsection 6683.6, *Hardware Systems and Software Maintenance*, and the Configuration Management Board (CMB) charter were in draft; and
- No formal policy provides access restrictions over software code, change control, emergency change procedures, library management policies, or library access controls.

During the FY 2006 general control review, a lack of current formal policies and procedures still exists over the change control processes. Specifically, the following formal documents were not found to exist:

- Software/application distribution policy;
- Enterprise policies and procedures for controlling the movement of programs and data among program libraries;
- Procedures for logging and reviewing system software installations;
- Software change control forms;
- Procedures for scheduling and notifying system users of software installations; and
- Standard configuration for network software, links, and services.

We also identified the following control weaknesses during the change control and systems software review:

- Programmers are not trained on the System Development Life Cycle (SDLC) methodology;
- Management does not ensure that consistent change control standards are in place for all USDA Forest Service application changes;
- Management does not ensure that application developers are segregating production and test libraries and limiting access to software libraries to appropriate individuals;
- INFRA/I-Web developers have access to the production and development environment and are also able to grant access to users;
- Results of the testing performed for changes is not consistently documented and maintained; and
- Vendor maintenance of system software is not logged.

During the FY 2006 external and internal vulnerability assessment of the WO, Portland Regional Office, and the ASC, a significant number of issues were identified in four areas: outdated software; missing critical patches on various services and/or software; improperly configured services or software; and outdated or unnecessary services and/or software installed. The weaknesses included 59 instances of outdated software; 200 instances of hosts missing critical patches and/or updates; 33 instances of Oracle and 7 instances of Adobe Acrobat Reader buffer overflows; 5 instances of missing miscellaneous service updates; 1 instance of a Dell OpenManage web server with missing patches; 30 instances of improperly configured services; and 13 telnet and 20 remote procedure call (RPC) services were unnecessarily installed.

We continue to recognize the need for the USDA Forest Service to develop and implement a patch management policy and configuration management policy to strengthen change controls and system software controls as reported in prior recommendation 23 of Audit Report No. 08401-3-FM.

Weaknesses Still Exist in Continuity of Operations and Contingency Plans (Repeat Condition)

We previously reported service continuity control weaknesses at the USDA Forest Service indicating that policies and procedures did not exist for the IT contingency and disaster recovery planning, emergency procedures were not documented, a business impact analysis (BIA) was not performed for various regional offices, application contingency plans were weak, and backup site procedures and agreements are not documented.

In our FY 2006 audit, we inspected the USDA Forest Service's continuity of operations plans (COOP) and disaster recovery documentation. COOPs provide procedures and capabilities to sustain an organization's essential, strategic functions at an alternate site. IT contingency plans provide procedures for recovering an application. We noted that, while improvements had been made over the last year, the following weaknesses were identified:

- *Policies and procedures* – USDA Forest Service did not finalize an IT recovery policy until July 19, 2006. As a result this policy was not in effect for most of the year. This policy covers critical areas of:
 - IT contingency planning,
 - IT restricted space,
 - Data backup and recovery, and
 - Information identification and classification.
- *USDA Forest Service IT Continuity of Operations Plans* – The COOP plans from Regions 5 and 6, both Network Operating Centers (NOC), and the ASC did not address the IT and telecommunication services needed to resume service continuity.
- *Procedures and agreements* – Procedures and agreements regarding regional office backup facilities had not been developed for instances where one region is the backup site for another region. Regional offices had not established service agreements for emergency telecommunication services.

We continue to recognize the need for the USDA Forest Service to develop and implement a COOP policy addressing IT contingency and disaster recovery planning as reported in prior recommendation 5 of Audit Report No. 08401-6-FM.

The Certification and Accreditation (C&A) Process for General Support Systems and Major Applications per the Requirements Set Forth in OMB Circular A-130 (Repeat Condition)

We previously reported that the USDA Forest Service did not have C&A policies and procedures for continuous monitoring of the systems or performing annual self-assessments. Additionally, major applications had incomplete C&A packages and one did not undergo C&A.

During our FY 2006 review, we identified that the USDA Forest Service did not have any pre-existing policy regarding C&As and self-assessments prior to the approval of the FSM 6600 on July 17, 2006. We noted that there was no time in the FY to implement the policy. As a result, we were not able to evaluate individual C&A packages.

We continue to recognize the need for the USDA Forest Service to develop and implement a C&A policy based on NIST Special Publication as reported in prior recommendation 19 of Audit Report No. 08401-3-FM.

REPORTABLE CONDITIONS

Number 1: USDA Forest Service Needs to Refine and Monitor its Expense Accrual

Statistical Accrual Model Needs Refinement

During FY 2006, USDA Forest Service developed a regression analysis model to determine a statistically derived amount for a component of its expense accrual. This model is used to determine an estimate of the amount of accrue on a macro level for many smaller dollar obligation transactions.

Regression analysis is a statistical tool that derives a mathematical relationship between two or more quantitative variable of interest (the dependent variable) can be estimated by one or more of the others (independent variable(s)). Typically, for regression models to produce valid and reasonably precise estimates, the sample data must cover a wide range of values for the independent variable(s), and must also have enough observations (i.e., data points) to ensure both the geometric shape and precision of the resulting estimates with a high degree of statistical confidence. The number of sample observations required for such validity and precision is generally accepted to be in excess of 50 plus the number of coefficients being estimated by the model employed. In the case of a simple two-variable straight line model, a sample size of 52 or more would be desirable; while with a more complex curvilinear model using two or more variables, a larger sample size would be appropriate.

Currently the USDA Forest Service is planning to use several different geometric models as derived from the currently available 33 data points. These different models incorporate both straight line and curvilinear mathematical functions with potentially different forms of the variables being employed as the format for the independent variable portion of the model. While it may be appropriate to have different geometric patterns for accrual estimating equations for the various broad range of obligations, it was noted that all of these models are producing wide ranges of variability around the estimating equations. The lack of precision (i.e., at the 95% confidence level) could be caused by either using the wrong geometric function or using the wrong form of the various variables being employed. However, with the current number of observations (i.e., data points), we are unable to tell whether those things are responsible for perhaps; there is some other root cause.

While these newly developed regression models appear to produce slightly better results overall then past methods for the various accrual estimates, there are issues that should be noted on a go forward basis. Some of these issues follow:

- *Lack of Sufficient Number of Data Points* –The USDA Forest Service uses 33 data points for establishing the accruals model at the end of the third quarter. Ideally a minimum of 52 or more data points should be used; however because the data are abased on time series, that goal will not be able to be achieved for another 19 plus months.
- *Correlation of ULO Balances and Payments*- The statistical models developed by USDA Forest Service use various geometric relationships between unliquidated obligations and payments; with payments being the dependent variable of interest in each of the models. In each case, a correlation is developed from the coefficient of determination (i.e., the ratio of the “explained variation” to the “total variation” of the payment data). Because the correlation coefficients are relatively high for all of the models constructed, the USDA Forest Service management has assumed that the models will be useful and precise enough to provide tight estimates of the actual amounts earned by contractors and grantees, but not yet paid. Various expert texts have shown that the correlation coefficient, while helpful in initially determining the strength of the possible relationship of the variables in an estimation model, may not be the final indicator

of how appropriate and definitive a regression model might be. The paucity of data points might lead to an incorrect conclusion for future estimation of future amounts to be accrued.

- *The Use of Three Different Model Forms*- The USDA Forest Service analysis has produced three different geometric model forms; one for grant and agreements, one for construction contracts, and one for operations. While the use of different curve forms for regression estimates is to be expected because of the timing and billing differences implicit in the different types of obligations, it was noted that there appeared to be a lack of consistency of “goodness of fit” or precision of estimate even when comparing the models being used within a single type of obligation. Sometimes the curvilinear form is preferred; but in other time frames, the straight line format provides a more precise estimate. The USDA Forest Service management must plan to verify and validate the various models developed against data that are not part of that which was used to develop the models. In addition, they must arrive at the geometric form that is appropriate and consistently applied for each one of the three types of obligations. It is also possible that they will need to consider the use of a multiple regression model (i.e., one with two or more independent variables) in order to more fully describe the amount that needs to be accrued for a given obligation type.
- *ULO's above \$500,000*- The data used starting at the beginning of FY 2004 and forward to analyze the relationships between ULOs and payments, and to calculate the regression equations includes UDOs above \$500,000. However, the regression equations are then applied only to UDOs below \$500,000. This inconsistency might be responsible for some of the unexplained variation that is observed in the various models.

The book entitled *Regression Diagnostic* written by M.S. Younger and published by John Wiley & Sons, New York, NY 1977 suggests that model-building data sets for regression analysis should be sufficiently large so that a reliable model can be developed. This reference suggests that the model data set should contain at least 60 to 100 cases in order to identify a meaningful relationship between two variables. In addition, the author also states that the coefficient of determination (R squared) is not an adequate indicator of the usefulness of the regression relation; therefore, a combination of other statistical parameters and diagnostics plots should be considered when evaluating a regression model. The reference describes, in detail, diagnostic techniques and model-building characteristics that should be taken into consideration when developing a regression model.

The variability in the various models developed and the inconsistency of results in comparison with actual data results in a certain amount of uncertainty as to the reliability of the accrual estimates being made. Such determinations can only be made as more data are made available over time and Forest Service management verifies and validates the set of models that are finally arrived at for use in the accrual process. However, at this time with the available information, we do not believe the variability observed would cause a material misstatement in the USDA Forest Service’s financial statements.

Recommendation Number 4:

We recommend that USDA Forest Service management:

- Expand the number of data points in the various regression models to at least 52;
- Expand the number of variables to form multiple regression models and/or the types of analysis to include the use of seasonal indexes in order to account for the various changes in the payment patterns by fiscal quarter; and
- Test models with specific additional independent variables in some of the models may help to substantiate and better expose the true nature of the relationships between ULOs and payments in the various types of obligations.

Continued Monitoring of Field Site Expense Accrual Estimates is Required

Although the USDA Forest Service made significant progress in developing an auditable accrual methodology, the accuracy of accruals and our subsequent disbursements testwork disclosed that not all transactions are properly reported as accruals at period-end.

Our testwork of accruals recorded as of 9/30/06 disclosed 27 exceptions out of 184 transactions. Of these 27 exceptions: nine related to goods and services that were received and paid for prior to 9/30/06, 12 related to goods and services that were not received as of 9/30/06, five lacked adequate supporting documentation, and one had an ULO that was liquidated prior to 9/30/06.

Our subsequent disbursements testwork of 94 transactions disclosed 11 transactions that were not accrued at year-end by field offices. Over 50 percent of these transactions related to temporary travel. The remainder of the transactions does not appear to have a consistent cause for the lack of an accrual and as a result are considered anomalies that would only be identified and minimized from a robust monitoring program.

During the last quarter of 2006, the USDA Forest Service developed a monitoring program at the ASC that should help minimize the conditions noted above. The USDA Forest Service has not had adequate time to fully implement this monitoring program.

We continue to recognize the need for the USDA Forest Service ASC to implement an adequate monitoring program for quarterly review of field compliance and accuracy with its methodology as reported in the prior recommendation 15 of Audit Report No. 08401-3-FM.

Number 2: Accountability for ULOs Needs Continued Improvement (*Repeat Condition*)

During FY 2005 the USDA Forest Service experienced a lack of compliance with its policies and procedures to review and certify the accuracy of ULOs. In response to the FY 2005 ULO material weaknesses, the USDA Forest Service revised its policies and procedures regarding its certification of undelivered orders. Although there was improvement in this area, internal control weakness still existed.

During FY 2006, an internal control sample of ULOs was selected from the USDA Forest Service's May 31, 2006 ULO certification report at each of the ten field sites reviewed during the audit. Of the 53 sample items tested, the following 14 were noted as exceptions:

- One ULO was not reviewed by the unit because the responsible party did not understand their responsibility to review the ULO as the funding unit.
- Four ULOs were identified as invalid, but were not de-obligated prior to the required 30 day de-obligation period subsequent to the certification.
- Eight ULOs were certified as valid, but were determined by our review to be invalid.
- One ULO did not have enough information to certify its validity. The ULO was subsequently identified to be invalid and de-obligated after the 30 day de-obligation period.

Additionally, during the initial implementation of the USDA Forest Service's new ULO certification policy, the USDA Forest Service prepared report, used to assign ULO transactions to responsible offices, divided the ULO balances into line balances rather than the transaction total for the ULO balance.

Because of the poor operating effectiveness of the internal controls over ULOs, the September 30, 2006 ULO extract was reviewed in detail. The review results disclosed 34 of 188 routine ULO transactions as exceptions.

USDA Forest Service Directive 6500-218 states that for the months ending November 30, February 28, May 31 and August 31, all obligations that are:

- \$250,000 or greater regardless of age,
- \$100,000 to \$249,000 and 36 months or older, and
- Under \$100,000 and 60 months or older must be reviewed to determine that they are valid, accurate, and supported. Any unliquidated obligations found to be invalid or incorrectly stated must be reported to ASC Budget Execution to be de-obligated or adjusted no later than 15 days after the date of certification.

We continue to recognize the need for the USDA Forest Service management to continue to monitor its ULO certifications and if necessary modify exiting policies and procedures as noted in prior year recommendation 1 of Audit Report No. 08401-4-FM.

Number 3: The Review of Purchase Card Transactions and Monitoring of the Program Needs Continued Improvement (*Repeat Condition*)

The USDA Forest Service uses the purchase card to reduce administrative costs and allow its employees to procure supplies and services faster than through traditional government procurement regulations.

Although internal control improvements have been noted in this area, weaknesses continue to exist as found in the current year testwork. During our testwork over quarterly supervisory reviews of purchase card transactions, three quarterly reviews out of 20 samples did not have evidence of supervisory review.

In addition, during testwork over the authorization for the use of purchase cards, the following exceptions were noted in a sample of 121 cardholders:

- Six cardholders did not have their *Micro-Purchase & PCMS (Purchase Card Management System) System Training Certification Request* forms signed by the Local Agency Program Coordinator (LAPC).
- One *Micro-Purchase & PCMS System Training Certification Request* form was not provided.

Also, while performing purchase card reviews, we noted the following control weaknesses:

- The ASC could not provide a list of purchase card holders who transferred to the ASC but had not surrendered their purchase cards at the locations from which they were transferred.
- One cardholder had retired (approximately 18 months ago) but was still in the PCMS system.
- One cardholder did not have the same single purchase limit on the *Micro-Purchase & PCMS System Training Certification Request* form and in PCMS.

USDA Departmental Regulation 5013-6 requires that supervisors of purchase card holders monitor the purchasing activity of card holders in their units. Paragraph 18 of the Regulation states that all personnel must be trained to use PCMS before a card may be conferred, and individuals issued a card will certify that they have received the training, understand the regulations and procedures, and know the consequences of inappropriate actions. In addition, on June 30, 2003, the WO sent a letter to USDA Forest Service activities instructing them to have all USDA Forest Service cardholders authorized in writing by December 31, 2003 [and on a go-forward basis].

On April 19, 2004, the USDA Forest Service Director of Acquisition Management reminded the various USDA Forest Service activities of the emphasis placed on the supervisor's review of purchase card holders. A

supervisory review checklist was provided to document the reviews starting with the second quarter review (January – March 2004). Documentation of these reviews should be maintained for three years.

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

We continue to recognize the need for the USDA Forest Service management to reinforce its policies in this area and incorporate procedures to test reviews of purchase card transactions in its Acquisition Management reviews as reported in prior year recommendation 4 of Audit Report No. 08401-4-FM.

Number 4: Controls Related to Physical Inventories of Capital Assets Need Continued Improvement
(Repeat Condition)

The USDA Forest Service provides capitalized asset written physical inventory instructions to its reporting units. We reviewed the instructions and believe they are effectively designed. For economy and efficiency, the USDA Forest Service performs a physical inventory of personal property on a two-year cycle, preferably in the even years. The last inventory was performed in the current fiscal year. Real property inventory procedures were changed in FY 2002 to require inventories on a rolling basis every five years starting in FY 2003.

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

- Lack of Signatures and or Dates on Inventory Reports;
- Lack of Evidence of Segregation of Duties;
- Lost or Found Items Discovered during Physical Inventories were not Properly Documented and/or Corrected in the Property Systems; and
- Lack of Inventory of Level 1 and 2 Roads.

In our FY 2006 audit, we noted the previous four and one new deficiencies which were primarily caused by a lack of compliance by field units with the USDA Forest Service’s written inventory instructions.

- *Lack of Signatures and/or Annotations on Inventory Reports*- Inventory reports were either not signed or not annotated by the inventory takers for 18 of 167 inventory reports. This deficiency existed at 7 of 10 units visited. Unsigned and undated physical inventory lists could result in a misstatement of assets because the physical existence of assets is not verified and/or properly recorded.
- *Lack of AgLearn Training for Inventory Takers* – Documentation evidencing AgLearn training for inventory takers was not available for 4 of 220 inventory takers. This deficiency existed at 3 of 10 units visited. Lack of proper training of inventory takers can result in non-compliance with USDA Forest Service inventory instructions and thus causing the misappropriation or misstatement of assets.
- *Lack of Evidence of Segregation of Duties*— The inventory was conducted and the inventory reports were annotated only by the inventory taker. In other instances, the inventory taker was the accountable officer. This condition existed in 4 of 147 inventory reports at 2 of the 10 units visited. Lack of proper oversight of inventory can result in the misappropriation or misstatement of assets.

- *Lost or Found Items Discovered during Physical Inventories were not Properly Documented and/or Corrected in the Property Systems* – Non-reconciling items discovered during the physical inventories were not corrected in the property systems. This condition existed in 7 of 95 lost or found items at 2 of the 10 units visited. The effect is a misstatement of assets because assets were not properly recorded in the property subsidiary ledgers.
- *Lack of Inventory of Level 1 and 2 Roads* – Level 1 and 2 roads were again not inventoried in FY 2006 and at the current rate of their inventorying, USDA Forest Service will not complete a 100% physical inventory of roads within the five years.

We recommend that the USDA Forest Service increase their monitoring of reporting units for compliance with the USDA Forest Service written physical inventory instructions and implement an appropriate inventory methodology for level 1 and 2 roads as reported in prior year recommendation 9 of Audit Report No. 08401-6-FM.

Number 5: The Design and/or Implementation of Controls Related to the Accurate Recording of Revenue-Related Transactions Need Improvement (*Repeat Condition*)

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

During our FY 2006 audit, we tested 208 timber revenue samples, 571 general revenue samples, 581 accounts receivable samples, 124 unfilled customer orders with advance samples, and 306 unfilled customer orders without advance samples and noted the following errors.

Timber Revenue

- Five samples, not accrued for in the prior FY, were recorded as a current economic event instead of a prior year event. All of these samples related to a court settlement in which the USDA Forest Service was aware of the \$8.4M settlement in August of FY 2005.
- Two samples resulted in a misstatement of revenue in the current year that were not corrected before 9/30/06.

General Revenue

- 40 samples, not accrued for in the prior FY, were recorded as current economic event instead of a prior year event. Of these, 12 were the result of the USDA Forest Service correcting an account balance that was misstated at the end of FY 2005. The corrections were posted to a revenue account in FY 2006 instead of to the prior period adjustments account due to USDA not permitting its subsidiary agencies to use that account.
- Three samples had insufficient documentation to support the sample amount.
- One sample recorded revenue in FY 2006 that had already been recognized in FY 2005.
- Two samples were recorded in FY 2007 however they should have been accrued in FY 2006.

Accounts Receivable

- 15 samples were collected, but the accounts receivable balance was not reduced.

- 11 samples were prior years unbilled that were not adjusted against advance or reversed at time when bills were issued.
- Five samples were recorded as duplicate billings.
- Two samples were not valid receivables because prior period accrual entries had not been reversed.
- Two samples were still recorded as receivables even though the customers filed for bankruptcy and the USDA Forest Service had no chance of collection.
- One sample had documentation that did not tie to the sample amount.
- One sample did not have sufficient documentation to support the sampled amount.

Unfilled Customer Orders

- Eight samples had an agreement with an expired period of performance.
- One sample was a refund payment that was incorrectly posted.
- Two samples showed an abnormal balance.
- Ten samples had insufficient documentation to support the sample amount.
- Two samples had agreements with expired authority.
- One sample revealed activity on an agreement that had expired.
- Five samples had an agreement amount that did not tie to the documentation.
- One sample had an advance that had been collected.

The effect of these deficiencies results in an over or underestimate of revenue and an overstatement of unfilled customer orders.

We continue to recognize the need for the USDA Forest Service management to review and update its policies and procedures for accurate recording of revenue as reported in prior year recommendation 6 of Audit Report No. 08401-4-FM.

Number 6: The USDA Forest Service Needs to Continue to Improve its Internal Controls over its Reconciliation and Management of Fund Balances with Treasury (*Repeat Condition*)

Financial Management Service (FMS) 6652 Reconciliation Process

During FY 2006 control testing, 50 sample items were selected from the FMS 6652 reports reconciliation process. The test results disclosed that all 50 sample items were adequately researched and resolved. However, 25 sample items were not corrected timely. Of these items, 22 were not reconciled timely due to the backlog of credit card transaction processing at the USDA National Finance Center (NFC) Administrative Billing and Collection Office (ABCO).

Government-wide Accounting System Reports Reconciliation Process

During FY 2006 control testing, 38 sample items were selected for our control tests of the Government-wide Accounting System reports reconciliation process. The test results disclosed that all 38 sample items were adequately researched and resolved. However, 14 sample items were not corrected timely. While this demonstrates an improvement in the reconciliation process, the deficiencies noted in the prior years have not been fully corrected.

We continue to recognize the need for the USDA Forest Service to ensure adequate reconciliations of Fund Balance with Treasury as noted in prior year recommendation 27 of Audit Report No. 08401-3-FM.

Number 7: The Design and/or Implementation of Controls Related to the Accurate Recording of Personal Property Transactions Needs Improvement (*Repeat Condition*)

The USDA Forest Service has improved its property internal controls during FY 2006, including monthly general ledger to property subsidiary ledger reconciliations and other corrective actions.

However during FY 2006 substantive testing of 340 samples, we identified immaterial errors where the recorded data did not agree with the supporting documentation. These errors included:

- 21 samples that related to FY 2005 or prior events that were recorded as FY 2006 activity;
- 13 samples that did not have sufficient supporting documentation;
- 13 samples with an overstatement in accumulated depreciation;
- Three samples with an overstated asset cost;
- Two samples with an understated asset cost; and
- One sample with understated accumulated depreciation.

