



United States Department of Agriculture

# Office of Inspector General





United States Department of Agriculture  
Office of Inspector General  
Washington, D.C. 20250



DATE: December 9, 2013

AUDIT  
NUMBER: 08401-0003-11

TO: Thomas Tidwell  
Chief  
Forest Service

ATTN: Thelma Strong  
Chief Financial Officer

Jennifer McGuire  
Director, Audit and Assurance

Sandy Coleman  
Agency Liaison Officer

FROM: Gil H. Harden  
Assistant Inspector General for Audit

SUBJECT: Forest Service's Financial Statements for Fiscal Years 2013 and 2012

This report presents the results of the audit of the Forest Service's (FS) financial statements for the fiscal years ending September 30, 2013 and 2012. The report contains an unmodified opinion on the financial statements, as well as an assessment of FS' internal controls over financial reporting and compliance with laws and regulations.

Kearney & Company, P.C. (Kearney), an independent certified public accounting firm, was engaged to conduct the audit. In connection with the contract, we reviewed Kearney's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards* (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, opinions on FS' financial statements, internal control, or on whether FS' financial management systems substantially complied with the Federal Financial Management Improvement Act; or conclusions on compliance with laws and regulations. Kearney is responsible for the attached auditor's report, dated December 5, 2013, and the conclusions expressed in the report. However, our

review disclosed no instances where Kearney did not comply, in all material respects, with government auditing standards, and the Office of Management and Budget Bulletin 14-02, *Audit Requirements for Federal Financial Statements*.

It is the opinion of Kearney, that the financial statements present fairly, in all material aspects, FS' financial position as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, FS implemented a change in accounting principle to comply with the Federal Accounting Standards Advisory Board's Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*. This change requires estimation of both friable and non-friable asbestos-related cleanup costs, and recognition of a liability and related expense for those costs that are both probable and reasonably estimable, consistent with the current guidance in *Statement of Federal Financial Accounting Standards (SFFAS) No. 5, Accounting for Liabilities of the Federal Government*; SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, Chapter 4, "Cleanup Costs"; and Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.

Additionally, in Note 8 to the financial statements, "Environmental and Disposal Liabilities," the Forest Service describes the asbestos abatement liability. The liability for fiscal year 2013 is recognized as an adjustment to the beginning balance of the Cumulative Results of Operations in the Statement of Changes in Net Position. The initial recognition of estimated liability for asbestos abatement costs as of September 30, 2013 is \$118 million.

Furthermore, as discussed in Note 1 to the consolidated financial statements, the FS reclassified certain amounts in the prior year's combined *Statement of Budgetary Resources* (SBR) to conform to the current year's presentation. These reclassifications had no effect on the previously reported SBR balances.

The Kearney report identified five significant deficiencies. Specifically, Kearney identified weaknesses in FS' internal controls over:

- Information technology;
- Property, plant, and equipment;
- Validity and accuracy of unliquidated obligations;
- Timely recordation of cash activity; and
- Payroll accrual.

Kearney did not consider the above significant deficiencies to be material weaknesses.

Kearney reported that FS overall substantially complied with the applicable Federal accounting standards and application of the United States Standard General Ledger at the transaction level. However, Kearney noted an instance in which the FS' financial management systems and related controls were not in compliance with certain Federal financial management systems requirements. Additionally, Kearney reported noncompliance with the Anti-Deficiency Act and the Prompt Payment Act. Furthermore, Kearney noted that FS was not in compliance with grants pre-award requirements in the Code of Federal Resolutions.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. For agencies other than Office of Chief Financial Officer (OCFO), please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the courtesies and cooperation extended during this audit. This report contains publicly available information and will be posted in its entirety to our website <http://www.usda.gov/oig> in the near future.



**United States Department of Agriculture**  
**United States Forest Service**  
**Audit Report**  
**For the Years Ended September 30, 2013 and 2012**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Chief of the United States Forest Service and Inspector General of the United States  
Department of Agriculture

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of the United States Forest Service (Forest Service), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence supporting the amounts and disclosures in the consolidated financial statements. Procedures are selected based on auditor judgment, including an assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing risk, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Forest Service as of September 30, 2013 and 2012, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, the Forest Service implemented a change in accounting principle to comply with Federal Accounting Standards Advisory Board (FASAB) Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*. This change requires estimation of friable and non-friable asbestos-related cleanup costs, and recognition of a liability and related expenses for those costs that are probable and reasonably estimable, consistent with current guidance in Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*; SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, Chapter 4, "Cleanup Costs"; and FASAB Technical Release Number 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.