Additionally, upon review of the year-end data downloads for the personal property sub-ledgers, Equipment Management Information System (EMIS), and Personal Property Computer System (PROP) we identified 536 items (i.e., 110 PROP and 426 EMIS items) that did not meet the capitalization threshold at the time these were placed in service. These items resulted in overstatement of asset cost by \$4,084,338 and accumulated depreciation of \$(1,508,572).

We continue to recognize the need for the USDA Forest Service to increase its monitoring of compliance with property recording policy as reported in prior recommendation 30 of Audit Report No. 08401-3-FM.

Number 8: The Compilation of Performance Measures Needs Improvement (*Repeat Condition*)

The USDA OIG identified, in a March 2005 report entitled *Forest Service Implementation of the Government Performance and Results Act*, certain significant deficiencies in internal control over reported performance measures that, in our judgment, could adversely affect the USDA Forest Service's ability to collect, process, record, summarize, and report performance measures in accordance with management's criteria. Specifically, the OIG reported the USDA Forest Service had not effectively implemented a comprehensive strategy for collecting and reporting performance data. The OIG report identified several examples of inconsistencies, errors, and omissions in measuring performance, and that the standards used to define performance varied between regions, forests, and even among the districts in a forest. The report further stated that definitions of performance measures were often vague and open to varied interpretation and were not always distributed timely to the field.

During our FY 2006 audit follow-up work, we reviewed several USDA Forest Service performance review reports and identified the following weaknesses:

- Accomplishment reporting databases were not integrated and some were not fully functional.
- There was an inconsistent application of performance management throughout the agency.
- Some business rules of work planning and accomplishment reporting appeared to be in conflict with on-the-ground efforts toward integrated work.
- No universal verification process had been followed. In addition, standards for documentation in support of reported accomplishments were not in place.
- At different levels of the organization there were varied perspectives on the number and kind of performance measures needed at the different levels of the organization.

- Primary purpose, in some areas, was not being followed. USDA Forest Service must follow primary purpose to comply with Congressional intent, maintain validity of the reported accomplishment, and ensure that the expenditure information is consistently reported.

In addition, we reviewed USDA Forest Service’s OMB Circular A-123 control evaluation documentation which stated that, “USDA Forest Service has not effectively implemented a comprehensive strategy for collecting and reporting performance data. The USDA Forest Service lacks an effective internal control system to ensure data quality.”

Representatives from the USDA Forest Service’s Strategic Planning and Resource Assessment Office stated that USDA Forest Service is moving forward with implementing the Performance Accountability System (PAS) to accurately, consistently, and timely report performance information. However, PAS is still under development and implementation is not scheduled until FY 2007.

Recommendation Number 5:

We recommend that the USDA Forest Service should:

- Refine its policies and procedures for gathering and verifying its performance measure data to ensure consistent reporting across all offices.
- Implement PAS and adequately train personnel in the operation and use of the system.
- Ensure that an adequate quarter (at least June 30 reporting) and year-end reporting process is in place to accurately and completely report its performance measures in the financial statements and Performance and Accountability Report (PAR).

Number 9: The Compilation of the USDA Forest Service’s Required Supplementary Information (RSI) Needs Improvement (*Repeat Condition*)

We noted that the USDA Forest Service does not have adequately designed controls to ensure the consistency of information compiled and reported in its RSI section of the financial statements.

AU Section 558, sub section .07, a. requires the auditor to inquire if the required supplementary information is (i) measured and presented within prescribed guidelines....and; b. The information is consistent with the audited financial statements.....

We continue to recognize the need for the USDA Forest Service to revise its current control structure for data collecting of RSI as reported in prior recommendation 37 of Audit Report No. 08401-3-FM.

Number 10: The Posting of Certain Transactions Needs to Contain the Proper Reference Data to Link Related Transactions (*Repeat Condition*)

The USDA Forest Service business processes require that relevant subsequent transactions (e.g., an expense) be linked to an initiating transaction (i.e., obligation) to provide for the transaction history and overall net affect of a transaction. This link facilitates the matching of related transactions, such as an advance and the draw down of that advance through subsequent payments, which results in a net balance. However, this required information is not always entered in the general ledger.

During our review of data extracts as of September 30, 2006 from the general ledger for accounts for 48XX and 2190, we noted that trans-codes BG, Z7, DG, and DH remained open and unlinked in our extracts. The following trans-codes and the respective balances were identified in each of the extracts:

Transcode	Standard General Ledger Account	
	48XX extract	2190 extract
BG	\$4,118,962	(\$2,623)
Z7	0	0
DG	(5,167,006)	(12,892,985)
DH	(54,133)	(3,799)
Totals	(\$1,102,177)	(\$12,899,407)

Although the extract as a whole is valued correctly, individual document transactions relating to undelivered orders and accruals are overstated as of September 30, 2006.

We continue to recognize the need for the USDA Forest Service to ensure adequate linking of its transactions as reported in prior recommendations 34, 35, and 36 of Audit Report No. 08401-3-FM.

Number 11: A Segregation of Duties Policy related to Electronic Data Processing (EDP) Must be Fully Implemented (*Repeat Condition*)

We previously reported that, although a number of the controls around segregation of duties related to IT were in place and new segregation of duties policy controls have been approved, weaknesses were still found:

- Management did not periodically review segregation of duties controls;
- Staff were unaware of a segregation of duties policy at all sites except the WO; and
- Segregation of duties training was not created or distributed to USDA Forest Service employees.

During our FY 2006 general controls review, we found that the weaknesses previously reported still exist. Although the segregation of duties policy documented was in existence for the entire fiscal year, there were no steps taken to implement this policy. Additionally, we found that performance plans and appraisals could not be located for all staff.

We continue to recognize the need for the USDA Forest Service to develop and implement a segregation of duties policy as reported in prior recommendation 10 of Audit Report No. 08401-6-FM.

STATUS OF PRIOR YEAR’S REPORTABLE CONDITIONS/MATERIAL WEAKNESSES

As required by *Government Auditing Standards* and OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of the prior year’s reportable conditions. The following table summarizes these issues and provides our assessment of the progress USDA Forest Service made in correcting these reported conditions. We have also provided the OIG report where the issue is monitored for audit follow-up. These tables contain only those audit reports that are open. In addition, only those recommendations that remain open or were closed in the current year are noted in the tables.

Open Conditions In this Table are Referenced In Exhibit I and II		
<i>USDA OIG Audit Report No. 08401-6-FM December 2005</i>		
<i>(Replaced prior Audit Report: USDA OIG Audit Report No. 08401-5-FM)</i>		
Reported Condition	Recommendation	Status
The USDA Forest Service Needs to Continue to Improve its Financial Management and Reporting Process	In addition to the prior recommendations 1, 3, 8, 11 (closed) of Audit Report No. 08401-3-FM, we recommend that the USDA Forest Service: <ul style="list-style-type: none"> • In conjunction with the USDA OCFO, complete the existing project for producing the SOF [Statement of Financing] on a transactional basis. Document the propriety of all ACCTEIDs that constitute valid and logical reconciling items in the SOF. Obtain training for personnel involved in financial statement preparation regarding the relationship of the SOF to the statements of budgetary resources and net cost. Perform a comprehensive technical review of the SOF to ensure it is accurately prepared. • Establish a separate general ledger sub-account within GL 2190 to separately record unfunded liabilities or otherwise segregate funded and unfunded liabilities. 	Closed
		Closed
Accountability for Unliquidated Orders (ULOs) is Lacking <i>(2006 Reportable Condition; 2005 Material Weakness)</i>	2. In addition to the prior year recommendation 1 of Audit Report No. 08401-4-FM, we recommend that the USDA Forest Service develop a plan to improve the operating effectiveness of its review and approval of all period-end accrual adjustments.	Open
Implementation of the USDA Forest Service Accrual Methodology Needs Strengthening <i>(2005 Material Weakness)</i>	3. We recommend that the USDA Forest Service modify its accrual methodology to require responsible USDA Forest Service officials to take additional/alternate steps to obtain additional information when vendors cannot provide the necessary information to determine an accurate estimate, or when the USDA Forest Service is aware that the information provided is inaccurate.	Closed
	4. We recommend that the USDA Forest Service improve its quarterly monitoring function to ensure that	Closed

Open Conditions In this Table are Referenced In Exhibit I and II		
USDA OIG Audit Report No. 08401-6-FM December 2005 (Replaced prior Audit Report: USDA OIG Audit Report No. 08401-5-FM)		
Reported Condition	Recommendation	Status
	reviews of fire and other incident accruals are performed accurately and completely and that such recorded accrual amounts are valid.	
The USDA Forest Service Needs to Improve its General Controls Environment (2006 Material Weakness; 2005 Material Weakness)	<p>5. We recommend that USDA Forest Service: Complete, approve, communicate, and document the enforcement of policies and procedures addressing IT contingency and disaster planning and protection of sensitive information and classification. These policies and procedures should include the removal and return of storage media and physical and environmental security.</p> <p>Additionally, USDA Forest Service should conduct a Business Impact Analysis at the WO, Fort Collins, CO – WO Detached, and Region 3 (supporting the ASC) data centers to assist in identifying the criticality and sensitivity of USDA Forest Service information, systems, and facilities. The COOP for the Regional headquarters, WO and Fort Collins – WO Detached need to be enhanced. Also, the contingency plan for ConnectHR/Paycheck7 needs to be enhanced. USDA Forest Service should establish controls to certify all COOP and contingency plans are tested annually and updated based on test results. Regional service level agreements or contracts with all backup site facilities and telecommunication services should be developed.</p> <p>Finally, we recommend that the USDA Forest Service develop materials and provide employees identified as occupying emergency roles with disaster recovery and continuity of operations training.</p>	Open
	<p>6. We recommend that USDA Forest Service management develop, communicate, and establish controls to facilitate adherence to entity-wide policies and procedures on access controls to address access key controls, including:</p> <ul style="list-style-type: none"> • A standardized process for requesting access to the USDA Forest Service network. Include procedures for changes to existing user accounts and requesting, granting, and removing temporary and emergency access; • Periodic management review of network account 	Open

Open Conditions In this Table are Referenced In Exhibit I and II		
USDA OIG Audit Report No. 08401-6-FM December 2005 (Replaced prior Audit Report: USDA OIG Audit Report No. 08401-5-FM)		
Reported Condition	Recommendation	Status
	<p>access listings for appropriateness, identifying and disabling inactive user accounts, and removing network access for separated employees;</p> <ul style="list-style-type: none"> • Requesting, granting, and removing access to system software, sensitive utilities, and database management utilities; • Periodic review of network, server operator, and remote access audit logs as required by USDA Forest Service Interim Directive 6680-2005-3, "Technical Controls." Include procedures and requirements for investigating suspicious user activity and reporting security violations; • Management approval for archiving, deleting, and sharing ATSA data; • Finalize the USDA Forest Service Manual 6683.2, "Physical and Environmental Security," and communicate requirements to FS personnel. Establish controls to facilitate adherence to policy; and • The USDA Forest Service needs to modify server settings on all USDA Forest Service servers to ensure that users cannot gain root server access anonymously. USDA Forest Service network audit functions must be configured to maintain a history of successful and unsuccessful login attempts and user activity for the USDA Forest Service network as required by USDA Forest Service Interim Directive 6680-2005-3, "Technical Controls." USDA Forest Service management should identify and document all access paths for the USDA Forest Service network and servers. Finally, USDA Forest Service needs to develop and implement a user access review policy and procedure for the Department of Health and Human Service's Payment Management System application. <p>7. We recommend that USDA Forest Service management:</p> <ul style="list-style-type: none"> • Update the USDA Forest Service Interim Directive 6680-2005-3 to include the USDA requirement that users change their password every 60 days and 30 days for system administrators; • Establish controls to facilitate entity-wide adherence 	Open

Open Conditions In this Table are Referenced In Exhibit I and II		
USDA OIG Audit Report No. 08401-6-FM December 2005 (Replaced prior Audit Report: USDA OIG Audit Report No. 08401-5-FM)		
Reported Condition	Recommendation	Status
	<p>to the USDA Forest Service Interim Directive 6680-2005-3; including the application of strong passwords to all user accounts identified as having a weak password during the vulnerability assessment, and the removal or disabling of all default, temporary, and guest user accounts; and</p> <ul style="list-style-type: none"> • Continue with the USDA Forest Service implementation of Microsoft Active Directory in order to enforce screen saver passwords, account lock-out after three invalid login attempts, and the minimum password requirements documented in the USDA Forest Service Interim Directive 6680-2005-3 for all FS network users. <p>8. We recommend that USDA Forest Service system owners, in cooperation with the USDA OCIO [Office of the Chief Information Officer] and in compliance with USDA and USDA Forest Service information security requirements:</p> <ul style="list-style-type: none"> • Complete, approve, communicate, and document the enforcement of policies and procedures, specifically addressing the conditions resulting from the new business operations organization; • Develop and implement a policy to include review of personnel with access to sensitive facilities, the appropriateness of FFIS and NFC access authorizations, and the network security status; • Install the latest software versions, service packs, and security patches (and remove out-dated versions); • Develop and implement software configuration standards for Windows, UNIX [operating system], and all other USDA Forest Service platforms with defined images that specify what software applications should be in use and on what kinds of machines these applications should be installed on; and • Use automated tools to detect and eliminate unused or unauthorized applications including the use of Internet Security Systems (ISS) Internet Scanner in accordance with USDA Cyber Security Policy CS-007. 	Open

Open Conditions In this Table are Referenced In Exhibit I and II		
USDA OIG Audit Report No. 08401-6-FM December 2005 (Replaced prior Audit Report: USDA OIG Audit Report No. 08401-5-FM)		
Reported Condition	Recommendation	Status
Controls Related to Physical Inventories of Capital Assets Need Improvement (2006 Reportable Condition; 2005 Reportable Condition)	9. We recommend that the USDA Forest Service increase their monitoring of reporting units for compliance with the USDA Forest Service written physical inventory instructions and implement an appropriate inventory methodology for level 1 and 2 roads.	Open
A Segregation of Duties Policy related to EDP Must be Fully Implemented (2006 Reportable Condition; 2005 Reportable Condition)	10. We recommend that USDA Forest Service: <ul style="list-style-type: none"> • Establish controls to facilitate adherence to the segregation of duties policy and supporting procedures as well as develop, implement and document training so that employees are aware of the policy and their responsibilities. • Modify, approve, and communicate a policy to address periodic management review of segregation of duties. 	Open

Open Conditions In this Table are Referenced In Exhibit I and II		
USDA OIG Audit Report No. 08401-4-FM November 2004		
Reported Condition	Recommendation	Status
Accountability for Undelivered Orders is Lacking (2006 Reportable Condition; 2005 Material Weakness; 2004 Material Weakness)	1. We recommend that USDA Forest Service management: <ul style="list-style-type: none"> • Require all locations to fully comply with review and certification requirements and follow up to resolve questionable items. • Previously Closed. 	Open
The Review of Purchase Card Transactions Needs Improvement (2006 Reportable Condition; 2005 Reportable Condition; 2004 Reportable Condition)	4. We recommend that USDA Forest Service management reinforce its policies in this area and incorporate procedures to test the reviews of purchased transactions in its Acquisition Management reviews.	Open
The Internal Controls Related to Recording, Classification and Accounting for Information Related to Leases Need Improvement (2006 Management Letter Comment; 2005 Reportable Condition; 2004 Reportable Condition)	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.	Closed; Downgraded

Open Conditions In this Table are Referenced In Exhibit I and II		
USDA OIG Audit Report No. 08401-4-FM November 2004		
Reported Condition	Recommendation	Status
The Design and/or Implementation of Controls Related to the Accurate Recording of Revenue Related Transactions Need Improvement <i>(2006 Reportable Condition; 2005 Reportable Condition; 2004 Reportable Condition)</i>	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.	Open

Open Conditions In this Table are Referenced In Exhibit I and II		
USDA OIG Audit Report No. 08401-3-FM January 2004		
The USDA Forest Service Needs to Improve its Financial Management and Accountability <i>(2006 Material Weakness; 2005 Material Weakness, 2004 Material Weakness, 2003 Material Weakness)</i>	1. We recommend that the USDA Forest Service provide 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).	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
	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.	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 OCFO.	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.	Closed; Management Letter Comment

Open Conditions In this Table are Referenced In Exhibit I and II		
<i>USDA OIG Audit Report No. 08401-3-FM January 2004</i>		
	software, test and install applicable patches or updates, configure servers and systems in accordance with Forest Service technical bulletins and federal criteria, and remove any unneeded services.	
The USDA Forest Service Needs to Continue to Improve its Internal Controls over its Reconciliation and Management of Fund Balance with Treasury <i>(2006 Reportable Condition; 2005 Reportable Condition; 2004 Reportable Condition; 2003 Reportable Condition)</i>	27. We recommend that the USDA Forest Service perform complete and timely resolution of reconciling items for all Fund Balance with Treasury accounts within 60 days of report [<i>FMS 6652 and Government-wide Accounting System Reports</i>] receipt.	Open
The Design and/or Implementation of Controls Related to the Accurate Recording of Personal Property Transactions Need Improvement <i>(2006 Reportable Condition; 2005 Reportable Condition; 2004 Reportable Condition; 2003 Reportable Condition)</i>	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.	Open
Postings of Certain Transactions Needs to Contain the Proper Reference Data to Link Related Transactions <i>(2006 Reportable Condition; 2005 Reportable Condition; 2004 Reportable Condition; 2003 Reportable Condition)</i>	34. We recommend that the USDA Forest Service develop a methodology to link transactions that are currently in the financial systems.	Open
	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.	Open
	36. We recommend that the USDA Forest Service establish direction and quality assurance protocols to ensure that appropriate data is entered in the system.	Open
Compilation of the USDA Forest Service's RSI Needs Improvement <i>(2006 Reportable Condition; 2005 Reportable Condition; 2004 Reportable Condition; 2003 Reportable Condition)</i>	37. We recommend that the USDA Forest Service revise its current control structure for data collection and reporting of RSI to ensure the timeliness and completeness of the reported information.	Open

Open Conditions In this Table are Referenced In Exhibit I and II

USDA OIG Audit Report No. 08401-3-FM January 2004

<p>The USDA Forest Service ATSA Application Controls Need Improvement <i>(2005 Reportable Condition; 2004 Reportable Condition; 2003 Reportable Condition)</i></p>	<p>38. We recommend that USDA Forest Service management update the SSP for the ATSA system. SSP should be based on the ATSA Risk Assessment results; and be approved by management and reviewed and updated at least annually to reflect any changes to the current environment and the risks associated with those changes. USDA Forest Service management should incorporate in the ATSA SSP required management review of activity logs. Currently, the Security Plan identifies that audit trails exist but does not indicate the frequency with which they should be reviewed and who should review them. These reviews should be performed on a consistent basis regardless of whether potential unusual activity is detected. USDA Forest Service should also take steps to ensure required management reviews of ATSA activity logs are carried out and according to the updated security plan. Additionally, USDA Forest Service should modify the ATSA front end application to capture user activities.</p>	<p>Closed</p>
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COMPLIANCE AND OTHER MATTERS

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

Obligation testwork performed over approximately 183 transactions disclosed that 74 transactions¹ were not obligated as required by appropriation law prior to payment. The transactions that were not obligated included temporary travel and reoccurring utility type transactions.

Due to the USDA Forest Service's current system limitations, the USDA Forest Service can not obligate temporary travel without a consider effort that would exceed expected benefits. The USDA Forest Service is in process of migrating to a new travel system that will allow for the obligation of temporary travel transactions. For other transactions not obligated, several USDA Forest Service offices did not obligate these transactions because of the variability in determining the estimated cost for these types of transactions.

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

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

We continue to recognize the need for the USDA Forest Service to obligate all transactions as reported in prior year recommendation 8 of Audit Report No. 08401-4-FM.

The USDA Forest Service's Systems Do Not Comply with FFMIA of 1996

Federal Accounting Standards

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

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

¹ The 40% error rate would not be a true representation of the error rate to the population sampled. The 40% error rate is skewed as a result of the type of statistical sampling used for audit testwork.

FFMIA Non-compliance with Federal Accounting Standards	
SFFAS/SFFAC Number	Accounting Deficiencies Noted
SFFAC 2	<ul style="list-style-type: none"> ■ Unliquidated Obligation errors ■ Preparing proper note disclosures (e.g., dedicated collections, Statement of Budgetary Resources to President’s Budget reconciliation) ■ Not timely assessing the impact of abnormal balances
SFFAS 5	<ul style="list-style-type: none"> ■ Incorrect accruals
SFFAS 7	<ul style="list-style-type: none"> ■ Errors with recording timber and non-timber revenue
SFFAS 8	<ul style="list-style-type: none"> ■ Improper stewardship reporting

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

We continue to recognize the need for the USDA Forest Service to identify business process causes for noncompliance with accounting standards as reported in prior year recommendation 9 of Audit Report No. 8401-4-FM. In addition, we also recognize the need for the USDA Forest Service to develop a remediation plan as reported in prior year recommendation 10 of Audit Report No. 08401-4-FM.

Financial Management Systems

As noted in our material weakness on the general controls environment, the USDA Forest Service did not have policies and procedures for C&A until July 2006. Due to the late implementation of the C&A policies and procedures, we were not able to evaluate the current year C&A packages. During FY 2005 we noted that the USDA Forest Service did not fully comply with the requirements of OMB Circular No. A-130, *Management of Federal Information Resources*. The USDA Forest Service systems that were impacted by our FY 2005 testwork were Travel, Connect Human Resources (HR), INFRA, ATSA, and Paycheck 7 applications and their general support environment. A certification and accreditation that is fully compliant with OMB Circular A-130 is a requirement for systems to comply with FFMIA.

We continue to recognize the need for the USDA Forest Service to implement its issued policies and procedures to ensure that its system certification and accreditations are comprehensive and accurate as reported in prior recommendation 1 of Audit Report No. 08401-3-FM.

Compliance with the United States Standard General Ledger

During our FY 2006 audit, we noted the following deficiencies in the USDA Forest Service’s standard general ledger posting:

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

- USDA Forest Service capitalized lease and internal use software work in process transactions are not recorded in the general ledger at the transactional level. Instead transactions are summarized from EMIS and entered in the general ledger at the organizational level. Instead, they are maintained in off-line spreadsheets and then recorded in the general ledger only at year-end closing.
- During testwork over general ledger account series 57XX, it was note that the USDA Forest Service improperly debited 1010, *Fund Balance with Treasury*, and credited 3102, *Unexpended Appropriations-Transfers-In*, to record Non-expenditure financing sources. Instead, FS should have credited general ledger account 5755, *Non-expenditure Financing Sources-Transfers-In*.
- During testwork over expenditures, it was noted that for stewardship land acquisitions, the USDA Forest Services improperly debits 6100, *Operating Expenses/Program Expenses* instead of debiting 6908, *Stewardship Land Acquisition (Nonproduction Cost)*. At the end of the year FS transfers the total stewardship land activity from general ledger account 6100 to 6908. This occurs because USDA current doesn't have a posting model at the transactional level to accommodate this business process. Because this process requires manual involvement in increases the chances for human error. During FY 2006, USDA Forest Service did not move approximately \$2.2 million from general ledger account 6100 to 6908.

Recommendation Number 6:

We recommend that the USDA Forest Service develop posting models to appropriately record Non-expenditure financing sources-transfers-in and stewardship land acquisitions.

STATUS OF PRIOR YEAR’S NONCOMPLIANCE FINDINGS AND OTHER MATTERS

Open Conditions In this Table are Referenced In Exhibit I and II		
<i>USDA OIG Audit Report No. 08401-6-FM December 2005</i>		
<i>(Replaced prior Audit Report: USDA OIG Audit Report No. 08401-5-FM)</i>		
Reported Condition	Recommendation	Status
The USDA Forest Service May Not be in Compliance with 31 USC 1517	11. We recommend that the USDA Forest Service fully investigate the circumstances surrounding this issue and obtain appropriate legal advice from the USDA Office of the General Counsel.	Closed
The USDA Forest Service’s Systems Do Not Comply with the Federal Financial Management Improvement Act (FFMIA) <i>(2006 Non-compliance)</i>	12. We recommend that the USDA Forest Service comply with recommendation 1 of this report as well as develop systems and methodologies that comply with the SGL at the transactional level.	Open

Open Conditions In this Table are Referenced In Exhibit I and II		
<i>USDA OIG Audit Report No. 08401-4-FM November 2004</i>		
Reported Condition	Recommendation	Status
The USDA Forest Service Does not Obligate All Transactions as Required by Appropriation Law <i>(2006 non-compliance; 2005 non-compliance; 2004 non-compliance)</i>	8. We recommend that the USDA Forest Service management develop policy and procedures to obligate funds for transactions as required by Appropriations Law.	Open
Instances of Non-Compliance with FFMIA were Identified Related to Federal Accounting Standards <i>(2006 non-compliance; 2005 non-compliance; 2004 non-compliance)</i>	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.	Open
	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.	Open

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



File Code: 14306500
Date: NOV 13 2006

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

Dear Mr. Boyce:

We have reviewed KPMG's Independent Auditor's Report dated November 10, 2006, and generally 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 question or require additional information, please contact Jesse L. King at (202) 205-1321.

Sincerely,

JESSE L. KING
Chief Financial Officer

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



**United States Department of Agriculture
Forest Service's**

**Management Discussion and Analysis,
Consolidated and Combined Financial Statements,
Required Supplementary Information, and
Required Supplementary Stewardship Information**

Fiscal Years 2006 and 2005

OVERVIEW

The Management's Discussion and Analysis (MD&A) serves as a high-level overview of the U.S. Department of Agriculture (USDA) Forest Service's performance in fiscal year (FY) 2006. This report is designed for those individuals interested in the progress and status of the agency.

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

Mission Statement

The Forest Service operates under the following mission:

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

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

Organizational Structure

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

Reporting to the Chief are the deputy areas: Business Operations; Research and Development; National Forest System (NFS); S&PF; as well as the Chief Financial Officer. Please see the Forest Service's organizational chart in Appendix A for additional information.

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

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

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

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

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

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

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

DEMANDS AND RISKS

Several known demands and unforeseen risks may impact the USDA Forest Service's organizational capacity to meet its mission or financial responsibilities in the near term.

The legacy decentralization of the Forest Service proved beneficial from the standpoint of employees who were highly knowledgeable about the local communities: from appropriate land management to meet the local natural resource needs to developing local partnerships and handling local politics. Yet, there proved to be parts of decentralization that were not as positive, such as the redundancy of the agency's administrative processes for finances, human resource management, and technical support. This redundancy required an intensive use of resources and was unnecessarily expensive.

The Business Operations Transformation Program, now in its second year, is an agency wide initiative to improve the Forest Service's organizational efficiency over a span of several years. Chief Dale Bosworth recently called this an "Agency Transformation," emphasizing that all Forest Service employees are responsible for the success of these changes to our business operations.

The transformation will standardize and centralize many of the budget and finance processes; improve the quality and efficiency of the agency's technology services; and standardize and centralize human resource (HR) processes into a strategy for human capital management. The design of these transforming projects will also increase the Forest Service's ability to meet the needs of its internal and external customers as the agency redirects critical funds from administrative functions back to mission-critical programs.

But, the newly centralized processes are not yet functioning at their most efficient and effective levels. The Albuquerque Service Center (ASC) for Budget and Finance, which brought nearly 450 employees to a consolidated center in FY 2005, continues to identify problems, monitor progress, and create solutions to challenges, including travel and payment activity. Over the past year, large numbers of payments were late to contractors, partners, utility companies, and employees, partially due to the consolidation of services, but also because some services provided by the USDA's Office of the Chief Financial Officer (OCFO) in New Orleans, LA, were significantly reduced after Hurricane Katrina. The agency continues to work diligently in overcoming these issues.

Further, as work with the National Finance Center (NFC) has gone more slowly than planned in implementing new systems for human capital management, the Forest Service has delayed the move of these functions to the ASC. Planned completion for the move is September 2007.

The Forest Service continues to have challenges in the early detection of invasive species and in managing wildfire risks because State and local planning and zoning ordinances provide limited protection of open spaces. Urban encroachment into large tracts of private forest lands has created a new kind of rural community, and national forest and grassland program managers struggle to mitigate the effects of urban sprawl.

The Chief of the Forest Service previously identified invasive species as a major threat to the Nation's forest and rangeland resources, but this must now be extended to aquatic invasive species. In a 2004 Program Assessment Rating Tool (PART) assessment, the Office of Management and Budget (OMB) determined that the agency lacked focus, consistency, and cooperation across all deputy levels in the development of invasive pest management strategies. Cooperation within the Forest Service and collaboration with USDA Animal and Plant Health Inspection Service should improve the focus of and consistency in managing forest pests and decrease the potential risk of infestations.

The Forest Service's primary focus for invasives is their prevention, early detection, and eradication before they become widespread and do extensive damage to ecosystems. Ongoing strategies include the

slow-the-spread strategy for gypsy moth infestations; conclusion of the early detection and rapid response pilot study for bark beetles, with a planned 2007 national implementation; and an update to the National Insect and Disease Map, with a national risk assessment of tree mortality due to major outbreaks of insects and diseases.

Rising fire suppression expenditures are driving up the 10-year average suppression costs. These expenditures are affecting the Forest Service's ability to deliver an interdisciplinary program within a constrained budget. Ongoing efforts to address rising suppression costs include a FY 2008 proposal of an alternative budget process that partitions the suppression account into *initial response* and *emergency accounts*. This proposal mitigates transfers of funds from other agency appropriations that have the potential to disrupt or eliminate numerous activities and projects to manage forests and grasslands, conduct research, or help State or private landowners manage their lands.

Although important to the mission, the expansion of National Response Plan assignments brings a tremendous impact on the agency's ability to meet its mission. Long-term participation in hurricane recovery efforts and other assignments will further impede the agency's primary firefighting mission and may compromise attainment of the agency's performance goals.

Law suits filed against the fire program may also impact the agency's ability to fight wildland fire. Courts have instructed the Forest Service to rethink the fire planning process as two fire management plans have been determined to be decision-making documents and, therefore, are subject to the National Environmental Policy Act (NEPA). The Forest Service is addressing this challenge by retooling the existing format for fire management plans, separating NEPA decisions from those on staffing and budget. The agency has also been required to complete a NEPA assessment on the use of retardant in fire suppression. If regulatory agencies determine through an endangered species consultation that current safeguards are not adequate, there is the potential for a reduced use of fire retardant, which may hinder Forest Service effectiveness in limiting the size of some wildland fires.

FINANCIAL STATEMENT HIGHLIGHTS FOR 2006

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

- Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position
- Statement of Budgetary Resources
- 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, 2006, financial statements provides the following highlights. The exhibits below reflect the comparative amounts for FY 2006 and FY 2005.

Assets

The Forest Service reports \$7.7 billion in assets at the end of September 30, 2006. This represents a decrease of 5 percent from FY 2005 amounts and is partially attributed to a decrease in Fund Balance with Treasury (FBwT). FBwT for the periods ending September 30, 2006 and 2005, decreased \$310 million, or 7 percent, due to catastrophic wildland fire activity.

The three major asset categories are shown in Exhibit 1.

Exhibit 1: Assets (in millions)

ASSET	2006	2005	Difference	
			Dollars	Percentages
General Property, Plant, and Equipment	\$3,585	\$3,695	(\$110)	(3%)
Fund Balance with Treasury	3,877	4,187	(310)	(7%)
Accounts Receivable, Intragovernmental, and Non-Intragovernmental	254	269	(15)	(6%)
Total of Major Categories	\$7,716	\$8,151	(\$435)	(5%)
Other Asset Categories	25	20	5	25%
Grand Total Assets	\$7,741	\$8,171	(\$430)	(5%)

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

General PP&E also includes assets acquired by the Forest Service to be used for conducting business activities, such as providing goods or services. General PP&E does not include the value of heritage assets¹ or stewardship assets².

Heritage and stewardship assets 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 heritage and stewardship assets is presented in the Financial Statement Note 5 Heritage Assets and Stewardship Land, and also the Required Supplementary Information.

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

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

FBwT consists primarily of funds derived from congressional appropriations and funds held in trust for accomplishing purposes specified by law. FBwT is available to the agency to pay authorized expenses and to finance purchase commitments based on apportionments by the OMB. "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.

Liabilities and Net Position

Liabilities

The Forest Service reported \$2.3 billion in liabilities as of September 30, 2006, representing probable future expenditures arising from past events. This amount represents an increase of 15 percent from September 30, 2005. This change was partially due to an increase in Other Liability Categories. For the periods ending September 30, 2006 and 2005, the balance increased \$347 million, or 37 percent, primarily due to increased fire accruals.

The major liability amounts for accounts payable, unfunded leave, Federal Employees' Compensation Act (FECA) benefits, payments to States, and other liabilities appear in Exhibit 2.

Exhibit 2: Liabilities (in millions)

LIABILITIES	2006	2005	Difference	
			Dollars	Percentages
Accounts Payable, Intragovernmental and Non-Intragovernmental	\$55	\$134	(\$79)	(59%)
Unfunded Leave and FECA Benefits	592	579	13	2%
Payments to States	398	378	20	5%
Other Liability Categories	1,282	935	347	37%
Grand Total Liabilities	\$2,327	\$2,026	\$301	15%

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

A major program generating unfunded liabilities is the Payments to States, which is a program authorizing annual revenue-sharing payments to States for public schools and public roads in the county or counties in which the national forests are located. A portion of the Payments to States program is funded with agency receipts; the balance is recorded as an unfunded liability for which the Department of Treasury (Treasury) general receipts are apportioned in the following year when the payments are made.

The agency receipts are funds held by the Forest Service in special receipt accounts, pending transfer to the appropriate party. A portion of the Payments to States to be paid in the next fiscal year is based on receipts collected during the current fiscal year, while the remaining liability is funded by Treasury general receipts.

Net Position

The Forest Service reported a net position of \$5.4 billion for FY 2006, representing a decrease of 12 percent from FY 2005 amounts. The change is attributed to numerous factors, including a decrease in Appropriations Received and an increase in Appropriations Used. Net position represents unexpended appropriations consisting of undelivered orders, as well as unobligated funds and the cumulative results

of operations. In accordance with SFFAS 27 *Identifying and Reporting Earmarked Funds*, earmarked funds that the USDA Forest Service has program management responsibility for are presented separately on the Statement of Changes in Net Position, and both earmarked and other fund totals are included in Exhibit 3.

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

Exhibit 3: Net Position (in millions)

NET POSITION	2006	2005	Difference	
			Dollars	Percentages
Unexpended Appropriations	\$1,054	\$1,792	(\$738)	(42%)
Cumulative Results of Operations	4,360	4,353	7	1%
Total Net Position	\$5,414	\$6,145	(\$731)	(12%)

Net Cost of Operations

The Forest Service's net cost of operations was \$5.9 billion for the year ended September 30, 2006.

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

Expenses

Forest Service program costs are \$6.9 billion for the year ended September 30, 2006, representing a 19-percent increase from FY 2005. The agency spent significantly more fighting wildfires in 2006, during one of the biggest fire seasons in recent years.

Exhibit 4 illustrates program costs by responsibility segment for the years ended September 30, 2006, and September 30, 2005.

Exhibit 4: Gross Expenses (in millions)

GROSS EXPENSES	2006	2005	Difference	
			Dollars	Percentages
Program Costs				
National Forests and Grasslands	\$3,521	\$3,419	\$102	3%
Forest and Rangeland Research	357	329	28	9%
State and Private Forestry	416	389	27	7%
Wildland Fire Management	2,643	1,694	949	56%
Total Program Costs	\$6,937	\$5,831	\$1,106	19%

Budgetary Resources

The Forest Service had budget authority of approximately \$5.4 billion in FY 2006 and \$5.8 billion in FY 2005. The funding received in FY 2006 represents a decrease of 7 percent from that received in FY 2005. This is due primarily to a decrease in fire appropriations in FY 2006.

KEY PERFORMANCE GOALS AND RESULTS FOR 2006

Strategies and Resources

The Government Performance and Results Act (GPRA) provides a framework under which Federal agencies prepare strategic plans, annual plans, and performance reports to set performance goals and then report on the extent to which they are achieved. Within GPRA's framework, Forest Service's executive leadership selected a set of key performance measures, the Executive Priorities, to measure the agency's effectiveness and results in the FY 2006 Audit Report. Several of these Executive Priorities are long-standing measures of performance for the agency and its stakeholders. The remaining Executive Priorities were developed in collaboration with USDA and OMB in several PART³ assessments since 2002. Please see the FY 2006 Annual Performance Report section of the Performance and Accountability Report (P&AR), which will be issued during the first quarter of 2007 and available on the USDA Forest Service's web-site, for additional information on PART assessments. This report will be issued at a later date.

Performance accountability is an integral part of the Forest Service's operating standards for work planning and accomplishment reporting. The agency assigns performance targets to Washington Office Staffs, regions, stations, and the Northeast Area based on the Forest Service's Strategic Goals and Objectives, as well as input from executive leaders as to on-the-ground capability. Each Forest Service unit then develops a program of work consisting of that unit's specific projects, creating project plans in the agency's WorkPlan system that align with the strategic plan, congressional direction, resource management plans, and budget allocation. Program managers and staffs are able to monitor and update the WorkPlan projects throughout the fiscal year to reflect changed conditions.

The agency enters its performance data in designated systems or databases, and summarizes at the regional level. The quality of the reported accomplishment data is reviewed at the regional level, requiring regional foresters to certify that the Executive Priorities are *complete* and *reliable*, and document those data items that do not meet the standard. Each region submits the certified regional performance to the Washington Office Programs and Budget Analysis (P&BA) Staff prior to the agency reporting to USDA, OMB, and Congress. The Associate Chief of the Forest Service then uses this certified performance reporting in the individual performance evaluations for regional foresters and other senior executives.

Performance and Trend

The Forest Service projects fiscal yearend accomplishments for the Executive Priorities. Targets and projected performance for FY 2006, actual performance for the Executive Priorities in FY 2005, and trends for FYs 2002-2005, if available, may be found in Exhibit 5, Performance and Trends 2002—2006. It is important to note that the FY 2006 achievements are *preliminary* and may change when the full 12 months of accomplishments are reported to P&BA in the first quarter of FY 2007.

In the FY 2007 Forest Service Budget Justification, the agency's performance budget, program managers provided explanations for unmet Executive Priority Measures from FY 2005, based on 12-month actual accomplishments, reported in December 2005. See Chapter 3, Performance Management of the Budget Justification, at <http://www.fs.fed.us/aboutus/budget/>.

Explanations for unmet 2005 Executive Priorities included:

- The success or failure of partnerships, with the Forest Service experiencing unexpected opportunities or unpredictable results;

³ OMB's PART is a systematic method to assess performance, focusing on a program's contribution to achieving an agency's strategic and program performance goals.

- Measures not performing well against annual *outputs*, as they demonstrate unpredictable variation year to year, and should be viewed as *outcomes* over multiple years; and
- Complex planning requirements for which meeting the target is conditional, or dependent upon the approval of an unpredictable planning process.

At midyear in FY 2006, the regional offices reported their potential for meeting, or not meeting, the Executive Priorities. National Program Managers could then take corrective action to attain these key performance goals by fiscal yearend.

The Forest Service made progress in FY 2006 toward the strategic objective of “restoring and maintaining species diversity in the terrestrial and aquatic ecosystems” in watersheds on NFS lands. Partnerships attributed to over-accomplishment for “acres of terrestrial habitat enhanced or restored” due to leveraging funds with contributions, while implementing projects that also reduced hazardous fuels. Often, it is the case that the NEPA process and other prework were completed in FY 2005.

While some regions anticipated accomplishing less than the targeted amount at midyear for “miles of stream enhanced or restored,” or “acres of lake habitat enhanced or restored,” the preliminary performance reporting for the entire agency dispels this at 123.5 and 124.5 percent, respectively. The Executive Priorities for “acres of terrestrial habitat enhanced” and “acres of lake habitat enhanced” were also overachieved in FY 2005, but no further action was needed, as reported in the Forest Service’s FY 2007 Budget Justification. The agency attributed this overachievement to favorable weather conditions and reconstruction of a nonfunctioning fish ladder, respectively.

Performance for the individual components of “acres of land adjustments to conserve the integrity of undeveloped lands and habitat quality” varies from year to year, causing the trend to fluctuate. It is reasonable to expect complex processes, such as conveyances and donations of land to extend longer than a 12-month period; more often, these processes take a minimum of 18 months. In midyear performance reporting, several regions anticipated unmet targets for this Executive Priority. Regions reported that several expected land purchases proved unsuccessful:

- An offer was rejected by the landowner as being insufficient compensation;
- Difficulty in getting private owners to agree on a final sale configuration for appraisal; and
- Reconfiguration of an acquisition, resulting in the per acre purchase price being higher than initially anticipated, resulting in fewer acres acquired.

However, by fiscal yearend, the preliminary combined performance was 151 percent, with “acres of donations” and “acres protected by the Forest Legacy Program” over-accomplishing, and “acres of conveyance” under-accomplishing its target.

Natural processes, such as long-term drought, affected the Executive Priority for “acres of hazardous fuels treated,” resulting in fluctuations in annual performance and trend. Some regions reported under-accomplishment at midyear, stating that the risk was too great that prescribed fire treatments could escape and, under current conditions, cause inadvertent consequences to local communities.

At midyear, the regions expected under-accomplishment for the “number of land management plans (LMPs) developed and revised.” Those national forests and grasslands currently revising the LMPs under the new planning rule reported needing more time for review by the regional offices and the national program managers. The regions were experiencing schedule delays as the Forest Service interpreted the new planning rule. The preliminary performance reporting for this Executive Priority supports the regions’ assertion with only 10 of the planned 20 LMPs completed by fiscal yearend.

There were other conditional constraints reported at midyear. One region reported that a level of funding was not authorized to meet the targets for facilities maintained to standard, rights-of-way (ROW) acquired, and trails maintained to standard. The lack of funding did not seriously affect the agency’s overall

accomplishment for these measures, with preliminary performance at 97.5 percent for “number of facilities to standard,” 92 percent for “number of ROW acquired,” and 100 percent for “miles of trail maintained to standard.” The over-accomplishment for “miles of trail maintained to standard” may have been due to the shifting priority to the planning and implementation of the off-highway vehicle rule, as reported by another region.

Reliable Performance Measurement

In 2005, the Forest Service issued an interim directive to improve internal control over performance data reporting. The directive clarified the roles and responsibilities of line officers and Forest Service staff positions, including staff directors and program managers. During FY 2005, every regional office conducted two field reviews (at a national forest or grasslands) to assess the quality of data reported by the field for the Executive Priorities. The same process was employed for FY 2006 in combination with the Washington Office Oversight Reviews, performed by the P&BA Staff. Five regions performed Performance Measure Review and Validation—the internal control reviews, and four regions hosted the Washington Office for the Oversight Reviews. Please see the Annual Performance Report section of the P&AR, which will be issued during the first quarter of FY 2007 and available on the USDA Forest Service's web-site, for the results of these reviews.

Exhibit 5: Performance and Trends for 2002-2006

Executive Priorities	Trend in Actual Accomplishments				Performance		
	2002	2003	2004	2005	2006 Targets ⁴	Preliminary Effective 9/30	2006 Results
Goal 1: Reduce the risk from catastrophic wildland fire							
1.1. a-c	Number of acres of hazardous fuels treated 1) in the wildland/urban interface (WUI); and 2) in Condition Classes 2 or 3 in Fire Regimes 1, 2, or 3 outside the WUI						
	764,367	1,114,106	1,320,317	--			
	493,536	339,239	418,135	--			
		1,581,302			1,383,000	1,181,470	85.4%
		535,602			417,000	402,677	96.6%
	--	--	274,330	--			
	--	--	215,400	--			
					1,800,000	1,584,147 ⁵	88.0%
					100%	100%	
1.1.g	--	--	41,834	35,478	0	71,604	N/A
1.3.a	--	--	Protocol in development	11,413	23%	22%	95.6%
1.3.b		--	125,000	145,979	152,750	76,750	50.2%

⁴ Forest Service adjusted FY 2006 targets after Congress appropriated the funding requested in the President's Budget. Therefore, the targets will not match those in the Forest Service's FY 2006 Budget Justification—the agency's performance budget.

⁵ These Executive Priorities have changed in FY 2006, no longer requiring that acres treated in non-WUI be in Fire Regime 1, 2, or 3 and Condition Class 2 or 3.

⁶ The State Foresters are ultimately responsible for community hazard mitigation plans. They are not required to report the number of plans expected for completion in a current fiscal year, as Forest Service reported in FY 2005.