Additionally, in Note 8 to the financial statements, "Environmental and Disposal Liabilities," the Forest Service describes the asbestos abatement liability. The liability for fiscal year 2013 is recognized as an adjustment to the beginning balance of the Cumulative Results of Operations in the Statement of Changes in Net Position. The initial recognition of estimated liability for asbestos abatement costs as of September 30, 2013 is \$118M.

Additionally, as discussed in Note 1 to the consolidated financial statements, the Forest Service reclassified certain amounts in the prior year's combined Statement of Budgetary Resources to conform to the current year's presentation. These reclassifications had no effect on the previously reported Statement of Budgetary Resources balances.

Our opinion is not modified with respect to these matters.

## **Other Reporting Responsibilities**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information (hereinafter referred to as the "required supplementary information") be presented to supplement the consolidated financial statements. This

information, although not a part of the consolidated financial statements, is required by OMB and FASAB, who consider it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, and/or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These procedures included inquiries of management about the methods used in preparing the information and comparing it for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. Other information is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information was not subject to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

#### *Independent Auditor's Report on Internal Control Over Financial Reporting, and Independent Auditor's Report on Compliance with Applicable Provisions of Laws, Regulations, Contract, and Grant Agreements*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02, we have also issued reports, dated December 5, 2013, on our consideration of the Forest Service's internal control over financial reporting and our tests of the Forest Service's compliance with certain provisions of laws, regulations, contracts, and grants agreements; and other matters for the year ended September 30, 2013. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting, or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02, and in considering the entity's internal control over financial reporting and compliance.



Alexandria, Virginia  
December 5, 2013

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Chief of the United States Forest Service and Inspector General of the United States  
Department of Agriculture

We have audited the accompanying consolidated financial statements of the United States Forest Service (Forest Service), which comprise the consolidated balance sheets as of and for the year ended September 30, 2013, the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the year then ended, and have issued our report thereon, dated December 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Forest Service's internal control over financial reporting (internal control) to determine the appropriate audit procedures in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Forest Service's internal control. Accordingly, we do not express an opinion on the effectiveness of the Forest Service's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 14-02. We did not test all internal controls relevant to operating objectives, as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, that we consider to be significant deficiencies.

We noted certain additional matters involving internal control over financial reporting that we will report to the Forest Service's management in a separate letter.

### **Forest Service's Response to Findings**

The Forest Service's management has provided its response to our findings in a separate memorandum attached to this report. The Forest Service's response was not subject to the procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Alexandria, Virginia".

Alexandria, Virginia  
December 5, 2013

## **Schedule of Findings**

### **Significant Deficiencies**

#### **I. Information Technology (Repeat Modified Condition)**

The Forest Service's information technology (IT) internal control structure, for both the General Support Systems (GSS) and critical financial reporting applications, did not include evidence of a comprehensive risk analysis, effective monitoring of design and performance, nor the ability to identify and respond to changing risk profiles. The National Institute of Standards and Technology (NIST) and the Government Accountability Office's (GAO) Federal Information System Controls Audit Manual (FISCAM) provide control objectives and evaluation techniques for IT internal control structures, which we utilized during the course of our audit.

The Forest Service's IT control environment included design and operation weaknesses that, when combined, are considered to be a significant deficiency, as summarized below.

- The Forest Service's control structure contains two weaknesses related to segregation of duties (SoD) and principles of least privilege, as follows:
  - The Forest Service assigned conflicting roles to the Natural Resource Manager (NRM) applications. Within the NRM applications, we noted seven Real Property Management (RPM) conflicts of permissions granted to users that violated the SoD Matrix provided by the Forest Service. The NRM applications' management noted that of these seven conflicts, five RPM users were granted conflicting roles due to the nature of their work, as documented in the "Special Notes" section of the RPM SoD Matrix. The two remaining RPM user conflicts were remediated after identification by Kearney & Company, P.C. (Kearney)
  - We identified four NRM Locatable Minerals, three NRM Mineral Materials, and three NRM Range users in violation of the principles of least privilege. These users had more privileges assigned to their accounts than were necessary for their job functions. Of these 10 users, management noted that three NRM Locatable Minerals, three NRM Mineral Materials, and three NRM Range users were given conflicting roles due to the nature of their work, as documented in the "Special Notes" section of the Least Privilege Table. These violations of least privilege do not pose a risk of violation of SoD per the agency role definitions; however, they are a violation of the Forest Service's information systems security policy and introduce unnecessary risk to data access and integrity. The one remaining NRM Locatable Minerals user conflict was remediated after Kearney's audit procedures identified it.