Executive Priorities	Trend in Actual Accomplishments					Performance	
	2002	2003	2004	2005	2006 Targets ⁴	Preliminary Effective 9/30	2006 Results
Goal 2: Reduce the impacts from invasive species							
2.1.b	--	--	1,066,921	1,083,566	574,351	--	--
--	130,868	138,742	103,703	120,040	80,800	--	--
				1,203,606	655,151 ⁷	931,000 ⁷	142.1%
Goal 3: Provide high-quality recreation while sustaining natural resources							
3.1.a	The 3-year average number of fatalities on the passenger car network						
--	76,798	110,676	103,748	72,376	65,508	62,542	95.5%
3.1.a	30,649	30,608	23,160	25,208	20,557	22,599	110.0%
3.1.b	--	--	15,465	26,238	26,970	26,289	97.5%
3.1.e			182	229	172	158	91.9%
3.2.a	--	--	--	--	Not targeted ⁸	1,176,000 ⁹	N/A
Goal 4: Consider opportunities for energy development and the supporting infrastructure							
4.1.a	Percent of energy facility and corridor applications approved within prescribed timeframes						
--	--	--	65%	17%	45%	70%	155.5%
--	--	--	33%	12%	45%	28%	62.2%
Goal 5: Improve watershed condition							
5.1.a	--	--	30%	30%	40%	31%	77.5%

⁷This measure was tracked separately prior to FY 2006. The accomplishments for previous years and the FY 2006 individual targets are identified in the two lines above.

⁸ FY 2006 accomplishments are now combined into one measure.

⁹ The implementation schedule was not known at the time the Program Direction was published. The final implementation schedule was released in a letter from the Chief, dated June 8, 2006 and assigned a target of 3 million acres for FY 2006.

⁹ Percent of NFS lands, at 193 million acres would equal 0.6 percent. This is 1 percent in FY 2008 Department Estimate.

Executive Priorities	Trend in Actual Accomplishments					Performance		
	2002	2003	2004	2005	2006 Targets ⁴	Preliminary Effective 9/30	2006 Results	
5.1.b Acres of nonindustrial private forest land under approved stewardship management plans	1,640,000	1,717,000	1,450,000	1,590,464	1,575,000	1,600,000	101.5%	
5.3.a Acres of terrestrial habitat enhanced to achieve desired ecological conditions	209,472	230,528	218,727	230,867	196,716	247,217	125.6%	
5.3.a Miles of stream habitat enhanced to achieve desired ecological conditions	2,001	1,375	1,788	1,623	1,457	1,799	123.4%	
5.3.a Acres of lake habitat enhanced to achieve desired ecological conditions	18,217	16,429	12,451	19,250	13,743	17,116	124.5%	
Goal 6: Improve productivity and efficiency								
6.1.a Percent of Nation for which current Forest Inventory and Analysis (FIA) is accessible to external customers	--	--	76%	76%	72%	88%	122%	
6.2.c Extent to which performance data are current and complete	--	--	86%	Baseline	Not targeted	100%	N/A	
6.5.a Number of Land and Resource Management Plans developed and revised			12	10	20	10	50%	
6.3.a Acres of land adjustments to conserve the integrity of undeveloped lands and habitat quality								
-- Acres adjusted (conveyed)	15,553	29,171	56,948	353,770	20,824	16,697	80.2%	
-- Acres acquired (donated)	42,817	75,476	45,884	48,216	37,545	60,353	160.7%	
-- Acres protected by Forest Legacy Program	57,009	128,349	563,186	46,181	230,000	358,500	156%	
TOTAL acres of land adjustments	114,749	232,996	666,018	448,167	288,369	435,550	151%	
6.5.b Proportion of data in information systems that is current to standard	--	--	Protocol in development	Protocol in development	Not targeted	44.48%	N/A	
6.5.c Number of forest plan monitoring reports completed	92	91	96	105	90	92	102.2%	

¹⁰ FIA data made available to the public are quality assured and current (defined as less than 2 years old). Congressional hearings in 1999 exempted Alaska and Hawaii from the total land base (denominator) used for this measure. These lands were included in the total for FY 2004, creating a false decrease in the percent accomplished.

Procedures over Performance Reporting

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

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

Exhibit 6: Priority Measures, Data Sources, and Accomplishment Reporting

Executive Priority	Data Source	How Accomplishments Are Reported
<p>Number of acres of high-priority hazardous fuels treated</p> <p>The percent of these acres that were identified as "high priority" as defined in the 10-Year Implementation Plan</p>	<p>National Fire Plan Operations and Reporting System (NFPORS)</p> <p>Timber Information Management (TIM)</p>	<p>The Forest Service tracked this Executive Priority using these measures:</p> <ul style="list-style-type: none"> ▪ Acres of non-wildland/urban interface (non-WUI) high-priority hazardous fuels treated ▪ Acres of wildland/urban interface (WUI) high-priority hazardous fuels treated ▪ Acres of forest lands treated to achieve healthier conditions <p>New in FY 2006 is the "forest lands treated to achieve healthier conditions." This measure is the number of acres of forest lands treated using timber sales, with a primary purpose of achieving healthier conditions or other desired conditions. This does not include timber sales where the primary purpose is forest products production.</p> <p>Field units report accomplishments when completed or contracted.</p>
<p>Number of acres covered by stewardship contracts; agreements awarded</p>	<p>Corporate Data Warehouse (CDW)</p>	<p>This measure is the number acres brought into stewardship contracts based on either contract-awarded acres or executed agreement acres.</p>
<p>Percent of communities at risk with completed and current fire management plans or risk assessments</p>	<p>Washington Office Staff</p> <p>NFPORS</p>	<p>This measure is the number of completed projects that meet the standard as identified in the National Fire Plan. The number of communities-at-risk is published in the Federal Register.</p> <p>The National Association of State Foresters (NASF) and State Foresters are responsible for providing Community Wildfire Protection Plans (CWPP) performance information to Forest Service regional office contacts or NFPORS.</p>
<p>Number of acres covered by partnership agreements</p>	<p>Washington Office S&PF Staff</p>	<p>The measure is the number of acres of non-Federal hazardous fuels treated through partnership agreements.</p>
<p>Number of acres treated for selected invasive species, noxious weeds, and invasive plants on NFS lands and S&PF cooperators' lands</p>	<p>Forest Health Protection (FHP) Database</p> <p>NFPORS</p> <p>WorkPlan</p>	<p>This measure is the total for acres of Federal <u>and</u> acres of S&PF cooperators' lands protected by one or more treatments to control invasive pests and weeds. If thinning follows spraying, the acres count only once.</p> <p>The treatment and retreatment of invasive plant infestations, including noxious weeds, contribute to this Executive Priority.</p> <p>Accomplishment is reported either when the Forest Service completes the treatment, or when contracted.</p>

Executive Priority	Data Source	How Accomplishments Are Reported
Miles of trails maintained to standard	WorkPlan	This measure is the miles of trails receiving the annual amount of maintenance performed with the annual appropriation.
Miles of road maintained	12-month actual performance reported in Roads Accomplishment Report (RAR)	This measure is the miles of road (passenger and high-clearance) on which at least one maintenance activity is performed during the fiscal year, measured without regard to width of road or number of lanes. Performing a condition survey is not maintenance.
Number of facilities maintained to standard	Infra	Number of facilities maintained to standard, including recreation sites.
Number of ROW acquired	WorkPlan	The Forest Service tracks the total number of road and trail Right of Way (ROW) easements acquired, resolved through other lands activities, or by cooperative effort. These activities coincide with Categories I, II, and III on the existing annual Rights-of-Way Acquisition Report (FS-5400-25 4/92).
Number of acres of NFS lands covered by travel management implementation plans	WorkPlan	<p>This accomplishment is the acres of NFS lands on administrative units or ranger districts for which a motor vehicle use map has been published in conformance with new travel management regulation in 36 CFR 212.56.</p> <p>Accomplishment is reported for all NFS acres when a unit has completed the designation of routes and areas for motor vehicle use in conformance with 36 CFR 212.51, and identified those designations in a motor vehicle use map pursuant to 36 CFR 212.56.</p> <p>There is no accomplishment until the use map is completed.</p>
Number of oil and gas applications processed in prescribed timeframes	WorkPlan	<p>This measure tracks the processing for applications within prescribed timeframes:</p> <ul style="list-style-type: none"> ▪ 60 days, if the land availability decision is made ▪ 18 months, if requiring a land availability decision ▪ 180 days, if requiring an environmental assessment (EA) ▪ 18 months, if requiring an environmental impact statement (EIS). <p>Units report a potential nomination as 1,000 acres if the lease application is not filed. This is the numerator for the strategic plan measure, which is a percent.</p>
Number of energy facility applications processed within prescribed timeframes	WorkPlan	<p>This measure is the number of special use applications processed within the projected timeline, as determined by the authorizing officer for electric transmission lines, oil or gas pipelines, and renewable energy generation facilities.</p> <p>This is the numerator for the strategic plan measure, which is a percent.</p>
Percent of watersheds in fully functioning condition	WorkPlan	Forests use coarse filter watershed analysis to assign fifth-level hydrologic units into three condition classes. The focus is on watershed stability and the ability to attain beneficial uses.
Acres of terrestrial habitat restored or enhanced	WorkPlan	<p>This measure is the total number of threatened and endangered species and non-threatened and endangered species acres restored or enhanced to achieve desired future condition of habitat. Management activities may include prevention, control, and mitigation against infestations of invasive species (plants, vertebrates, invertebrates, or pathogens) that impact terrestrial wildlife and associated habitats.</p> <p>Accomplishment is reported when the improvement is complete. If work is contracted, the accomplishment is reported when the work is obligated.</p>
Miles of streams restored	WorkPlan	This measure reports the miles of anadromous and inland fish bearing rivers and streams that were restored or enhanced using structural or nonstructural improvements.

Executive Priority	Data Source	How Accomplishments Are Reported
Acres of lakes restored	WorkPlan	This measure reports the surface acres of anadromous and inland fish-bearing lakes, ponds, and reservoirs, which were enhanced using structural or non-structural improvements.
Number of acres of nonindustrial private forest (NIPF) under approved stewardship management plans	Performance Measures Accountability System (PMAS)	This measure reports the number of acres of NIPF forest lands that are covered by newly approved forest stewardship management plans.
Percent of the Nation for which FIA information is accessible to external customers	FIA Staff	Forest Inventory & Analysis (FIA) data available to the public are quality assured and current (less than 2 years old).
Acres of lands acquired or adjusted, including fee title and conservation easements, to conserve the integrity of undeveloped lands and habitat quality on NFS lands and S&PF cooperators' lands	WorkPlan, Forest Legacy Information System (FLIS)	<p>The Forest Service tracked this Executive Priority using these measures:</p> <ul style="list-style-type: none"> ▪ Number of acres acquired through land purchase or donation, including conservation easements or interests in land, for NFS purposes. ▪ Number of acres acquired and conveyed, through land exchanges, transfers, interchanges and conveyances, including acres acquired and conveyed under the Small Tracts Act and Townsite Act. ▪ Number of acres protected by the program through fee simple purchases or conservation easements. <p>Accomplishments are reported when the documents of conveyance are recorded within the fiscal year.</p>
Number of LMP revisions/new plans completed	WorkPlan	This measure reports an accomplishment when a regional forester signs a Record of Decision, based on a Final EIS. If multiple LMPs exist for an administrative unit, it is possible for a unit to report more than one accomplishment.
LMP monitoring and evaluation reports	WorkPlan	<p>This accomplishment is reported when a unit completes an "Annual Monitoring and Evaluation Report" in accordance with respective plan requirements; regional direction; Forest Service Manual (FSM), Forest Service Handbook (FSH), and planning regulation guidance on what to monitor; and associated Washington Office policy direction.</p> <p>Reports are based on monitoring data and information gathered during the previous fiscal year; focus on evaluation of plan implementation; and provide an overview of resource conditions and trends as they relate to indicators and criteria for sustainability, with specific attention to the effects of management on ecological system structure and function.</p>
Extent to which performance data are current and complete	Washington Office P&BA Staff	The accomplishment is the percent of RSAs providing certification forms that their unit's accomplishment data is current and complete.
Proportion of data within information systems that are current to standard	Washington Office Business Operations Staff	<p>The Forest Service Strategic Plan includes the strategic objective, "Develop and maintain the processes and systems to provide and analyze scientific and technical information to address agency priorities." The performance measure for this objective became the Executive Priority, "proportion of data which is current to standard."</p> <p>FY 2006 is the first year the Forest Service had the capability to capture this information, using both the Standard Data Evaluation Tool (SDET) and the Resource Mapping Evaluation Toolset (RMET).</p> <p>SDET measures tabular databases in certain developed national applications. RMET measures Geographic Information Systems (GIS) data at a national forest or grassland administrative unit. The Executive Priority directly measures quantity, but not quality of these data. The accomplishment reports:</p>

Executive Priority	Data Source	How Accomplishments Are Reported
		<ul style="list-style-type: none"> ▪ Automated Lands Project (ALP), selected core portions ▪ Resource Information System (NRIS), selected core portions ▪ Infra, for roads and trails, as they are significant components of wildlife habitat ▪ GIS, for datasets with established Forest Service-wide standards

PRESIDENT'S MANAGEMENT AGENDA

The Deputy Chief for Business Operations provides oversight for the President's Management Agenda (PMA) implementation within the USDA Forest Service. These PMA initiatives are integral to the strategy to improve the management and performance of the Federal Government in the following five areas:

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

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

Strategic Management of Human Capital

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<p><i>Implemented a comprehensive Human Capital Plan, analyzed the results, and integrated them into decision making processes to drive continuous improvement.</i></p>	<p>Prior to the implementation of the PMA, the Forest Service developed and implemented a comprehensive Human Capital Management process in partnership with the National Academy of Public Administration. One outcome of the Human Capital Management process was the initiation of the agencywide and regional workforce planning in FY 2001 and FY 2004, respectively, which identified several key Human Capital issues:</p> <ul style="list-style-type: none"> ▪ Projected attrition and hiring with a focus on staff and skill shortages in key disciplines ▪ Impacts of an aging workforce ▪ Alignment of the workforce to meet mission priorities. <p>These issues were especially evident in the agency's Business Operations workforce, where attrition-based downsizing, increased retirements, and geographic dispersion had created significant competency gaps, age-distribution imbalances, and budget misalignments. In response, the agency implemented the Business Operations Transformation Program, using the tools of competitive sourcing and business process reengineering (BPR) as drivers of the process.</p> <p>Throughout FY 2006, the Forest Service continued monitoring for improved program delivery, realigned budgets, and reduced indirect costs; improved tracking and evaluation of business process; and an increased capability to develop key competencies, recruit trainees, and focus on priorities. The increased number of retirements and the resulting skills deficits are drivers for several agencywide initiatives for continuous improvement: the National Incident Management Organization; the Leadership Success Program; and an ambitious competitive sourcing program.</p>

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<p><i>Analyzed and optimized existing organizational structures from service and cost perspectives, using redeployment and delayering as necessary and integrating competitive sourcing and E-Gov solutions; and has process(es) in place to address future changes in business needs.</i></p>	<p>Past BPR and competitive sourcing studies have recommended major restructuring and, in some cases, centralization of business functions. This restructuring is currently underway and will continue through FY 2008 for Budget and Finance (B&F), IT, and Human Resource Management (HRM).</p> <p>The former B&F organization of about 1,175 full-time equivalents (FTEs) has been restructured at the ASC, to a centralized service center of approximately 450 employees. The business plan for this restructuring projects annual ongoing steady-state savings of \$38 million.</p> <p>The former IT organization of about 1,200 FTEs has been restructured and fully implemented into a new ISO, which successfully competed for the work under an A-76 Competitive Sourcing process. This fully functional organization includes approximately 600 employees in several centers and in the Washington Office. The business plan for this restructuring projects an annual steady state savings of \$29 million.</p> <p>The BPR study for HRM recommended that the former organization of about 800 FTEs be restructured into a centralized organization of 400 employees, most would be in a central service center. The phased transition to the new HR Service Center began operations of Phase I functions in the summer of 2006, and will continue through completion in September 2007. The business plan for this restructuring projects an annual steady state savings of \$22 million.</p>
<p><i>Succession strategies, including structured executive development programs, result in a leadership talent pool and continuously updated to achieve results.</i></p>	<p>The Forest Service has developed succession strategies and implemented structured executive development programs to ensure a talented pool of future leaders for the agency. In 2007, under the new centralized HR organization, a training and development Center of Excellence will be established to provide a strategic focus to Forest Service training and development. USDA's AgLearn learning management system will support employees as they develop their individual development plans, register for courses, and record their professional development.</p> <p>The Senior Leader Development Program, a comprehensive year-long focus on Office of Personnel Management's leadership competencies, is the first in a series of new leadership development programs that the Forest Service is implementing over the next few years. In FY 2005, the first class of 40 participants graduated and, in FY 2006, there were two classes of 74 participants.</p> <p>In addition to the long-term development program, the Forest Service offers future leaders the opportunity to develop their potential through a national curriculum designed for managers and supervisors. A total of 733 students were reached by these courses in FY 2006: HR Management: <i>What Supervisors and Managers Need to Know</i>, <i>Practical Leadership Skills for New Managers</i> and in <i>Leadership Skills for Experienced Supervisors and Managers</i>.</p> <p>The Forest Service also encourages its employees to apply for competitive leadership development programs offered outside of the agency. Employees from across the Forest Service compete for available slots in a variety of long-term programs. In FY 2006, 59 employees attended leadership development programs outside the Forest Service: 31 are participating in USDA Graduate School programs; 1 in Brookings – LEGIS; 11 in Leadership in a Democratic Society; and 15 in Senior Executive Service (SES).</p> <p>For any and all employees new to the Forest Service, a national New Employee Orientation program provides Web-based orientation to complement the annual New Employee Conference.</p>
<p><i>Has performance appraisal plans and awards programs for all SES and managers, and more than 60% of the workforce, that effectively:</i></p> <ul style="list-style-type: none"> ▪ <i>Link to agency mission, goals and outcomes;</i> 	<p>Both the Strategic Management of Human Capital and the Budget and Performance Integration PMA initiatives require that Federal agencies: link to agency mission, goals, and outcomes; hold employees accountable for results appropriate for their level of responsibility; differentiate between various levels of performance; and provide consequences based on performance.</p>

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<ul style="list-style-type: none"> ▪ Hold employees accountable for results appropriate for their level of responsibility ▪ Differentiate between various levels of performance (i.e., multiple performance levels with at least one summary rating above Fully Successful); and ▪ Provide consequences based on performance. The agency is working to include all agency employees under such systems. 	<p>USDA issued direction in FY 2004 that at least 60 percent of employees' performance plans must align with agency mission and goals. The Forest Service subsequently issued direction that 100 percent of agency employees will have credible measures of performance, aligned with the mission and their units' performance goals and objectives.</p> <p>In order to differentiate between various levels of performance, the Forest Service planned to transition to a multilevel performance management system in FY 2006. A framework was established within the existing pass/fail performance appraisal program that is migrated to the multilevel plan. This transition has been delayed until first quarter of FY 2007.</p>
<p><i>Reduced under representation, particularly in mission-critical occupations and leadership ranks; established processes to sustain diversity.</i></p>	<p>The Forest Service's National Recruitment Council coordinates recruitment efforts, develops planning and recruitment tools, and provides direction for a system of National Recruitment Initiatives, based at 12 targeted universities. Since FY 2003, a system of monitoring and accountability has measured agency progress in addressing key workforce planning issues. Results indicate minority hiring in FY 2004 increased by over 50 percent over previous years and the use of the Student Career Experience Program (SCEP) hiring authority had more than doubled. Similar results continued through FY 2005 and into 2006. These results enable the Forest Service to focus its hiring decisions and improve diversity hiring.</p>
<p><i>Significantly reduced skill gaps in mission critical occupations and competencies, integrated competitive sourcing and E-Gov solutions into gap reduction strategy.</i></p>	<p>A skill-gap analysis was conducted for 10 key occupations using the Logistics Management Institute Workforce Analysis Model. After adjusting for program shifts, the model indicated no skill-gaps projected in these 10 occupations through FY 2008. Therefore, at this time, it is not anticipated that the Forest Service will need to close skill gaps in mission critical occupations.</p> <p>However, the agency plans to conduct competitive sourcing feasibility studies on 21,000 FTEs by FY 2009. The decisions that result from these studies could result in changes in skill requirements and the shifting of some skills requirements to outside of the agency increasing workforce flexibilities in times of program shifts.</p> <p>The Forest Service is maintaining an internal talent pool, for which competencies for the mission-critical occupations were imported into the AgLearn system. On-line and traditional classroom courses will be associated with these competencies, so that employees can quickly and efficiently enroll in the courses that best address their individual competency gaps.</p> <p>The Forest Service and USDA are currently developing the capability of AgLearn to measure competency gaps and track progress in closing them systemically on an agencywide basis. For example, in FY 2006, a fire competency assessment was conducted for teams responding to various types of emergencies. This assessment identified the skill gaps in fire suppression activities, which justified the need to establish the specialized National Incident Management Organization teams on a permanent, rather than ad hoc basis.</p> <p>Continuing through FY 2007, the Forest Service will undertake a major skill transformation strategy involving its fire suppression workforce. The end result of this strategy will be an increase in the agency's professional workforce, focused on the General Biological Science (401) occupational series. In the past 3 years, this series has shown a net annual growth rate of 8 percent per year increasing from 1,451 permanent employees in 2003 to 1,807 permanent employees at the beginning of 2006. Projections of attrition and accessions over the next 5 years indicate no significant skill gaps even with a continued 8 percent growth rate in the occupational series.</p>
<p><i>Has made significant progress and demonstrates continued improvement toward meeting agreed-upon aggressive hiring</i></p>	<p>Approximately 80 percent of permanent staffing actions are accomplished using the Avue Digital Service (ADS) On-line Classification and Staffing System. Overall hiring cycles average 20 days from the closing date of the announcement to job offer. Forest Service provided an analysis of SES actions to USDA, identifying issues and opportunities to streamline the process for filling</p>

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<p><i>timeline goals.</i></p>	<p>SES positions.</p>
<p><i>Uses outcome measures to make human capital decisions, demonstrate results, make key program and budget decisions, and drive continuous improvement in the agency.</i></p>	<p>The Forest Service was a key member of the team that successfully developed the USDA Human Capital Accountability System. The agency continues to use this tool to monitor progress in achieving milestones set down in the plan. Since FY 2003, the Forest Service has reported quarterly in a detailed Human Capital Management Report on its accomplishments in Human Capital Management program areas.</p> <p>The Office of Personnel Management conducted a Human Capital Management and HR Accountability Review of the Forest Service's headquarters and three field offices in FY 2005, and acknowledged positive accomplishments in Talent Management, Performance Culture, Leadership/Knowledge Management and HR Accountability.</p> <p>The Forest Service has designed the Performance Accountability System (PAS) to integrate performance data and budget data systems into a single automated tracking and reporting system. Once implemented, PAS will provide a vehicle through which key performance metrics in all program areas, including Human Capital Management, can be established, tracked, and reported in a comprehensive and integrated system. Currently, several components of the system are being piloted with full operations scheduled to begin in October 2006.</p>

Competitive Sourcing

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<p><i>Has an OMB approved "green" competition plan to compete commercial activities available for competition.</i></p>	<p>The agency is currently revising its 2006-2010 "Green Plan" for submission to USDA and subsequent OMB approval. The USDA has been supportive of all studies undertaken by the agency.</p> <p>The Forest Service competitive sourcing program focuses on:</p> <ul style="list-style-type: none"> ▪ Identifying and evaluating functions for competition that are likely to result in significant savings; ▪ Conducting feasibility studies to assess the viability of conducting an A-76 competition on the function; ▪ Planning for and carrying out competitive sourcing competitions in accordance with Congressional and OMB guidelines; ▪ Reviewing, if necessary, competitive sourcing performance decisions; ▪ Implementing decisions; and, ▪ Measuring and reporting on competition and implementation results.
<p><i>Publicly announces standard competitions in accordance with the schedule outlined in the agency "green" competition plan.</i></p>	<p>The standard competition for Communication Functions was publicly announced on June 29, 2006 consistent with the agency's plan.</p> <p>The schedule in the "Green Plan" focuses primarily on feasibility studies, which are the means to examine the practicality of conducting a public-private competition. Feasibility studies are conducted in accordance with the "Green Plan" schedule within the constraints of the competitive sourcing appropriations cap. Follow-on competitions are based on management decisions as a result of feasibility study findings and in consideration of appropriation limitations.</p>
<p><i>Since January 2001, has completed at least 10 competitions (no minimum number of positions required per competition) or has completed a sufficient number of large competitions to demonstrate meaningful use of competitive sourcing.</i></p>	<p>The agency has completed at least 10 competitions since 2001.</p> <p>The IT Infrastructure competition has led to major improvements as to how these services are delivered within the agency. It is estimated that the 541-FTE ISO will generate savings greater than \$100 million over 5 years.</p> <p>Two roads maintenance studies that were completed in 2003 are generating a combined savings of over \$1.785 million per year.</p> <p>Streamlined maintenance studies conducted in 2003 which resulted in the MEO being the lowest cost did not produce the savings and performance enhancements anticipated. As a result, these studies were not implemented. Lessons learned from this process helped the agency to better focus its competitive sourcing efforts towards more promising studies.</p>
<p><i>In the past four fiscal quarters, completed 90% of all standard competitions in a 12-month timeframe or timeframe otherwise approved in accordance with OMB Circular A-76.</i></p>	<p>No standard competitions were completed in the last four fiscal quarters. The Standard Competition for Communication Activities, announced June 29, 2006, is on schedule to be completed in the 12-month timeframe.</p>
<p><i>In the past four fiscal quarters, completed 95% of all streamlined competitions in a 90-day timeframe or timeframe otherwise approved in accordance with OMB A-76.</i></p>	<p>No streamlined competitions were conducted in the last four fiscal quarters.</p>
<p><i>In the past year, canceled fewer than 10% of publicly announced standard and streamlined competitions.</i></p>	<p>No publicly announced standard or streamlined competitions were cancelled in the last four fiscal quarters.</p>

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<p><i>Has OMB reviewed written justifications for all categories of commercial activities determined to be unsuitable for competition.</i></p>	<p>The agency submitted written justifications for all categories of commercial activities determined to be unsuitable for competition with its 2006 FAIR Act inventory submission to USDA. These categories included "Commercial Reason Code A" and "Inherently Governmental." To date, the justifications have not been disapproved or approved and whether they have been reviewed by OMB is unknown. The agency worked closely with Department of the Interior to ensure consistency in coding and justifications for positions related to fire activities.</p>
<p><i>Structures competitions in a manner to encourage participation by both private and public sectors as typically demonstrated by receipt of multiple offers and/or by documented market research, as appropriate.</i></p>	<p>Market research is conducted as a part of the feasibility study process and is a factor in determining whether a competition should be announced. Documented market research is a basis for competition structure.</p>
<p><i>Regularly reviews work performed once competitive sourcing studies are implemented to determine if performance standards in contract or agreement with agency provider are met and takes corrective action when provided services are deficient.</i></p>	<p>Quality Assurance Surveillance Plans are implemented and performance continuously monitored for all service providers. Performance information is monitored by the contracting officers and overseen by the headquarters Competitive Sourcing Program Office (CSPO). The CSPO also conducts periodic field reviews to assess service provider performance. Corrective actions are taken, as appropriate, when provided services are deficit.</p> <p>In May 2006, an agency contracting officer terminated a contract service provider after serious performance issues identified by the agency were not rectified by the provider.</p> <p>For FY 2007: Review of ISO Competitive Sourcing Study, and Review of Road Maintenance Competitive Sourcing Study.</p>
<p><i>To maintain green status, agency:</i></p>	
<p><i>Has positive anticipated net savings and/or significant performance improvements from competitions completed either in last fiscal year for which data has been officially reported to Congress by OMB or in the past three quarters, and</i></p>	<p>Not applicable; no competitions were completed in last fiscal year or in the past three quarters.</p> <p>Performance improvements and positive actual achieved savings are being realized from studies completed prior to FY 2005.</p>
<p><i>Through sampling, independently validates that savings to be achieved for the prior fiscal year were realized.</i></p>	<p>Achieved savings are calculated based on actual expenditures and are validated independently by the CSPO. Actual, not anticipated, savings are recognized and reported as realized savings. The agency is reviewing its processes for monitoring, collecting, and reporting performance information and will strengthen the processes currently in place.</p>

Improved Financial Performance

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<i>Receives an unqualified audit opinion on its annual financial statements.</i>	For the fifth consecutive year, the Forest Service received an unqualified audit opinion on its financial statements.
<i>Meets financial statement reporting deadlines.</i>	In FY 2006, the Forest Service met its reporting deadlines.
<i>Reports in its audited annual financial statements that its systems are in compliance with the Federal Financial Management Improvement Act.</i>	The Forest Service reported in its FY 2006 annual assurance statement that the agency was in substantial compliance with the FFMA. Some of the agency's systems were not in compliance with Section 1 that requires certification and accreditation of the financial management systems but the agency was in compliance with Sections 2, 3, and 4. The FY 2006 Financial Statement Audit Report identified one area of noncompliance with Section 2. Overall, the Forest Service believes it is in substantial compliance with the FFMA for its systems.
<i>Has no chronic or significant Anti-Deficiency Act Violations.</i>	The Forest Service has no known chronic or significant Anti-Deficiency Act violations for FY 2006.
<i>Has no material auditor-reported internal control weaknesses.</i>	OIG Audit Reports No. 08401-3-FM and 08401-2-FM identified a material weakness regarding the Forest Service IT General Controls Environment. Significant progress has been made to resolve this material weakness. The agency has developed policy and procedures to manage its general controls environment and is working to implement and monitor compliance with the new policy.
<i>Has no material noncompliance with laws or regulations; AND</i>	Various instances of noncompliance were identified in the FY 2005 Financial Statements Audit report related to Federal Accounting Standards. As of September 30, 2006, the Forest Service has no material noncompliance with laws and regulations. The Forest Service issued policy and procedures for the proper accounting treatment of leases, the proper accounting treatment of internal use software, and plans to conduct Associated training during FY 2007. Monitoring of these areas will be performed as part of the normal quality assurance review process of agency programs.
<i>Has no material weaknesses or non-conformances reported under Section 2 and Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems.</i>	The Forest Service has two material weaknesses under the headings "Information Technology General Controls Environment" and "Financial Management and Reporting Process".
<i>Is implementing a plan to continuously expand the scope of its routine data use to inform management decision-making in additional areas of operations.</i>	The implementation of GPRA, called Managing for Results (M4R) in the Forest Service, is progressing. The Performance Accountability System (PAS) is in its third year of a 5-year rollout to integrate budget, financial, and performance data to support improved management decision-making. The Forest Service had two releases of PAS during FY 2006, providing timely access to planning, financial, and accomplishment information for managers at all agency levels. During FY 2007, the Forest Service will expand PAS to integrate performance and accomplishment data from additional sources.
<i>Currently produces accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operations.</i>	The initial release of the PAS provided widespread access to budget, financial, planning, and accomplishment data. This system will allow managers to monitor budget planning, execution, and performance for improved management decision-making.

Expanded Electronic Government

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<p><i>Has an Enterprise Architecture linked to the Federal Enterprise Architecture (FEA) rated "effective" using OMB's EA Assessment tool.</i></p>	<p>The Forest Service Enterprise Architecture repository captures the models, business rules, statements of strategic intent, stakeholder identification and exchange information, and related information for the agency's e-Gov initiatives.</p> <p>In FY 2006, the agency attached Performance Reference Model (PRM) classifications to its applications with business case documentation and through interviews of the application sponsors and requirements teams by Forest Service Enterprise Architecture Staff.</p> <p>The Forest Service Enterprise Architecture repository incorporates the FEA reference models and these classification schemes are being applied to artifacts stored in the Forest Service Enterprise Architecture Repository.</p>
<p><i>Has acceptable business cases (security, measures of success linked to the Enterprise Architecture, program management, risk management, and cost, schedule, and performance goals) for all major systems investments.</i></p>	<p>Elements of a business case include security; enterprise architecture measures; program management; risk management; and cost, schedule, and performance goals narrative.</p> <p>Major Forest Service IT system investments were considered acceptable to OMB as of June 30, 2006, and in particular had completed IT Security Certification and Accreditation (C&A).</p>
<p><i>Has demonstrated, using earned value management (EVM) or operational analysis, cost and schedule overruns, and performance shortfalls, that average less than 10% for all major IT projects</i></p>	<p>As of April 2006, USDA's Chief Information Officer reported that three IT investments meet the EVM threshold, while 5 investments do not. Investments meeting this threshold are: ConnectHR; FPA's Analysis System, Phase 2; and Infra. IT investments that did not meet this threshold are: NRIS, ROSS, TIM-FACTS, the FPA Preparedness Module, and PAS.</p> <p>USDA's EVM requirement to monitor and correct cost and schedule overruns was implemented as of June 30, 2006.</p>
<p><i>Submits quarterly status reports in remediating IT security weaknesses</i></p>	<p>Forest Service is current with IT Security weakness remediation reporting.</p>
<p><i>Inspector General verifies the effectiveness of the Department-wide IT Security Remediation Process</i></p>	<p>OIG Audit Reports No. 08401-3-FM and 08401-2-FM identified a material weakness regarding the IT general controls environment, but significant progress to resolve it has been made.</p> <p>The agency developed policy and procedures to manage its general controls environment and is working to implement and monitor compliance with the new policy. The agency expects this will result in more efficient financial accountability, and will redirect all cost savings toward programs.</p>
<p><i>Has 90% of all IT systems properly secured (certified and accredited);</i></p>	<p>Forest Service has achieved 100 percent of its IT C&A targets.</p>
<p><i>Has implemented all of the appropriate E-Gov initiatives rather than creating redundant or agency unique IT projects.</i></p>	<p>The Forest Service is using and/or developing agency interfaces to all applicable Federal and USDA E-Gov initiatives including:</p> <ul style="list-style-type: none"> • e-Authentication • e-Learning • e-Grants • USDA Portal • USDA Web Content Management • USDA Document Management • USDA Integrated Acquisition System • Federal Travel System • Geospatial One-Stop • Recreation One-Stop • USDA Universal Telecommunications Network • FirstGov.gov and USDA.gov Web page branding • USDA Employee Services Web site • USA Jobs Web site

Budget and Performance Integration

OMB'S GREEN STANDARD	STATUS AND PROGRESS
<p><i>Senior agency managers meet at least quarterly to examine reports that integrate financial and performance information that covers all major responsibilities of the Department. Agency demonstrates improvement in program performance and efficiency in achieving results.</i></p>	<p>Forest Service implemented a new budget formulation process in FY 2005, providing the National Leadership Team (NLT) the opportunity to integrate budget and performance information in several alternative scenarios prior to preparing the FY 2007 budget request.</p> <p>At the 2006 NLT meeting, leadership again assessed the agency's prior year performance results in annual budget and performance documents.</p> <p>Preliminary performance was published in the 2005 P&AR, while 12-month actual performance information was reported in the FY 2007 Budget Justification.</p> <p>As the agency continues to improve its program effectiveness and reduce operational costs, the focus moves <i>from</i> performance accountability weaknesses to achieving results for mission-critical natural resource priorities.</p>
<p><i>Strategic plans contain a limited number of outcome-oriented goals and objectives.</i></p> <p><i>Annual budget and performance documents incorporate measures identified in the PART and focus on the information used in the senior management report described in the first criterion.</i></p>	<p>Currently, the Forest Service's Strategic Plan 2004-2008 contains few outcome-oriented goals and objectives. The agency continues to move toward improved outcomes, especially as management's commitment to performance accountability increases. In FY 2006, Forest Service developed a comprehensive set of outcome-oriented performance measures for all business operations functions to be implemented in FY 2007.</p> <p>The FY 2005 P&AR discussed the means by which the Forest Service demonstrates performance accountability. The annual performance report section of the P&AR—a GPRA requirement—describes progress toward PART milestones, preliminary reporting by strategic goal and outcome, and the research that guarantees results for the future:</p> <ul style="list-style-type: none"> ▪ A strategic context for the Executive Priorities measures, the agency's key performance goals ▪ <i>Accountability through Assessment</i>—the PART assessments, with OMB's recommendations, milestones, and Forest Service actions ▪ <i>Accountability to the Executive Priorities</i>—the preliminary results for FY 2005 ▪ <i>Accountability to the Future</i>—R&D's contribution for future results.
<p><i>Has performance appraisal plans and awards programs for all SES and managers, and more than 60% of agency positions that effectively:</i></p> <ul style="list-style-type: none"> ▪ <i>Link to agency mission, goals and outcomes;</i> ▪ <i>Hold employees accountable for results appropriate to their level of responsibility;</i> ▪ <i>Differentiate between various levels of performance;</i> ▪ <i>Provide consequences based on performance. Provide consequences based on performance. The agency is working to include all agency employees under such systems.</i> 	<p>Both the Strategic Management of Human Capital and the Budget and Performance Integration PMA initiatives require that Federal agencies: link to agency mission, goals, and outcomes; hold employees accountable for results appropriate for their level of responsibility; differentiate between various levels of performance; and provide consequences based on performance.</p> <p>USDA issued direction in FY 2004 that at least 60 percent of employees' performance plans must align with agency mission and goals. The Forest Service subsequently issued direction that 100 percent of agency employees will have credible measures of performance, aligned with the mission and their units' performance goals and objectives.</p> <p>In order to differentiate between various levels of performance, the Forest Service planned to transition to a multilevel performance management system in FY 2006. A framework was established within the existing pass/fail performance appraisal program that is migrated to the multilevel plan. This transition has been delayed until first quarter of FY 2007.</p>
<p><i>Reports the full cost of achieving performance goals accurately in budget and performance documents and can accurately estimate the marginal cost (+/- 10%) of changing performance goals.</i></p>	<p>The Forest Service budget is structured around programs, many of which support multiple objectives. In FY 2006, the work planning system was updated to directly tie projects funded under various programs and their planned accomplishments to strategic plan goals and objectives. The FY 2006 workplans provide baseline planned expenditure and accomplishment information by strategic plan goal and objective at the forest, regional, and national level. This information can be used to estimate the cost of changing goals and objectives</p>

OMB'S GREEN STANDARD	STATUS AND PROGRESS
	starting in FY 2007.
<p><i>Has at least one efficiency measure for all PARTed programs.</i></p>	<p>In this initial round of PART assessments—the first 5-year cycle—the Forest Service developed at least one efficiency measure for all PARTed programs.</p> <p>Efficiency measures by strategic goal were submitted to USDA for the FY 2007 budget.</p>
<p><i>Uses PART evaluations to direct program improvements, and PART ratings and performance information are used consistently to justify funding requests, management actions, and legislative proposals.</i></p> <p><i>Less than 10% of agency programs receive a 'Results Not Demonstrated' rating for more than two years in a row.</i></p>	<p>FY 2006 and FY 2007 Budget Justifications, as well as the FY 2005 and FY 2006 Audit Report contained performance information and progress on Forest Service PART evaluations.</p> <p>See an overview of Forest Service's PART assessments in Chapter 3 of the FY 2007 Budget Justification at http://www.fs.fed.us/aboutus/budget/.</p> <p>To review progress toward the PART milestones for FY 2006, see the Annual Performance Report section of the P&AR at http://www.fs.fed.us/plan/par/2006/. This report will be issued during the first quarter of FY 2007.</p> <p>OMB is in the first 5 years of its schedule to assess 20 percent of all Federal programs each year. The Forest Service has completed seven PART assessments to date (through the fiscal year 2007 President's Budget Request).</p> <p>Two of these assessments were <i>reassessments</i> from earlier PART analyses, which resulted in improved performance measures and improved scores.</p> <p>For the 2008 President's Budget Request, completed in FY 2006, the Forest Service performed two <i>new</i> assessments, in addition to completing two reassessments.</p>

MANAGEMENT CONTROLS, SYSTEMS, AND COMPLIANCE WITH LAWS

FY 2006 Financial Statement Audit Report Results

The FY 2006 Financial Statement Audit report identified two material weaknesses under the headings "Information Technology General Controls Environment" and "Financial Management and Reporting Process". In addition, the report identified 11 reportable conditions. The FY 2007 FMFIA and FFMIA corrective action plans are being developed to address these and other deficiencies as included in the report.

Federal Managers' Financial Integrity Act

The FMFIA¹² requires Federal agencies to conduct ongoing evaluations of the adequacy of the systems of internal accounting and administrative control and to report all material weaknesses found through these evaluations. Federal agencies are required to provide reasonable assurance that the following objectives are being met:

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

During FY 2006, the Forest Service took the steps necessary to ensure that evaluations of the system of internal controls for the agency have been conducted in accordance with OMB guidelines and comply with the standards prescribed by the Comptroller General. The Forest Service annual, internal, evaluation included assessments regarding whether the financial management systems and internal accounting and administrative controls were in compliance with the standards prescribed by the Comptroller General. The results of the assessment, conducted at all levels throughout the agency, indicate that the agency's controls, in general, are achieving their intended objectives and during FY 2006 provide reasonable assurance that the above-mentioned objectives have been met. Except for the material weaknesses and reportable conditions identified through the Financial Statement Audit process and discussed below, the Forest Service identified no additional deficiencies during this annual, internal, process.

In FY 2006, as a result of audits conducted by OIG, the Forest Service reported the following OIG audit-identified material weaknesses, reportable conditions, and noncompliance issues as part of the FMFIA process.

Material Weaknesses

- **05-01MW**—Improvement needed in financial accounting and reporting policies, practices and procedures - Inadequate Accountability for Undelivered Orders
- **05-02MW**—Forest Service Needs to Continue to Improve its Financial Management and Reporting Process
- **00-01MW**—USDA Information Security Weaknesses

Reportable Conditions

- **92-01RC**—Administration of Lands Special Uses Permits
- **05-03RC**—Forest Service has not effectively implemented GPRA

¹² This is also known as the Integrity Act.

Noncompliance Issues

- **05-04NC**—Controls related to Physical Inventories of Capital Assets Need Improvement
- **05-05NC**—Forest Service Does not Obligate all Transactions required by Appropriations Law
- **05-06NC**—Forest Service may not be in Compliance with 31 USC 1517

As of September 30, 2006, the Forest Service completed all corrective actions for FMFIA items 05-01MW, 05-02MW, 05-04NC, 05-05NC, 05-06NC, and 92-01RC and requested OCFO remove these deficiencies, identified in FY 2005 and prior Financial Statement audits, from the list of agency material weaknesses. The Forest Service has completed all actions and forwarded requests for closure of the specific audit recommendation to OCFO along with documentation to substantiate completion of any required action. The FMFIA items above were related to management decisions between the Forest Service and USDA. The financial statement auditors reviewed FY 2005 and prior findings and recommendations, and determined that 05-02MW and 05-05NC remain open. During FY 2007 the Forest Service will address these open items.

Planned corrective actions are ongoing for the FMFIA reported material weakness 00-01MW, and FMFIA reported reportable condition 05-03RC. The following tables contain justification, status of corrective actions, and explanation of remaining steps required to close the material weaknesses, based on the FY 2006 corrective action plans.

FMFIA Reportable Condition and Material Weakness Action Plans

REPORTABLE CONDITION FS05-03RC				
Description: Implementation of GPRA				
Reference: 08601-01-HY				
Responsible Staff: Audit Liaison, P&BA, and SPRA Staffs				
Corrective Actions	Action Completed	Revised Completion Date	Reason Corrective Actions Were Not Completed	FY 2007 Action Plan for Corrective Actions Not Met
Implement the current/revised corrective actions to resolve the audit recommendations from the previous GPRA audit.	8/23/2006			
Implement the internal controls component of the Performance and Accountability System (PAS).		9/30/2007	Pending review of request for change in management decision and closure. Request denied 8/23/2006.	Complete scheduled action in compliance with management decision.
Incorporate within the performance element on managing work assignments, a standard to assure information reported is adequate, reliable, verifiable, and useful.		9/30/2007	Pending review of request for change in management decision and closure. Request denied 8/23/2006.	Complete scheduled action in compliance with management decision.
Validate that Forest Service managers and executives have been evaluated on performance accountability.		9/30/2007	Pending review of request for change in management decision and closure. Request denied 8/23/2006.	Complete scheduled action in compliance with management decision.
Establish a process to incorporate within the P&AR the reporting of materially inadequate performance data, reasons for inadequate data, and actions being taken to remedy the material inadequacy.		9/30/2007	Pending review of request for change in management decision and closure. Request	Complete scheduled action in compliance with management decision.