Although Kearney's testing did not identify any improper or erroneous transactions that were a direct result of SoD weaknesses, inadequate SoD contributes to an overall weakening of the internal control environment, and increases the risk that errors and irregularities could occur and remain undetected. Inadequate SoD controls may lead to fraud or unauthorized transactions in the financial records. Additionally, one or more

NRM users with access granting them excessive capabilities could introduce an error or unauthorized transaction relating to payments and entries within the Financial Management and Modernization Initiative (FMMI) without approval from another user.

Recommendation Number 1: Kearney recommends that the Forest Service implement a process to ensure that no individual has complete control over incompatible NRM functions. Additionally, Kearney recommends that the Forest Service administer access for the NRM information system in such a way that all users are provisioned with roles that do not violate the Forest Service's information systems security policy or introduce unnecessary risk to data access and integrity.

- The Forest Service's control structure contains three weaknesses related to the user access administration process, as follows:
  - The Forest Service did not deactivate Incident Business System (IBS), NRM, and Virtual Incident Procurement (VIPR) accounts within one business day after employees' separation, in accordance with the *Forest Service Manual*
  - Forest Service user accounts were not deactivated from the United States Department of Agriculture (USDA)-owned EmpowHR system and Integrated Acquisition System (IAS) within two business days after employees' separation, in accordance with USDA policy
  - The Forest Service failed to reset Application Hosting Environment (AHE) service account passwords in accordance with Forest Service policy.

System/application users who have been separated may unnecessarily retain access to information systems after their separation from the Forest Service. Failure to limit user access and processing capabilities to authorized individuals may result in defalcations and errors in accounting records. These accounts may also be used to circumvent controls over financial transactions, which could lead to erroneous and improper transactions, embezzlement, unauthorized use, or destruction of data, and may weaken the organization's internal control structure. Inadequate account and identity management controls increase the risk that temporary and active accounts may be used by unauthorized Forest Service and contractor personnel to perform unauthorized activities. Further, when inactive and separated user accounts are not effectively reviewed by management, it increases the potential that unauthorized activities could occur without timely detection.

Additionally, when passwords are not reset on a regular basis, familiarity with a password could eventually lead to its compromise.

Recommendation Number 2: Kearney recommends that the Forest Service perform the following corrective actions to address this issue:

- Investigate centralizing and automating the processes for disabling or deactivating accounts using an automated solution in which Human Resources (HR) actions (e.g.,

- separations) trigger user accounts to be automatically disabled on Forest Service-owned systems
  - As in fiscal year (FY) 2012, implement a process to ensure that accounts for separated employees are disabled or removed from Forest Service information systems in a timely manner
  - Continue reengineering, revising, or otherwise better enforcing the existing user account review processes to ensure notifications of separated employee actions from HR are closely and effectively coupled with timely deactivation of user accounts in all systems
  - Enhance periodic user account reviews to determine whether unauthorized access occurred using separated user account credentials after the users' separation dates
  - Review the procedures in place for resetting passwords on Forest Service-owned systems and applications
  - Monitor the removal of Forest Service users from non-Forest Service-owned systems to ensure users are removed timely.
- Kearney cited background investigations as an internal control weakness in the FY 2011 and 2012 audits. For the current FY, the Forest Service noted that the issue was fully remediated and closed as of May 10, 2013; however, Kearney noted that of the 19 employees and contractors sampled, three were not in compliance with background investigation or re-investigation requirements (Kearney noted that one of the exceptions was remediated by the Forest Service by September 30, 2013).

Forest Service employees and contractors who have not been screened by the background investigation process prior to gaining access to the Forest Service's information system(s) and/or re-investigated according to Office of Personnel Management (OPM) guidance may have access to Forest Service information systems that exceeds their need-to-know. This may lead to users compromising sensitive financial data or introducing unauthorized transactions.

Recommendation Number 3: As in FY 2012, Kearney recommends that the Forest Service's management continue to strengthen procedures for identifying, communicating, documenting, and resolving outstanding security clearances and background investigations within the prescribed time periods.

## **II. Property, Plant, and Equipment (Repeat Modified Condition)**

The Forest Service reported approximately \$1.3B in net property, plant, and equipment (PP&E) on its FY 2013 Balance Sheet, which is about 26% of its total assets. Kearney's audit procedures identified several internal control deficiencies that negatively impact the Forest Service's ability to record real and personal property transactions in a complete, accurate, and timely manner. When combined, these deficiencies are considered to be a significant deficiency, as summarized below.