REPORTABLE CONDITION FS05-03RC				
Description: Implementation of GPRA				
Reference: 08601-01-HY				
Responsible Staff: Audit Liaison, P&BA, and SPRA Staffs				
Corrective Actions	Action Completed	Revised Completion Date	Reason Corrective Actions Were Not Completed	FY 2007 Action Plan for Corrective Actions Not Met
			denied 8/23/2006.	
Identify unmet targets and goals, and plans to address the unmet goals in the P&AR.	8/23/2006			

MATERIAL WEAKNESS FS00-01MW				
Description: Information Technology Security				
Reference: 08401-2-FM, 08401-6-FM				
Responsible Staff: IRM				
Corrective Actions	Action Completed	Revised Completion Date	Reason Corrective Actions Were Not Completed	FY 2007 Action Plan for Corrective Actions Not Met
Document decommissioning of Purchase Order Normal Tracking and Inventory System (PONTIUS) and Purchase Order System (PRCH), the conversion process to IAS, and results of the reconciliation of transactions converted from PRCH to IAS.	6/20/2006			
Develop, communicate, and establish controls for management approval for archiving, deleting, and sharing ATSA data.	8/15/2006			
Develop and implement a user access review policy and procedure for the HHS PMS application.	6/30/2006			
Issue letters to employees reminding them of their responsibility to abide by Forest Service information security and privacy policies and participate in mandatory security awareness training.	6/30/2006			
Coordinate with EMIS application owner to ensure that controls are effective, reports are reviewed, reconciliations are performed, and issues are resolved promptly.	5/3/2006			
Develop new action plan, identify additional resources to accomplish tasks, and obtain Office of the Chief Information Officer and OCFO approvals. ¹³				

Federal Financial Management Improvement Act

The FFMIA¹⁴ of 1996 requires Federal agencies to implement and maintain financial management systems that substantially comply with the following:

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

¹³ The IRM corrective action plan for FY 2006 is being revisited and a new FY 2007 comprehensive plan is being developed in accordance with USDA direction.

¹⁴ This is known as the Improvement Act.

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

FY 2006 Results

For FY 2006, the Forest Service is in substantial compliance with the FFMIA, although the financial statements audit report noted instances of noncompliance where the agency's financial management systems did not comply with Federal financial management system requirements, applicable Federal accounting standards, or the U.S. Standard General Ledger at the transaction level.

The Forest Service developed a remediation plan to aggressively implement corrective actions to resolve all Improvement Act and FISMA noncompliance issues. As of September 30, 2006, the Forest Service completed significant corrective actions regarding its financial management systems and made progress in resolving FISMA noncompliance issues. The agency continues to make progress toward resolving two remaining issues within the general control environment. The development and implementation of entity wide software and hardware management policies and procedures will require complete review and revision because of Forest Service's organizational restructuring and is now targeted for completion in the third quarter, FY 2007. In addition, certification and accreditation of systems in full compliance with OMB Circular A-130 and National Institute of Standards and Technology's (NIST) Special Publication 800-37 is scheduled for completion by third quarter, FY 2007.

The following tables contain justification, status of corrective actions, and explanation of remaining steps required to achieve full compliance with the FFMIA, based on the FY 2006 corrective action plans

FFMIA Remediation Plans

SECTION 1—FEDERAL FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS					
Agency Point of Contact: IRM					
References: 08401-2-FM, 08401-6-FM					
Description	Corrective Actions	Target Completion Date	Actual Completion Date	Reason Corrective Actions Were Not Completed	FY 2007 Action Plan for Corrective Actions Not Met
System C&As	Certify and accredit the Forest Service Computer Base GSS, Travel, Connect HR, Automated Timber Sales Accounting (ATSA), Paycheck, and Infra in compliance with OMB Circular A-130 and NIST Special Publication 800-37.	6/30/2007		IT corrective action plans underwent a comprehensive review at the end of FY 2006 to validate scheduled actions and revise target dates.	Pending finalization
Strategic Plan and Annual Performance Plan Goal and Objective to which the Corrective Actions apply, if applicable.					

SECTION 4—INFORMATION SECURITY POLICIES, PROCEDURES, AND PRACTICES					
Agency Point of Contact: IRM					
References: 08401-2-FM, 08401-6-FM					
Description	Corrective Actions	Target Completion Date	Actual Completion Date	Reason Corrective Actions Were Not Completed	FY 2007 Action Plan for Corrective Actions Not Met
Software Management Policy	Develop entity wide software management policy and procedures and install the latest software versions, service packs, and security patches (and remove out-dated versions).	2/28/2007		IT corrective action plans underwent a comprehensive review at the end of FY 2006 to validate scheduled actions and revise target dates.	Pending finalization
Strategic Plan and Annual Performance Plan Goal and Objective to which the Corrective Actions apply, if applicable.					

Financial Management Systems

The Forest Service's overall financial systems framework consists of the Department wide FFIS and the Financial Data Warehouse (FDW).

FFIS requires the various feeder systems to deliver scheduled deposits of financial data. Financial data include receivables, commitments, accruals, billing and payment activities, working capital fund, employee travel reimbursements, transfer of station reimbursements, travel authorization management, reimbursable and advance collection agreements, timber sale accounting activities, uniform allowance activities, and payments to States.

These feeder systems ensure timely and accurate delivery of data into the financial accounting systems processing records on a daily basis.

Financial data are loaded nightly into the FDW, facilitating the Forest Service and USDA's reporting and analysis requirements for performance reporting, audit follow-up information, and activities performed by Government and contracted personnel.

FY 2006 Results

Over the past 2 years, the Forest Service completed a BPR study covering all financial accounting and budget execution activities. The BPR study resulted in the reorganization of the B&F workforce into a centralized Financial Accounting and Budget Execution operation. This smaller centralized workforce increased efficiencies for the agency by automating many of the manual processes used in the decentralized workforce.

FY 2006 accomplishments include:

- To support the centralized B&F operation, the Forest Service implemented the Financial Transaction Request System (FTRS). FTRS electronically transfers collection and billing information from the field units that was transferred via FAX machines before the BPR.
- Transition of operational and system responsibilities for the Forest Service's Uniform Allowance Program from the Human Capital Management Staff to the Financial Management Staff;
- Implementation of the All Service Receipts System v1.3 that facilitates land use payments to States;
- Replacement of outdated microfiche processes for archiving ATSA data and reports with Web-based technology. This new technology enables Forest Service personnel to access online reports, with archives back to FY 2004.

In addition, the Forest Service continues the certification and accreditation process for all systems categorized as "Financial" or "Mixed Financial" systems.

Finally, the Forest Service is collaborating with USDA on the implementation of a Department-wide Travel system; and in the selection, design, and implementation of the next-generation financial management system. The agency anticipates implementing the new financial management system in FY 2010.

Federal Information Security Management Act

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

The Forest Service is aware of the vulnerability of its assets and financial data due to error or fraud and is in the process of correcting the information security controls material weakness. Plans are in place to address this significant deficiency, as well as any associated reportable conditions, as identified in the FY 2006 Annual FISMA Report.

FY 2006 Results

Although the Forest Service did not resolve all information security weaknesses as planned for FY 2006, the agency continues to make progress in implementing the necessary corrective actions to resolve remaining weaknesses. Information security corrective actions (also FMFIA/FFMIA corrective actions) completed this fiscal year include:

- Developed and published policy covering critical areas of IT Contingency Planning, IT Restricted Space Physical Security, Data Backup and Recovery, and System C&A.
- Published policy and approved operating procedures for the agency's Computer Incident Response Team¹⁵.
- Developed and implemented a user-access review policy and procedure for the HHS PMS application.
- Developed, communicated, and established controls for management approval for archiving, deleting, and sharing ATSA data.
- Issued letters to employees reminding them of their responsibility to abide by Forest Service information security and privacy policies and participate in mandatory security awareness training.
- Coordinated with Equipment Management Information System application owner to ensure that controls are effective, reports are reviewed, reconciliations are performed, and issues are resolved promptly.

¹⁵ The Computer Incident Response Team charter, establishing its authority, was signed by the Chief Information Officer (CIO) on October 5, 2006.

The Forest Service will continue with plans to complete the correction of the information security controls material weakness in FY 2007.

Inspector General Act Amendments of 1988

The Inspector General Act requires management to complete all final actions on audit recommendations within 1 year of the date of the Inspector General's final audit report.

As of September 30, 2006, the Forest Service officially closed five outstanding audits. An audit is "outstanding" if it remains open 1+ years of reaching management decision on all audit recommendations.

Since 2002, the agency has increased its efforts to reduce the number of unimplemented audits pending final action. The audit inventory at the end of FY 2003 was 26; FY 2004 was 21; FY 2005 was 14, and FY 2006 was 13. The explanation for delays in implementing recommendations includes the development and implementation of new/revised directives and systems.

Per the Inspector General Act reporting requirements, agencies must report the dollar value of disallowed costs and funds to be put to better use. A disallowed cost (DC) is a questioned cost that management sustains or agrees is not chargeable to the Government. Funds to be put to better use (FTBU) are funds that OIG has recommended could be used more efficiently if management took actions to implement and complete the recommendation. The following are the results from the reporting period of October 1, 2005, to September 30, 2006.

FY 2006 Results

DC and FTBU (in thousands)				
	DC ¹⁶		FTBU ¹⁷	
	Reports	Value	Reports	Value
Balance 9/30/2005	1	\$140.5	5	\$42,164.7
New	0	0	0	0
Total	1	\$140.5	5	\$42,164.7
Closed	0	0	3	30,661.5
Balance 9/30/2006	1	\$140.5	2	\$11,503.2

Improper Payments Information Act

The Improper Payments Information Act (IPIA) requires each Federal agency to assess all programs and identify which, if any, program(s) may be subject to high risk with respect to improper payments. Agencies are also required to implement any needed corrective measures. For FY 2006 disbursements, USDA determined four funds to audit, with one fund requiring a statistical sample. Forest Service identified the Wildland Fire Suppression (WFSU) program again as its single *high-risk* program area related to payments. The Forest Service selected a sample from the FY 2006 WFSU outlays for evaluation, using an estimated 2.49 percent error rate with a 90% confidence level which resulted in 166 samples.

For the FY 2005 disbursements, the error rate, when extrapolated, resulted in the annual estimated improper payments amounts for the WFSU program of \$7.1 million. Our review of disbursements for the NFS, S&PF, Capital and Improvement Maintenance, Forest and Rangeland Research, and Wildfire Management Funds indicated an error rate of 0%.

¹⁶ DC balance is OIG Audit No. 08801-02-TE.

¹⁷ FTBU balance is comprised of OIG Audit No. 08801-02-TE (\$1,173.9) and OIG Audit No. 08003-05-SF (\$10,329.3).

During FY 2006, the OIG conducted an audit on improper payments at the Forest Service. As of the end of the fiscal year, the OIG issued a draft audit report 08601-47-SF, "Improper Payments - Monitoring the Progress of Corrective Actions for High-Risk Programs in the Forest Service."

In brief, the audit report recommended the Forest Service report in the 2006 audit report the annual estimated amount of improper payments for all programs identified as high risk as required by the IPIA. In response, the information is now included in this section as required. The agency is currently providing comments on the draft report, and will reach management decision on the audit recommendations in FY 2007.

Internal Controls Over Financial Reporting (A-123, Appendix A)

The Forest Service implemented the revised requirements of OMB's Circular A-123 "Management's Responsibility for Internal Controls," and Appendix A, "Internal Controls over Financial Reporting." USDA identified 8 cycles and 47 processes that were applicable for assessment under these requirements.

The eight cycles included Funds Control, Funds Management, HRM, Grant Management, Procurement, Revenue Management, Property Management, and Financial Reporting. In addition, IT (computer controls) was also considered a component of the Forest Service's self-assessment. Each process was mapped and evaluated for internal control design effectiveness.

For the 2006 Assurance Year (ending June 30 of the fiscal year), Forest Service identified 16 of the 47 processes to test, while the remaining 31 processes are in remediation for one of five reasons:

- Audit Finding
- Management Issue
- Re-engineering
- Migration
- Design Deficiency

The testing requirements were stringent and designed to identify control deficiencies, reportable conditions, and material weaknesses.

Of the 16 processes tested, the two that passed completely are in the Funds Management Cycle. Nine reportable conditions and two material weaknesses were identified, although the material weaknesses were known to be pre-existing. The Forest Service is currently testing the results of remediation activities to determine whether the weaknesses still exist and whether the level of material weakness is still appropriate.

As a result, the Forest Service compiled a listing of 56 deficiencies—ranging from control deficiency to material weakness—into a Summary of Aggregated Deficiencies; developed remediation plans for the identified deficiencies; and began implementing a monitoring process.

For the 2007 Assurance Year, Forest Service intends to test every control and expand the scope of testing to include field processes. Due to time constraints and resources available, Forest Service was unable to test all field processes completely in 2006. Mapping of the field processes is currently underway; testing should commence in January and end in June 2007.

An additional evaluation of remediation activity and redesigned controls is also currently underway.

Anti-Deficiency Act Compliance

The USDA Forest Service provides assistance for emergency incidents on other than USDA Forest Service lands. A footnote provided on the apportionment for 12X1115, Wildland Fire Management, indicated that no more than \$100 million of fire suppression funds could be spent on aviation resources. The USDA Forest Service was under the impression that there were two lines of authority within the apportionment document, appropriated budget authority for activities funded by fire suppression funds and reimbursable budget authority for emergency activities that would be reimbursed. On August 3, 2006 the agency had ordered \$117 million in aviation resources. Of that amount, \$32 million was related to reimbursable budget authority which would be reimbursed by states and other entities and \$75 million was related to fire suppression activities funded by appropriated fire suppression budget authority. The agency has been diligent in its efforts to track and comply with apportionment restrictions, and as we approach ceilings imposed by footnotes, request an increase in funding. When an aviation increase was requested on August 3, 2006 we were advised by the USDA Office of Budget and Program Analysis (OBPA) that we had a potential Anti-Deficiency Act violation of the ceiling imposed by the apportionment. On August 4, 2006, OMB signed another apportionment increasing the aviation footnote to \$175 million. As requested by USDA OBPA, the USDA Forest Service requested a legal opinion from the Office of General Counsel regarding the aviation footnote. To date, no decision has been reached.

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 31 U.S.C. 3515 (b).

The Forest Service statements have been prepared from its books and records in accordance with Generally Accepted Accounting Principles for Federal entities and 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, 2006 and 2005
(in millions)**

	<u>2006</u>	<u>2005</u>
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 3,877	\$ 4,187
Investments	5	5
Accounts Receivable, Net (Note 3)	45	181
Total Intragovernmental	<u>3,927</u>	<u>4,373</u>
Cash and Other Monetary Assets	1	2
Accounts Receivable, Net (Note 3)	209	88
General Property, Plant, and Equipment (PP&E), Net (Note 4)	3,585	3,695
Other	19	13
	<u>19</u>	<u>13</u>
Total Assets	<u>\$ 7,741</u>	<u>\$ 8,171</u>
Stewardship PP&E (Note 5)		
Liabilities:		
Intragovernmental:		
Federal Employee Benefits (Notes 6 & 7)	\$ 67	\$ 65
Other (Note 8)	137	279
Total Intragovernmental	<u>204</u>	<u>344</u>
Accounts Payable	55	134
Federal Employee Benefits (Notes 6 & 7)	331	341
Environmental and Disposal Liabilities	53	17
Other (Note 8)	1,684	1,190
Total Liabilities (Note 6)	<u>2,327</u>	<u>2,026</u>
Commitments and Contingencies (Note 8)		
Net Position:		
Unexpended Appropriations		1,792
Unexpended Appropriations - other funds	1,054	
Cumulative Results of Operations		4,353
Cumulative Results of Operations - earmarked funds (Note 10)	1,303	
Cumulative Results of Operations - other funds	3,057	
Total Net Position	<u>5,414</u>	<u>6,145</u>
Total Liabilities and Net Position	<u>\$ 7,741</u>	<u>\$ 8,171</u>

The accompanying notes are an integral part of these statements.

**U.S. Department of Agriculture
Forest Service
CONSOLIDATED STATEMENTS OF NET COST
For the years ended September 30, 2006 and 2005
(in millions)**

	<u>2006</u>	<u>2005</u>
Program Costs (Note 11):		
Total Gross Costs	\$ 6,937	\$ 5,831
Total Earned Revenue	1,034	789
Net Cost of Operations	<u>\$ 5,903</u>	<u>\$ 5,042</u>

The accompanying notes are an integral part of these statements.

**U.S. Department of Agriculture
Forest Service
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the years ended September 30, 2006 and 2005
(in millions)**

	FY 2006			FY 2005
	Earmarked Funds (Note 10)	All Other Funds	Consolidated Total	Consolidated Total
Cumulative Results of Operations:				
Beginning Balance	\$ 1,533	\$ 2,820	\$ 4,353	\$ 4,091
Budgetary Financing Sources:				
Appropriations Used	(2)	5,460	5,458	4,832
Non-Exchange Revenue	-	(16)	(16)	1
Donations and Forfeitures of Cash	-	-	-	1
Transfers - In/Out without Reimbursement	(28)	188	160	184
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures Of Property	-	-	-	31
Transfers without Reimbursement	-	1	1	-
Imputed Financing	-	303	303	247
Other	4	-	4	8
Total Financing Sources	(26)	5,936	5,910	5,304
Net Cost of Operations	(204)	(5,699)	(5,903)	(5,042)
Net Change	(230)	237	7	262
Cumulative Results of Operations	1,303	3,057	4,360	4,353
Unexpended Appropriations:				
Beginning Balance	(2)	1,794	1,792	1,511
Budgetary Financing Sources:				
Appropriations Received	-	4,632	4,632	5,030
Appropriations Transfer - In/Out	-	96	96	146
Other Adjustments (rescissions, etc.)	-	(8)	(8)	(63)
Appropriations Used	2	(5,460)	(5,458)	(4,832)
Total Budgetary Financing Sources	2	(740)	(738)	281
Total Unexpended Appropriations	-	1,054	1,054	1,792
Net Position	\$ 1,303	\$ 4,111	\$ 5,414	\$ 6,145

The accompanying notes are an integral part of these statements.

**U. S. Department of Agriculture
Forest Service
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 2006 and 2005
(in millions)**

	<u>2006</u>	<u>2005</u>
Budgetary Resources:		
Unobligated balance, brought forward, October 1	\$ 2,429	\$ 1,738
Recoveries of prior year unpaid obligations	78	169
Budget authority:		
Appropriations	5,362	5,812
Spending Authority from offsetting collections:		
Earned:		
Collected	666	448
Change in receivables from Federal sources	(21)	12
Change in unfilled customer orders:		
Advance received	19	3
Without advance from Federal Sources	36	72
Expenditure transfers from trust funds	159	1
Subtotal	<u>6,221</u>	<u>6,348</u>
Nonexpenditure transfers, net	3	51
Permanently not available	(65)	(67)
Total Budgetary Resources (Note 14)	<u>\$ 8,666</u>	<u>\$ 8,239</u>
Status of Budgetary Resources:		
Obligations incurred: (Note 13)		
Direct	\$ 6,382	\$ 5,545
Reimbursable	475	265
Subtotal	<u>6,857</u>	<u>5,810</u>
Unobligated balance-apportioned	1,052	1,804
Unobligated balance not available	757	625
Total status of budgetary resources (Note 14)	<u>\$ 8,666</u>	<u>\$ 8,239</u>
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 1,979	\$ 1,827
Less: Uncollected customer payments from		
Federal sources, brought forward October 1	(418)	(334)
Total unpaid obligated balance, net	<u>1,561</u>	<u>1,493</u>
Obligations incurred net	6,857	5,810
Less: Gross outlays	(6,375)	(5,489)
Less: Recoveries of prior year unpaid obligations	(78)	(169)
Change in uncollected customer payments from Federal sources	(15)	(84)
Obligated balance, net, end of period		
Unpaid obligations (Note 15)	2,383	1,979
Less: Uncollected customer payments from Federal sources	(433)	(418)
Total, unpaid obligated balance, net, end of period	<u>\$ 1,950</u>	<u>\$ 1,561</u>
Net Outlays:		
Net Outlays:		
Gross outlays	\$ 6,375	\$ 5,489
Less: Offsetting collections	(844)	(451)
Less: Distributed offsetting receipts	(457)	(426)
Net Outlays	<u>\$ 5,074</u>	<u>\$ 4,612</u>

The accompanying notes are an integral part of these statements.

**U.S. Department of Agriculture
Forest Service
CONSOLIDATED STATEMENTS OF FINANCING
For the years ended September 30, 2006 and 2005
(in millions)**

	2006	2005
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred	\$ 6,857	\$ 5,810
Less: Spending authority from offsetting collections and recoveries	937	705
Obligations net of offsetting collections and recoveries	5,920	5,105
Less: Offsetting receipts	457	426
Net obligations	5,463	4,679
Other Resources:		
Donations and forfeitures of property	-	31
Transfers in/out without reimbursement	1	-
Imputed financing from costs absorbed by others	303	247
Other	4	8
Net other resources used to finance activities	308	286
Total resources used to finance activities	5,771	4,965
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(89)	7
Resources that fund expenses recognized in prior periods	(85)	(29)
Other budgetary offsetting collections and receipts that do not affect net cost of operations	64	65
Resources that finance the acquisition of assets	(135)	(164)
Trust fund repayment	-	(149)
Other resources or adjustments to net obligated resources that do not affect the net cost of operations	(59)	(53)
Total resources used to finance items not part of the net cost of operations	(304)	(323)
Total resources used to finance the net cost of operations	5,467	4,642
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods (Note 16):		
Increase in annual leave liability	21	-
Increase in environmental and disposal liability	36	10
Increase in exchange revenue receivable from the public	(12)	-
Increase in accrued liability for payments to states	20	-
Other	7	29
Total components of Net Cost of Operations that will require or generate resources in future periods	72	39
Components not Requiring or Generating Resources:		
Depreciation and amortization	255	268
Revaluation of assets or liabilities	3	-
Allocation transfers (Note 17)	150	111
Bad debt expense and other	(44)	(18)
Total components of net cost of operations that will not require or generate resources	364	361
Total components of net cost of operations that will not require or generate resources in the current period	436	400
Net Cost of Operations	\$ 5,903	\$ 5,042

The accompanying notes are an integral part of these statements.

**U. S. Department of Agriculture
Forest Service
Notes to the Financial Statements
For the years ended September 30, 2006 and 2005**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The USDA Forest Service was established on February 1, 1905, as an agency of the United States Federal Government within the U.S. Department of Agriculture (USDA), for the purpose of maintaining and managing the Nation's forest reserves. It operates under the guidance of the Under Secretary for Natural Resources and Environment. The USDA Forest Service's policy is implemented through nine regional offices, six research offices, one State and Private Forestry area office, the Forest Products Laboratory and the International Institute of Tropical Forestry, with 868 administrative units functioning in 46 states, Puerto Rico, and the Virgin Islands.

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

- National Forests and Grasslands - Protection and management of an estimated 193 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 an estimated 193 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. Substantially all assets are considered "entity assets" and are available for use in the USDA Forest Service's operations.

U. S. Department of Agriculture
Forest Service
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B. BASIS OF PRESENTATION AND ACCOUNTING

The consolidated balance sheets, statements of net cost, statements of changes in net position, and statements of financing, and the combined statements of budgetary resources hereinafter referred to as the financial statements, were prepared to report the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of the USDA Forest Service.

The financial statements have been prepared from the books and records of the USDA Forest Service in accordance with accounting principles generally accepted in the United States of America and in accordance with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised July 24, 2006. All material intra-agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statements of Budgetary Resources are presented on a combined basis in accordance with OMB Circular A-136.

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

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

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.

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E. GENERAL PROPERTY, PLANT, AND EQUIPMENT

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

F. LIABILITIES

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

G. ENVIRONMENTAL AND DISPOSAL LIABILITIES

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

H. COMMITMENTS AND CONTINGENCIES

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

U. S. Department of Agriculture
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I. WORKERS' COMPENSATION LIABILITY

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

J. EMPLOYEE ANNUAL, SICK, AND OTHER LEAVE

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

K. PENSION AND OTHER RETIREMENT BENEFITS

USDA Forest Service employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The employees who participate in CSRS are beneficiaries of the USDA Forest Service's matching contribution, equal to 8.51 percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on April 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 April 1, 1984 could elect to join FERS and Social Security, or to remain in CSRS. FERS offers a savings plan to which the USDA Forest Service automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For FERS participants, the USDA Forest Service also contributes the employer's matching share for Social Security.

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

**U. S. Department of Agriculture
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Notes to the Financial Statements
For the years ended September 30, 2006 and 2005**

L. REVENUES AND OTHER FINANCING SOURCES

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

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

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

The USDA Forest Service reports the full cost of products and services generated from the consumption of resources. Full cost is the total amount of resources used to produce a product or provide a service unless otherwise noted. In accordance with SFFAS No.7, *Accounting for Revenue and Other Financing Sources*, the USDA Forest Service's pricing policies are set to recover full cost except where mandated by law or for the public good, such as in the case of grazing fees. Also, costs and exchange revenue are disclosed in Note 11 as intragovernmental or with the public based on the related source or customer, respectively.

M. IMPUTED FINANCING

The USDA Forest Service recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the OPM. Amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against the USDA Forest Service are also recognized as imputed financing. Imputed financing for the years ended September 30, 2006 and 2005 was \$303 million and \$247 million, respectively.

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N. STATEMENTS OF BUDGETARY RESOURCES

The USDA Forest Service receives four transfer allocations, as the child in a parent-child relationship, from appropriations of other agencies. The parent is the agency to which the funds were appropriated; the child is the agency receiving the funds from the parent to carry out some or all of the work. The parent agency has the budgetary reporting responsibility. The USDA Forest Service is the child for the four following accounts:

<u>Parent Agency</u>	<u>Treasury Symbol Name</u>
Department of Labor	Job Corps Civilian Conservation
Department of Transportation	Federal Aid to Highways
Department of Interior	Southern Nevada Public Land Management
Department of Interior	Permit Processing Fund

In accordance with OMB Circular A-136, the USDA Forest Service does not include these allocation transfers in its Statements of Budgetary Resources. However, as the transfer allocations are considered material, the proprietary financial activity is reported in the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and as a reconciling item in the Statements of Financing.

O. USE OF ESTIMATES

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

**U. S. Department of Agriculture
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P. EARMARKED FUNDS

In accordance with SFFAS 27, *Identifying and Reporting Earmarked Funds*, which was effective in FY 2006, the USDA Forest Service has reported the earmarked funds for which it has program management responsibility, using the following three criteria:

1. A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits, or purposes;
2. Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
3. A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

In accordance with SFFAS No. 27, the USDA Forest Service did not restate the prior period columns of the financial statements and related disclosures. Previous to FY 2006, these funds were considered to be dedicated collections.

See Note 10 for specific required disclosures related to the USDA Forest Service's earmarked funds as of and for the year ended September 30, 2006. See Note 18 for specific required disclosures related to the USDA Forest Service's dedicated collections as of and for the year ended September 30, 2005.

Q. RECLASSIFICATIONS

Certain reclassifications were made to the fiscal year 2005 statements to conform to the current year's presentation.

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Forest Service
Notes to the Financial Statements
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NOTE 2. FUND BALANCE WITH TREASURY

Funds with the U.S. Department of the Treasury are primarily appropriated (general and special funds), revolving (working capital fund), 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. It is the USDA Forest Service's policy to ensure the Fund Balance with Treasury reported on the Balance Sheets is consistent with the records of the U.S. Department of the Treasury.

Fund Balance with Treasury as of September 30, 2006 and 2005 consisted of the following:

	(in millions)	
	<u>2006</u>	<u>2005</u>
A. Fund Balances:		
(1) Trust Funds	\$451	\$676
(2) Revolving Funds	123	128
(3) Appropriated Funds	3,265	3,342
(4) Other Fund Types	38	41
Total	<u>\$3,877</u>	<u>\$4,187</u>
B. Status of Funds:		
(1) Unobligated Balance		
(a) Available	\$1,052	\$1,804
(b) Unavailable	757	625
(2) Obligated Balance not yet Disbursed	1,950	1,561
(3) Other Balances	118	197
Total	<u>\$3,877</u>	<u>\$4,187</u>

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NOTE 3. ACCOUNTS RECEIVABLE, NET

Intragovernmental accounts receivable represent amounts due under reimbursable and cooperative agreements with Federal entities for services provided by the USDA Forest Service. An allowance for receivables deemed uncollectible is not established for these amounts because monies due from other Federal entities are considered fully collectible. As of September 30, 2006 and 2005, the intragovernmental accounts receivable balances were \$45 million and \$181 million, respectively.

Non-intragovernmental accounts receivable are comprised primarily of timber harvest and reimbursements and refunds owed to the USDA Forest Service for fire prevention and suppression activities. An allowance for receivables deemed uncollectible is established against outstanding non-federal accounts receivable, based on historical experience. Non-intragovernmental accounts receivable as of September 30, 2006 and 2005 consisted of the following:

	(in millions)	
	2006	2005
Accounts Receivable	\$227	\$158
Allowance for Doubtful Accounts	(18)	(70)
Accounts Receivable, Net	\$209	\$88

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NOTE 4. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

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

As of September 30, 2006 and 2005 the USDA Forest Service's PP&E consisted of the following:

September 30, 2006				
(in millions)				
Property Class	Estimated Useful Life (Years)	Cost	Accumulated Depreciation	Book Value
Personal Property				
Equipment	5 - 20	\$752	(\$563)	\$189
Internal Use Software	5	134	(113)	21
Internal Use Software in Development	n/a	7	-	7
Total Personal Property		893	(676)	217
Real Property				
Land and Land Rights	n/a	51	-	51
Improvements to Land	10 - 50	4,979	(2,705)	2,274
Construction in Progress	n/a	311	-	311
Buildings, Improvements and Renovations	30	803	(503)	300
Other Structures and Facilities	15 - 50	1,510	(1,115)	395
Assets Under Capital Lease	30	44	(16)	28
Leasehold Improvements	10	11	(2)	9
Total Real Property		7,709	(4,341)	3,368
Total		\$8,602	(\$5,017)	\$3,585

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September 30, 2005				
(in millions)				
Property Class	Estimated Useful Life (Years)	Cost	Accumulated Depreciation	Book Value
Personal Property				
Equipment	5 - 20	\$821	(\$601)	\$220
Internal Use Software	5	133	(95)	38
Internal Use Software in Development	n/a	6	-	6
Total Personal Property		960	(696)	264
Real Property				
Land and Land Rights	n/a	50	-	50
Improvements to Land	10 - 50	4,952	(2,590)	2,362
Construction in Progress	n/a	226	-	226
Buildings, Improvements and Renovations	30	802	(480)	322
Other Structures and Facilities	15 - 50	1,508	(1,070)	438
Assets Under Capital Lease	30	40	(17)	23
Leasehold Improvements	10	11	(1)	10
Total Real Property		7,589	(4,158)	3,431
Total		\$8,549	(\$4,854)	\$3,695

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NOTE 5. HERITAGE ASSETS AND STEWARDSHIP LANDS

This note provides information on certain resources entrusted to the USDA Forest Service and certain stewardship responsibilities assumed by the USDA Forest Service. These resources and responsibilities are required to be referenced in the USDA Forest Service's Balance Sheets and described below in accordance with SFFAS No. 29, *Heritage Assets and Stewardship Land*, which was effective in FY 2006.

Stewardship Property, Plant, and Equipment (Stewardship PP&E)

Stewardship PP&E are assets, the physical properties of which resemble those of the General PP&E that is traditionally capitalized in the financial statements. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful. Stewardship PP&E includes heritage assets and stewardship land.

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 USDA Forest Service also strives to achieve quality land management under the sustainable multiple-use management concept to meet the diverse needs of people.

Heritage Assets

Heritage assets are unique for their historical or natural significance, for their cultural, educational, or artistic importance, or for their significant architectural characteristics. The USDA Forest Service generally expects that these assets will be preserved indefinitely.

The USDA Forest Service's non-collection heritage assets are comprised primarily of historic and prehistoric sites located on national forest wilderness areas, primitive areas, national monument areas, and scenic river areas. Some heritage assets are listed on the National Register of Historic Places, and some are designated as National Historic Landmarks. Assets held at museums and universities are managed by those entities. Heritage assets that are not used for administrative or public purposes receive no annual maintenance.

The USDA Forest Service uses the Condition Assessment Survey (CAS) method to describe the condition of its heritage assets. The CAS method is based on a 5-point scale for condition, where 1 represents excellent; 2 is good; 3 is fair; 4 is poor; and 5 is very poor. Assets with a condition assessment level between 1 and 3 are defined as being suitable for public display. The USDA Forest Service's heritage assets are in poor to fair condition.

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Stewardship Land

Stewardship land consists primarily of the national forests and grasslands owned by the USDA Forest Service. Stewardship land is valued for its environmental resources, recreational and scenic value, cultural and paleontological resources, vast open spaces, and resource commodities and revenue provided to the Federal government, states, and counties.

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NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources as of September 30, 2006 and 2005 consisted of the following:

	(in millions)	
	<u>2006</u>	<u>2005</u>
Intragovernmental:		
Treasury Judgment Fund	\$14	\$9
Federal Employee Benefits (Note 7)	67	65
Total Intragovernmental	81	74
Federal Employee Benefits (Note 7)	331	341
Annual Leave Liability	194	173
Contingent Liabilities	5	28
Accrued Liability for Payments to States	398	378
Environmental and Disposal Liabilities	53	17
Total Liabilities Not Covered by Budgetary Resources	1,062	1,011
Total Liabilities Covered by Budgetary Resources	1,265	1,015
Total Liabilities	\$2,327	\$2,026

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NOTE 7. FEDERAL EMPLOYEE BENEFITS

Federal Employees' Compensation Act Liabilities: Liabilities under the Federal Employees' Compensation Act (FECA) are incurred as a result of workers' compensation benefits that have accrued to employees but have not yet been paid by the USDA Forest Service.

Workers' compensation benefits include the current and expected future liability for death, disability, medical, and other approved costs. The U.S. Department of Labor (DOL) actuarially determines the expected future liability for the U.S. Department of Agriculture as a whole, including the USDA Forest Service. The USDA Forest Service is billed annually as its claims are paid by the DOL. Payments to the DOL are deferred for two years so that the bills may be funded through the budget. Payments to the DOL are also recognized as an expense when billed and recorded in the Statements 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, 2006 and 2005 consisted of the following:

	(in millions)	
	<u>2006</u>	<u>2005</u>
Intragovernmental Federal Employee Benefits (Note 6)	\$67	\$65
Federal Employee Benefits (Note 6)	331	341
Total	<u><u>\$398</u></u>	<u><u>\$406</u></u>

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NOTE 8. OTHER LIABILITIES

	(in millions)					
	<u>2006</u>			<u>2005</u>		
	Non-Current	Current	Total	Non-Current	Current	Total
Intragovernmental						
Employer Contributions & Payroll Tax	\$ -	\$ 14	\$ 14	\$ -	\$ -	\$ -
Accrued Liabilities	14	105	119	-	101	101
Advances from Others	-	24	24	-	-	-
Deposit Liabilities	-	(34)	(34)	-	87	87
Custodial Liabilities	-	14	14	-	57	57
Other	-	-	-	9	25	34
Total Intragovernmental	\$ 14	\$ 123	\$ 137	\$ 9	\$ 270	\$ 279
Other						
Accrued Liabilities	\$ -	\$ 916	\$ 916	\$ -	\$ 575	\$ 575
Advances from Others	-	44	44	-	-	-
Deposit Liabilities	-	73	73	-	-	-
Purchaser Road Credits	-	2	2	-	-	-
Accrued Liability for Payments to States	-	398	398	-	378	378
Annual Leave Liability	-	194	194	-	173	173
Contingent Liabilities	5	-	5	28	-	28
Custodial Liabilities	-	24	24	-	-	-
Capital Leases (Note 9)	26	2	28	21	2	23
Other	-	-	-	-	13	13
Total Other	\$ 31	\$ 1,653	\$ 1,684	\$ 49	\$ 1,141	\$ 1,190
Total Other and Intragovernmental Liabilities	\$ 45	\$ 1,776	\$ 1,821	\$ 58	\$ 1,411	\$ 1,469

As of September 30, 2006 and 2005, the USDA Forest Service's major components of other liabilities are as follows:

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

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

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

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Accrued Liability for Payments to States: The Twenty-Five Percent Fund (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.

Contingent Liabilities: As of September 30, 2006, the USDA Forest Service had several legal actions pending. Based on information provided by legal counsel, management believes some adverse decisions are probable and approximately \$5 million, related to such actions, has been accrued. The USDA Forest Service has a potential liability for approximately \$14 million, related to claims where the amount or probability of judgment is uncertain. There are no estimated obligations related to cancelled appropriations for which there is a contractual commitment for payment. In addition, there are no contractual arrangements which may require future financial obligations.

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NOTE 9. LEASE LIABILITIES

The USDA Forest Service enters into leasing agreements through the General Service Administration (GSA) and through leasing authority delegated by GSA for general facilities (buildings and office space), equipment and land. Leases may include renewal options for periods of one or more years. Most leases are subject to cancellation upon certain funding conditions. The USDA Forest Service's assets under capital lease as of September 30, 2006 and 2005 and future capital and operating lease agreement payments as of September 30, 2006, consisted of the following:

Capital Leases:	(in millions)	
	2006	2005
Summary of Assets Under Capital Leases		
Land, Buildings, Machinery, & Equipment	\$44	\$40
Accumulated Amortization	(16)	(17)
Total	\$28	\$23
Future Payments Due:		
	Land & Buildings, Machinery & Equipment	
Fiscal Year		
Year 1 (2007)	\$7	
Year 2 (2008)	7	
Year 3 (2009)	7	
Year 4 (2010)	7	
Year 5 (2011)	7	
After 5 Years	52	
Total Future Lease Payments	\$87	
Less: Imputed Interest	(54)	
Less: Executory Costs	(5)	
Subtotal	28	
Lease Liabilities covered by Budgetary Resources	\$28	
Lease Liabilities not covered by Budgetary Resources	-	

Operating Leases:	(in millions)	
Future Payments Due:		
	Land & Buildings, Machinery & Equipment	
Fiscal Year		
Year 1 (2007)	\$36	
Year 2 (2008)	35	
Year 3 (2009)	33	
Year 4 (2010)	32	
Year 5 (2011)	30	
After 5 Years	246	
Total Future Lease Payments	\$412	

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NOTE 10. EARMARKED FUNDS

In accordance with SFFAS 27, *Identifying and Reporting Earmarked Funds*, the USDA Forest Service administers certain earmarked funds, which are specifically identified revenues, often supplemented by other financing sources that remain available over time. These funds predominately finance the enhancement and maintenance of National Forest System lands including reforestation. Donations are handled on a cash basis and all other collections are accounted for on an accrual basis. The following is a list of earmarked funds and their base treasury symbols for which USDA Forest Service has program management responsibility.

Treasury Account Symbols and Titles

5004 Land Acquisition	5367 State, Private and International Forestry Land and Water Conservation Fund
5008 National Forest Fund Receipts	5462 Hardwood Technology Transfer and Applied Research Fund
5010 Recreation Fees for Collection Costs	5540 Stewardship Contracting Product Sales, Funds Retained
5072 Fees, Operation and Maintenance of Recreation Facilities	5573 Permit Processing Fund
5201 Payments to States, National Forest Fund	5896 Payments to Counties, National Grasslands
5202 Timber Roads Purchaser Election	8028 Cooperative Work, Forest Service
5203 Roads and Trails for States, National Forest Funds	8029 Mount Saint Helens Highway
5204 Timber Salvage Sales	8034 Gifts, Donations, and Bequests for Forest and Rangeland Research
5206 Expenses, Brush Disposal	8039 Land Between the Lakes Trust Fund
5207 Range Betterment Fund	8046 Reforestation Trust Fund
5208 Acquisition of Lands for National Forests, Special Acts	8083 Federal Highway Trust Fund
5212 Construction of Facilities or Land Acquisition	8203 Gifts and Bequests, Department of Agriculture
5213 Payments to Minnesota (Cook, Lake and St. Louis Counties), National Forest Funds	
5214 Licensee Program	
5215 Restoration of Forest Lands and Improvements	
5216 Acquisition of Lands to Complete Land Exchanges	
5217 Tongass Timber Supply Fund	
5219 Operation and Maintenance of Quarters	
5220 Resource Management Timber Receipts	
5223 Quinalt Special Management Area	
5224 Strawberry Valley Land Transfer	
5225 Pacific Yew, Forest Service	
5232 Southern Nevada Public Land Management	
5260 Federal Land Disposal Account	
5264 Timber Sales Pipeline Restoration Fund	
5268 Recreation Fee Demonstration Program	
5277 MNP Rental Fee Account	
5278 Midewin National Tallgrass Prairie Restoration Fund	
5360 Land Between the Lakes Management Fund	
5361 Administration of Rights-of-Way and Other Land Uses Fund	
5363 Valles Caldera Fund	

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The following earmarked funds are authorized by specific legislative acts as permanent indefinite appropriations to USDA Forest Service: 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 Road Purchaser Elections, Timber Salvage Sale Operations and Maintenance of Quarters.

Financial information for the significant earmarked funds, identified by total asset value, is shown below:

Earmarked Funds

As of and for the year ended September 30, 2006

(in millions)

	Cooperative Work	Payments to States, National Forest Fund	Recreation Fee Demonstration Program	Other Funds	Total
ASSETS					
Fund Balance with Treasury	\$412	\$324	\$133	\$571	\$1,440
Investments	-	-	-	5	5
Accounts Receivable, Net	4	-	2	34	40
Advances To Others	-	-	-	3	3
General Property, Plant & Equipment, Net	18	4	4	89	115
TOTAL ASSETS	\$434	\$328	\$139	\$702	\$1,603
LIABILITIES					
Accounts Payable	\$1	\$1	\$1	\$1	\$4
Other Liabilities	56	200	3	37	296
TOTAL LIABILITIES	57	201	4	38	300
Total Net Position	377	127	135	664	1,303
TOTAL LIABILITIES AND NET POSITION	\$434	\$328	\$139	\$702	\$1,603
CHANGE IN NET POSITION					
Beginning Balances	\$594	\$101	\$131	\$705	\$1,531
Budgetary Financing Sources:					
Donations and Forfeitures of Cash	-	-	-	-	-
Transfers -in/out without Reimbursement	(159)	-	-	131	(28)
Other	-	-	-	4	4
Total Financing Sources	(159)	-	-	135	(24)
Revenue	115	271	54	179	619
Expenses	(173)	(245)	(50)	(355)	(823)
Net Cost of Operations	(58)	26	4	(176)	(204)
ENDING BALANCES	\$377	\$127	\$135	\$664	\$1,303

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Descriptions of the significant earmarked funds are as follows:

Cooperative Work

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

Payments to States, National Forest Fund

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

Recreation Fee Demonstration Program

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

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NOTE 11. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

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

The following tables illustrate program costs by segment for the years ended September 30, 2006 and 2005.

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**Program Costs by Segment
For the year ended September 30, 2006**

(in millions)

	National Forests and Grasslands	Forest and Rangeland Research	State and Private Forestry	Wildland Fire Management	Total
Intragovernmental Gross Costs:					
Benefit Program Costs	\$ 366	\$ 1	\$ -	\$ 10	\$ 377
Imputed Costs	303	-	-	-	303
Reimbursable Costs	189	21	51	165	426
Total Intragovernmental Gross Costs	858	22	51	175	1,106
Less: Intragovernmental Earned Revenue	210	31	15	130	386
Intragovernmental Net Costs	648	(9)	36	45	720
Gross Costs With the Public:					
Grants and Indemnities	409	1	255	20	685
Stewardship Land Acquisition (Note 12)	69	-	-	-	69
Other:					
Operating Costs	1,868	299	93	2,302	4,562
Depreciation Expense	227	2	-	26	255
Reimbursable Costs	90	33	17	120	260
Total Other	2,185	334	110	2,448	5,077
Total Gross Costs with the Public	2,663	335	365	2,468	5,831
Less: Earned Revenues from the Public	503	3	6	136	648
Net Costs with the Public	2,160	332	359	2,332	5,183
Net Cost of Operations	\$ 2,808	\$ 323	\$ 395	\$ 2,377	\$ 5,903

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

(in millions)

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

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NOTE 12. COST OF STEWARDSHIP PP&E

Stewardship assets acquired through purchase in fiscal years 2006 and 2005 amounted to \$69 and \$71 million, respectively, and consisted of land, easements, and rights-of-way. Stewardship land is land and land rights owned by the Federal Government and is excluded from General Property, Plant, and Equipment. Examples of stewardship land include land used for forests, grazing, and wildlife.

Costs for stewardship land include all costs to acquire and prepare the land for its intended use.

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NOTE 13. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

The Office of Management and Budget usually distributes budgetary resources in an account or fund by specific time periods, activities, projects, objects or a combination of these categories by a process called apportionments. Apportionments by fiscal quarters are classified as category A and all other apportionments are classified as category B. The funds on quarterly apportionment are National Forest System (12X1106) and Wildland Fire Management (12X1115). Presented below is the amount of direct and reimbursable obligations incurred by apportionment category for fiscal years 2006 and 2005.