- For assets acquired that are not in ready-to-use condition or projects with an extended construction period, the Forest Service accumulates project costs in Work in Progress (WIP) until the asset is placed into service. Assets are placed into service upon completion of the Project Completion Certification Form. Failure to transfer WIP costs to completed PP&E in a timely manner could result in an understatement of depreciation expense and PP&E.

The Forest Service's recently modified (placed into service in the third quarter of FY 2013) internal control structure did not identify WIP projects that are substantially complete. Kearney identified 113 WIP projects that had no financial activity in the last four months, or as of our June 30, 2013 and September 30, 2013 testing. Our procedures revealed that eight out of 37 projects sampled (a 9% error rate) were substantially complete and should have been placed into service, totaling approximately \$3.2M of projects costs. Delays in the WIP transfer caused an understatement of depreciation by approximately \$561,000.

The exceptions identified during final substantive testing of WIP projects with no activity for four or more months caused an understatement in accumulated depreciation and depreciation expense of approximately \$7,000 as of September 30, 2013.

Additionally, the errors and processing delays in the Project Completion Certification Form resulted in a lack of accountability for asset custodianship, which could result in waste.

Recommendation Number 4: Kearney recommends that the Forest Service's Albuquerque Service Center (ASC), Budget and Finance (B&F) continue performing quarterly reviews over WIP projects with senior management, refine and modify controls over all material WIP projects that may cross over FYs, and record an accrual if deemed material at any FY end.

- The Forest Service reported approximately \$45M of repairs and maintenance expenses. Kearney evaluated 18 repairs and maintenance expenses, and identified 11 transactions that should have been capitalized rather than expensed. These transactions were for improvements of assets, including remodels, renovations, upgrades, or replacements. These improvements either improved the assets' capacities or extended the assets' useful lives. The Forest Service capitalizes costs incurred associated with initial purchases recorded in order to place an asset into service. However, additional costs incurred after the asset is placed into service regarding major repairs or work performed to key components of a structure (e.g., roof replacement) are not considered for capitalization purposes. Current practice does not differentiate between expenditures that help an asset achieve its expected life, and expenditures that extend an asset's useful life. The 11 errors account for approximately \$2M of the total \$3.6M in costs tested. In addition, accumulated depreciation of \$22,133 was not recorded on the 11 errors identified.



Kearney identified three transactions, totaling approximately \$534,000, that should have been capitalized as personal property additions. These three errors produced an understatement of depreciation expense of \$37,000. The net impact of the three errors and the associated depreciation expense that should have been recorded if assets were properly capitalized was an overstatement of \$497,000 in net costs. Kearney noted three transactions that should have been capitalized as leasehold improvements rather than expensed. The three errors totaled \$779,000 in costs that should have been capitalized. These three errors also produced an understatement of depreciation expense of \$16,928. Kearney identified one additional transaction, which, while properly classified as an expense, was improperly charged to the repairs and maintenance Budget Object Code (BOC).

Kearney identified 18 exceptions that produced a non-statistically projected understatement of \$7.6M in PP&E as of September 30, 2013. Kearney also identified that the Forest Service did not include recorded acquisition costs associated with these transactions, causing an understatement in depreciation expense and accumulated depreciation of approximately \$200,000.

Recommendation Number 5: As in FY 2012, Kearney recommends that the Forest Service's Acquisition Management (AQM) community issue a reminder to the Field Budget Approvers of the appropriate requisition process for the acquisition of capitalized, accountable, and/or sensitive personal property through IAS by properly classifying the acquisition of property through the correct BOCs. Kearney also recommends that the Forest Service review its policies with internal and external groups.

- The Forest Service's control structure contains two weaknesses related to real property operating lease disclosures, as follows:
  - The Forest Service does not accurately update future minimum payment amounts resulting from lease modifications and amendments. Kearney's audit procedures identified seven errors over the evaluated sample of 12 real property operating leases, consisting of a 1.8% error rate, and extrapolated the error results to the annual disclosure amounts. This error rate extrapolated over the entire population of 405 real property operating leases results in an overstatement of \$8.3M over the cumulative five-year disclosure period; the largest annual overstatement was approximately \$3.6M in Year 5 and later
  - The Forest Service included all lease option periods in the disclosure instead of just fixed, non-cancelable lease payments. Kearney evaluated the overstatement by year and identified one error over the 12 real property operating leases evaluated, consisting of a 7% error rate, and extrapolated the error results to the annual disclosure amounts. This error rate extrapolated over the entire population results in an overstatement of \$19M, which was the entire balance in Year 5 and later.