**For the year ended September 30, 2006
(in millions)**

	Apportionment Category A	Apportionment Category B	Total
Obligations Incurred - Direct	\$3,901	\$2,481	\$6,382
Obligations Incurred - Reimbursable	413	62	475
Total Obligations Incurred	\$4,314	\$2,543	\$6,857

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

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

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

The differences between the fiscal 2005 Statement of Budgetary Resources (SBR) and the fiscal 2005 actual numbers presented in the fiscal 2007 Budget of the United States Government (Budget) are summarized in the table below. The material differences are explained in Note (a) below the table.

SBR Line Description	(in millions)				Note
	SBR Amount	Budget Amount	Dollar Variance	Percentage Variance	
Total Budgetary Resources/Status of Resources	\$ 8,237	\$ 8,243	\$ (6)	0%	
Total Status of Resources	8,239	8,243	(4)	0%	
New Budget Authority	5,812	5,807	5	0%	
Net transfers, current year authority	50	50	-	0%	
Unobligated Balance-Beginning of Year	1,738	1,726	12	1%	
Net transfers, prior year balances, actual	1	-	1	0%	
Offsetting Collections-Collected	448	450	(2)	0%	
Change in Uncollected Payments	86	87	(1)	-1%	
Recoveries of Prior Year Obligations	169	188	(19)	-10%	
Temporary/Permanently not Available	(67)	(65)	(2)	3%	
Total New Obligations	5,810	5,826	(16)	0%	
Unobligated Balance & Unobligated Balance not Available	2,429	2,417	12	0%	
Obligated Balance - Beginning of Year	1,493	1,492	1	0%	
Obligated Balance - End of Year	1,561	1,552	9	1%	
Net Outlays	5,039	5,037	2	0%	
Offsetting Receipts	426	595	(169)	-28% (a)	

Note (a) Of the \$169 million variance, \$167 million was for fire transfer payback which was properly not reported as a distributed offsetting receipt in the Statement of Budgetary Resources.

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NOTE 15. UNDELIVERED ORDERS

The undelivered orders included in unpaid obligations as of September 30, 2006 and 2005 are \$1,310 and \$1,226 million, respectively.

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NOTE 16. RELATIONSHIP BETWEEN LIABILITIES NOT COVERED BY BUDGETARY RESOURCES ON THE BALANCE SHEET AND THE CHANGE IN COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS.

The change in liabilities not covered by budgetary resources should be the same as the change in components requiring or generating resources in future periods, except for other components requiring or generating resources in future periods that are reported separately. The components requiring or generating resources in future periods as reported on the Statement of Financing differ from the components requiring or generating resources in future periods reflected below for the portion of liabilities not covered by budgetary resources.

	(in millions)	
	<u>FY 2006</u>	<u>FY 2005</u>
Current year liabilities not covered by budgetary resources as disclosed in Note 6	\$ 1,062	\$ 1,011
Less: Prior year liabilities not covered by budgetary resources	1,011	998
Net increase in liabilities not covered by budgetary resources	51	13
Add back FY2006 net decreases in FECA Actuarial Liability and Contingent Liability	33	-
Add back FY2005 net decreases in FECA Actuarial Liability, Payments to States and Annual Leave Liability	-	26
Gross increase in liabilities not covered by budgetary resources	84	39
Less: increase in exchange revenue receivable from the public	12	-
Components requiring or generating resources in future periods, as reported on the Statement of Financing	<u>\$ 72</u>	<u>\$ 39</u>

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NOTE 17. OTHER STATEMENT OF FINANCING DISCLOSURES

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

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

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NOTE 18. DEDICATED COLLECTIONS

The USDA Forest Service administers certain dedicated collection funds, which as described in Notes 1 and 10 are reported as earmarked funds in FY 2006. Financial information for the largest dedicated collection funds, identified by asset value, for FY 2005 is shown below:

Dedicated Collections

As of and for the year ended September 30, 2005

(in millions)

	Cooperative Work	Payments to States, National Forest Funds	Recreation Fee Demonstration Program	Land Acquisition	Timber Salvage Sales	Other Funds	Total
ASSETS							
Fund Balance with Treasury	\$624	\$165	\$131	\$67	\$101	\$419	\$1,507
Investments	-	-	-	-	-	5	5
Accounts Receivable, Net	2	-	1	20	2	27	52
Advances To Others	-	-	-	-	-	-	-
General Property, Plant & Equipment, Net	17	3	3	48	1	22	94
TOTAL ASSETS	\$643	\$168	\$135	\$135	\$104	\$473	\$1,658
LIABILITIES							
Accounts Payable	\$ -	\$1	\$1	\$ -	-\$1	\$1	\$2
Other Liabilities	49	66	3	1	5	70	194
TOTAL LIABILITIES	49	67	4	1	4	71	196
Total Net Position	594	101	131	134	100	402	1,462
TOTAL LIABILITIES AND NET POSITION	\$643	\$168	\$135	\$135	\$104	\$473	\$1,658
CHANGE IN NET POSITION							
Beginning Balances	\$442	\$69	\$44	\$145	\$95	\$331	\$1,126
Budgetary Financing Sources:							
Transfers -in/out without Reimbursement	149	-	81	61	-	149	440
Total Financing Sources	149	-	81	61	-	149	440
Revenue	112	115	50	20	72	60	429
Expenses	(109)	(83)	(44)	(92)	(67)	(138)	(533)
Net Cost of Operations	3	32	6	(72)	5	(78)	(104)
ENDING BALANCES	\$594	\$101	\$131	\$134	\$100	\$402	\$1,462

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Descriptions for the first three dedicated collections are included in Note 10. Descriptions for the remaining significant dedicated collections for FY 2005 are as follows:

Land Acquisition

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

Timber Salvage Sales

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

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NOTE 19. 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), property that is seized but not forfeited (e.g., weapons, chemicals, drug paraphernalia, gambling devices) is not included on the balance sheet. Also, the USDA Forest Service has not included seized financial and personal property in its 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, 2006 and 2005, the amount of marijuana on hand was 32,504(kg) and 35,579(kg), respectively. Since the amount of seized property is deemed to be immaterial, a schedule of brought forward balances, additions, deletions and adjustments is not presented.

REQUIRED SUPPLEMENTARY INFORMATION

DEFERRED MAINTENANCE

Overview

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

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

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

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

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

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

Exhibit 1: Deferred Maintenance Totals by Asset Class as of September 30, 2006

Asset Class	Overall Condition	Cost To Return To Acceptable Condition	Critical Maintenance	Noncritical Maintenance
Bridge	Varies	\$ 116,580,904	\$ 27,391,922	\$ 89,188,982
Building	Varies	482,746,286	105,963,808	376,782,478
Dam	Varies	21,044,460	7,605,258	13,439,202
Minor constructed features	Varies	88,155,381		88,155,381
Fence	Varies	402,894,966	402,545,116	349,850
Handling facility	Varies	23,734,644	23,722,557	12,087
Heritage	Varies	31,571,396	8,534,602	23,036,794
Road	Varies	4,053,764,747	748,180,046	3,305,584,701
Trail bridge	Varies	9,654,311	3,778,694	5,875,617
Wastewater	Varies	30,784,748	17,156,794	13,627,954
Water	Varies	84,625,212	46,884,748	37,740,464

Asset Class	Overall Condition	Cost To Return To Acceptable Condition	Critical Maintenance	Noncritical Maintenance
Wildlife, Fish, TES ¹	Varies	6,313,386	4,414,068	1,899,318
Trail	Varies	242,601,514	18,514,504	224,087,010
TOTALS		\$ 5,594,471,955	\$ 1,414,692,117	\$ 4,179,779,838

In previous years, the Forest Service reported deferred maintenance estimates for General Forest Areas (GFA) and Developed Sites (Minor Constructed Features) in this exhibit. The new Heritage Assets and Stewardship Lands Standard (SFFAS 29) provides the Forest Service the means to report these land units' deferred maintenance by their respective individual asset, although deferred maintenance for the Minor Constructed Features located on the Developed Sites will remain in this exhibit.

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

Conditions of roads and bridges within the National Forest System (NFS) road system are measured by various standards:

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

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

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

Recreation facilities include developed recreation sites, general forest areas, campgrounds, trailheads, trails, water and wastewater systems, interpretive facilities, and visitor centers. These components are included in several asset classes of the deferred maintenance exhibit. All developed sites are managed in accordance with Federal laws and regulations (CFR 36). Detailed management guidelines are contained in FSM 2330, *Publicly Managed Recreation Opportunities*, and forest- and regional-level user guides. Quality standards for developed recreation sites were established as Meaningful Measures for health and cleanliness, settings, safety and security, responsiveness, and the condition of the facility.

¹ TES is threatened and endangered species.

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

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

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

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

STEWARDSHIP—PROPERTY, PLANT, AND EQUIPMENT

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

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

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

To achieve the objectives of SFFAS 29 for Heritage Assets and Stewardship Lands, resources and responsibilities for which the Forest Service has stewardship accountability have been moved from the Required Supplementary Stewardship Information (RSSI) component of the financial statements to the Required Supplementary Information (RSI) for the short term. In FY 2008, heritage assets and stewardship lands information will move to the financial statements. The section on the Condition of NFS Lands will remain in the RSI.

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

Heritage Assets

The Forest Service estimates that more than 320,000 heritage assets² are on land that it manages. Some of these assets are listed on the National Register of Historic Places, and some are designated as

² This information is estimated from the nine Forest Service regions and from the annual Department of Interior report to Congress.

National Historic Landmarks. Collection assets held at museums and universities are managed by those entities, and not the Forest Service.

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

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

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

The Forest Service heritage resource specialists on the 155 national forests maintain separate inventories of heritage assets. Most assets not used for administrative or public purposes receive no annual maintenance. A long-term methodology to better assess the extent and condition of these assets is being formulated to comply with Executive Order 13287, Preserve America. The real property management module in INFRA was implemented to manage heritage assets. The Healthy Forests Initiative and competing budget priorities, however, have prevented full population of the database.

Acquisition and Withdrawal of Heritage Assets

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

Exhibit 2 shows the major heritage assets by category and condition for FY 2005³.

Exhibit 2: Major Heritage Assets by Category and Condition, FY 2005

Category	2004 Final Sites	Additions	Withdrawals	FY 2005 Ending Balance	Condition
Total heritage assets	318,259	24,103	1	342,361	Poor - Fair
Eligible for the National Register of Historic Places	57,925	0	3,963	53,962	Poor - Fair
Listed on the National Register	3,397	82	1	3,478	Fair
Sites with structures listed on the National Register	1,874	82	0	1,956	Poor - Fair
National Historic Landmarks	19	1	0	20	Fair - Good

Stewardship Land

National Forest System

The Forest Service manages an estimated 193 million acres of public land, most of which are classified as stewardship assets. These stewardship assets are valued for the following reasons:

³ Data totaled through fiscal year (FY) 2005. FY 2006 data is gathered in the first half of FY 2007.

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

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

National Forests

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

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

National Grasslands

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

Purchase Units

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

Land Utilization Projects

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

Research and Experimental Areas

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

Other Areas

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

Exhibit 3 shows the net change in acres between FY 2005 and FY 2006 on NFS lands by various purposes.

Exhibit 3: Net Change in Acres in National Forests by Various Purposes (FY 2005 to FY 2006)

Description	FY 2005	FY 2006	FY 2006	FY 2006
	Balance	Additions	Withdrawals	Balance
NFS Land (in acres):				
National Forests	144,460,314		(403,999)	144,056,315
National Forest Wilderness Areas	34,957,078		(140,850)	34,816,228
National Forest Primitive Areas	173,762	0		173,762
National Wild and Scenic River Areas	930,633	681		931,314
National Recreation Areas	2,818,268	94,308		2,912,576
National Scenic Areas	130,653	196		130,849
National Scenic—Research Areas	6,637	0		6,637
National Game Refuges and Wildlife Preserve Areas	1,198,099	0		1,198,099
National Monument Areas	3,660,074	0		3,660,074
National Monument Volcanic Areas	167,427	0		167,427
National Historic Areas	6,540	0		6,540
National Grasslands	3,838,166		(296)	3,837,870
Purchase Units	370,031	4,718		374,749
Land Utilization Projects	1,876	0		1,876
Research and Experiment Areas	64,862	9		64,871
Other Areas	355,279	2,631		357,910
National Preserves	89,716	0		89,716
Total NFS Land (in acres)	193,229,415	102,543	(545,145)	192,786,813

Condition of NFS Lands

The condition of NFS lands varies by purpose and location. The Forest Service monitors the condition of NFS lands based on information compiled by two national inventory and monitoring programs—Forest Inventory and Analysis (FIA) and Forest Health Monitoring (FHM).

The FIA program conducts annual inventories of forest status and trends. FIA has historic inventory data in all 50 States and is currently collecting annual inventory data in 45 States, including 38 of the 41 States containing NFS land. Active throughout all 50 States, FHM provides surveys and evaluations of forest health conditions and trends.

Although most of the estimated 193 million acres of NFS forest lands continue to produce valuable benefits (i.e., clean air, clean water, habitat for wildlife, and products for human use), significant portions are at risk to pest outbreaks or catastrophic fires. About 25.03 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*;⁴ and nearly 111 million acres are at risk of losing key ecosystem components from wildland fire based on current condition and departure from historic fire regimes⁵.

⁴ The newly revised Insect and Disease Map will be available in early 2007 (calendar year).

⁵ *Historic fire regimes* are Fire Regimes 1, 2, and 3 and Condition Classes 2 and 3.

The LANDFIRE dataset is mapping vegetation for fire behavior and fire regime across all ownerships, including NFS lands, at a 30-meter pixel resolution from Landsat Satellite Imagery. The 2005 release of the LANDFIRE Rapid Assessment included subject matter experts' maps of current fire regime condition class⁶. The national LANDFIRE dataset, available in 2009, will document fire regime condition class of all lands based on satellite imagery and plot data, displaying departure from the historic fire regimes.

Invasive species of insects, diseases, and plants continue to affect our native ecosystems by causing mortality to, or displacement of, native vegetation. Insect and disease prevention and suppression treatments were completed on 154,000 acres of NFS lands in FY 2006.

⁶ Fire Regime Condition Class does not equate to fire risk, but is a measure of ecological status in fire prone ecosystems.

For the year ended September 30, 2006
Statement of Budgetary Resources by Major Budget Account
(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
\$	184	41	56	99	769	1,177	103	2,429
	7	-	1	2	67	-	1	78
	1,568	283	314	448	1,879	870	-	5,362
	110	40	22	15	248	30	201	666
	(18)	(5)	(1)	1	3	-	(1)	(21)
	-	9	3	-	-	7	-	19
	86	(10)	-	17	(57)	-	-	36
	-	-	-	-	159	-	-	159
	1,746	317	338	481	2,232	907	200	6,221
	(5)	22	84	(3)	(75)	(10)	(10)	3
	(24)	(5)	(3)	(6)	(26)	-	-	(65)
\$	1,907	375	476	573	2,967	2,074	294	8,666

Budgetary Resources:

Unobligated balance, brought forward, October 1:
Recoveries of prior year unpaid obligations
Budget authority:
Appropriations
Spending authority from offsetting collections:
Eamed:
Collected
Change in receivables from Federal sources
Change in unfilled customer orders:
Advance received
Without advance from Federal sources
Expenditure transfers from trust funds
Subtotal
Nonexpenditure transfers, net
Permanently not available
Total Budgetary Resources

Status of Budgetary Resources:

Obligations incurred:								
Direct	\$ 1,589	\$ 307	\$ 399	\$ 460	\$ 2,434	\$ 993	\$ 200	\$ 6,382
Reimbursable	93	32	16	12	322	-	-	475
Subtotal	1,682	339	415	472	2,756	993	200	6,857
Unobligated balance-apportioned	168	31	39	87	(45)	756	16	1,052
Unobligated balance not available	57	5	22	14	256	325	78	757
\$	1,907	375	476	573	2,967	2,074	294	8,666

Change in Obligated Balances:

Obligated balance, net	\$ 292	\$ 119	\$ 611	\$ 312	\$ 527	\$ 92	\$ 26	\$ 1,979
Unpaid obligations, brought forward, October 1	(96)	(50)	(24)	(23)	(224)	-	(1)	(418)
Less: Uncollected customer payments from Federal sources, brought forward October 1	196	69	587	289	303	92	25	1,561
Total unpaid obligated balance, net	1,682	339	415	472	2,756	993	200	6,857
Obligations incurred net	(1,599)	(340)	(446)	(547)	(2,289)	(958)	(196)	(6,375)
Less: Gross outlays	(7)	-	(1)	(2)	(67)	(1)	(1)	(78)
Less: Recoveries of prior year unpaid obligations	(68)	15	1	(18)	54	-	1	(15)
Change in uncollected customer payments from Federal sources	368	118	578	235	927	127	30	2,383
Obligated balance, net, end of period	(164)	(35)	(22)	(41)	(170)	-	(1)	(433)
Unpaid obligations	204	83	556	194	757	127	29	1,950
Less: Uncollected customer payments from Federal sources	-	-	-	-	-	-	-	-
Total, unpaid obligated balance, net, end of period	204	83	556	194	757	127	29	1,950

Net Outlays:

Gross outlays:	\$ 1,599	\$ 340	\$ 446	\$ 547	\$ 2,289	\$ 958	\$ 196	\$ 6,375
Less: Offsetting collections	(109)	(49)	(26)	(15)	(407)	(37)	(201)	(844)
Less: Distributed offsetting receipts	33	-	-	-	-	(490)	-	(457)
Net Outlays	\$ 1,523	\$ 291	\$ 420	\$ 532	\$ 1,882	\$ 431	\$ (5)	\$ 5,074

For the year ended September 30, 2005
Statement of Budgetary Resources by Major Budget Account
(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
Budgetary Resources:															
Unobligated balance, brought forward, October 1:	\$ 198	\$ 29	\$ 80	\$ 106	\$ 313	\$ 901	\$ 111	\$ 1,738							
Recoveries of prior year unpaid obligations	52	10	29	13	62	2	1	169							
Budget authorities:															
Appropriations	1,581	280	346	597	2,128	880	-	5,812							
Spending authority from offsetting collections:															
Earned:															
Collected	86	27	11	8	109	26	181	448							
Change in receivables from Federal sources	11	2	(21)	2	28	(8)	(2)	12							
Change in unfilled customer orders:															
Advance received	1	(4)	3	-	-	3	-	3							
Without advance from Federal sources	(34)	15	14	(12)	89	-	-	72							
Expenditure transfers from trust funds	-	-	1	-	-	-	-	1							
Subtotal	1,645	320	354	595	2,354	901	179	6,348							
Nonexpenditure transfers, net	(70)	22	92	8	(82)	81	-	51							
Permanently not available	(21)	(4)	(6)	(6)	(30)	-	-	(67)							
Total Budgetary Resources	\$ 1,804	\$ 377	\$ 549	\$ 716	\$ 2,617	\$ 1,885	\$ 291	\$ 8,239							

Status of Budgetary Resources:

Obligations incurred:	\$ 1,510	\$ 304	\$ 464	\$ 601	\$ 1,769	\$ 708	\$ 189	\$ 5,545
Direct	109	32	29	16	79	-	-	265
Reimbursable	1,619	336	493	617	1,848	708	189	5,810
Subtotal	140	33	187	96	555	750	43	1,804
Unobligated balance-apportioned	45	8	(131)	3	214	427	59	625
Unobligated balance not available	-	-	-	-	-	-	-	-
Total status of budgetary resources	\$ 1,804	\$ 377	\$ 549	\$ 716	\$ 2,617	\$ 1,885	\$ 291	\$ 8,239

Change in Obligated Balances:

Obligated balance, net	\$ 322	\$ 118	\$ 553	\$ 279	\$ 437	\$ 86	\$ 32	\$ 1,827
Unpaid obligations, brought forward, October 1	(118)	(32)	(32)	(32)	(107)	(9)	(4)	(334)
Less: Uncollected customer payments from Federal sources, brought forward October 1	204	86	521	247	330	77	28	1,493
Total unpaid obligated balance, net	1,619	336	493	617	1,848	708	189	5,810
Obligations incurred net	(1,597)	(325)	(407)	(572)	(1,996)	(700)	(192)	(5,489)
Less: Gross outlays	(52)	(10)	(29)	(13)	(62)	(2)	(1)	(169)
Less: Recoveries of prior year unpaid obligations	23	(17)	7	10	(117)	8	2	(84)
Change in uncollected customer payments from Federal sources	293	120	609	312	527	91	27	1,979
Obligated balance, net, end of period	(96)	(50)	(24)	(23)	(224)	-	(1)	(418)
Unpaid obligations	197	70	585	289	303	91	26	1,561
Less: Uncollected customer payments from Federal sources	-	-	-	-	-	-	-	-
Total, unpaid obligated balance, net, end of period	\$ 1,597	\$ 325	\$ 407	\$ 572	\$ 1,696	\$ 700	\$ 192	\$ 5,489

Net Outlays:

Gross outlays:	(87)	(24)	(14)	(8)	(108)	(29)	(181)	(451)
Less: Offsetting collections	(1)	-	-	-	-	(425)	-	(426)
Less: Distributed offsetting receipts	-	-	-	-	-	-	-	-
Net Outlays	\$ 1,509	\$ 301	\$ 393	\$ 564	\$ 1,588	\$ 246	\$ 11	\$ 4,612

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

The stewardship objective of Federal financial reporting includes accountability for Stewardship Investments.

STEWARDSHIP INVESTMENTS

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

Human Capital—Job Corps Civilian Conservation Center

FY 2006 Net Cost of Operations: \$110 Million

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

In partnership with the U.S. Department of Labor (DOL), the Forest Service operates 19 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 2006, accomplishments included the following:

- 8,732 participants received 4,116 placements with an average starting hourly wage of \$.55 more than the DOL national average.
- Approximately 1,806 female students received training in nontraditional vocations.
- 634 students received high school diplomas, and 1,429 students obtained general equivalency diplomas.
- Approximately 1,223 Job Corps students and staff assisted the agency in its firefighting efforts.
- Students accomplished conservation work appraised at \$26.4 million on NFS lands.

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

Research and Development—Forest and Rangeland Research

FY 2006 Net Cost of Operations: \$318 Million

Of the \$318 million, \$296 million was an investment of Research and Development funding (FRRE), and \$22 million was an investment of National Fire Plan funding (FRF2).

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

- Fire
- Invasives
- Recreation
- Research Management and Use
- Water and Air
- Fish and Wildlife
- Research Data and Analysis

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

A representative summary of FY 2006 accomplishments using Forest Service appropriated funds include the following:

- 54 new interagency agreements and contracts
- 15 interagency agreements and contracts continued
- 1,691 articles published in journals
- 1,817 articles published in all other publications
- 7 patent granted
- 1 right to inventions established