The Forest Service's future minimum lease payment disclosure for real property operating leases contains annual overstatements up to \$8.3M as of June 30, 2013 and

\$33.6M as of September 30, 2013, resulting from amendments and modifications to payment terms not reflected in the disclosure summary; and annual overstatements up to \$19M as of June 30, 2013, resulting from the inclusion of option years. Combined, the result is a possible overstatement of \$27.3M as of June 30, 2013 and \$33.6M as of September 30, 2013 for the real property operating lease future payments.

Recommendation Number 6: As in FY 2012, Kearney recommends that the Forest Service review the current process for updating lease payment information to reflect the most recent lease amendments and modifications. Kearney also recommends that the Forest Service increase the frequency of updating the lease payment information.

### **III. Validity and Accuracy of Unliquidated Obligations (New Condition)**

The Forest Service's internal controls were not sufficient to ensure that unliquidated obligations (ULO) were consistently and systematically evaluated for validity and de-obligation. When combined, these deficiencies are considered to be a significant deficiency, as summarized below.

- The Forest Service records obligations in its financial management system when it enters into an agreement, such as a contract or purchase order, to purchase goods and services. Once recorded, obligations remain open until they are fully reduced by a disbursement, de-obligated, or until the appropriation funding the obligation is closed. As invoices are received and payments are made, obligations are liquidated by the amount of the payments.

ULOs represent the cumulative amount of orders, contracts, and other binding agreements not yet outlaid. The Forest Service's policies and procedures provide guidance related to the periodic review, analysis, and validation of the ULO balances posted to the general ledger (GL). The Forest Service was unable to evaluate the validity of open obligations for the first and second quarters of FY 2013. Forest Service policy states, "The Forest Service is required to certify quarterly that reviews and corrective actions related to unliquidated obligations inactive for at least 12 months were performed." The Forest Service received a waiver from USDA granting an exemption from performing the review and certification of ULOs for the first and second quarters of FY 2013. While the Forest Service obtained a waiver, a key internal control over accurate reporting of ULOs did not operate for at least half of the year and may have impacted the efficacy of the subsequent two quarterly certifications. As of August 1, 2013, the third quarter review was performed on schedule and the fourth quarter review will be performed on schedule.

Failure to maintain an effective ULO control environment in which invalid open obligations are identified and de-obligated timely may result in difficulties in managing funds, improper payments, inaccurate budgetary reports, and possible violations of Federal regulations.

The Forest Service's internal controls were not sufficient to ensure that ULOs were consistently and systematically evaluated for validity and de-obligation. The Forest

Service was unable to provide Kearney a ULO file that included all open obligations with current and prior year activity, to include the date of last activity. Therefore, Kearney evaluated the validity and liquidation status of 546 ULOs with a recorded value of \$691M as of October 1, 2012. Kearney identified 12 exceptions that no longer represented future Forest Service funding needs. Thus, the obligations with a value of \$829,000 were not de-obligated in a timely manner.

Kearney selected a statistical sample of ULOs and evaluated the results. The identified exceptions produced a projected likely error of approximately \$31.2M in the overall balance as of October 1, 2012. The current internal control structure was not operating effectively to facilitate the accurate reporting of ULO balances in the financial statements.

**Recommendation Number 7:** Kearney recommends that the Forest Service re-establish its standardized processes to ensure the validity and accuracy of ULOs, to include defining aging and dollar-based strata, to ensure consistent and representative reviews of high risk ULOs are completed as in prior years. Kearney also recommends that the Forest Service take the following corrective actions to address this issue:

- Strengthen the ULO validity procedures by requiring positive confirmations from all respondents. These positive confirmations should be returned in a timely manner to ensure inclusion in period-end financial reports and support audits
- Perform independent reviews of program and post responses for high dollar, high risk ULOs. These responses should be compared to the supporting documentation to confirm the validity and accuracy of the ULO balances
- The Forest Service's management should work to enhance regional accountability of contracts, grants and agreements, or other obligating vehicles by sampling ULO certifications. In addition, the Forest Service should communicate the results of the samples upward and downward through the management structure to support regional accountability
- The Forest Service should develop metrics to measure improvement and trends at the regions over time.

#### **IV. Timely Recordation of Cash Activity (New Condition)**

The Intra-governmental Payment and Collection (IPAC) system was developed by the Department of the Treasury (Treasury) to standardize and streamline the payment or collection of funds for goods or services provided between Federal agencies. The Controller Operations Division (COD) of the National Finance Center (NFC) is responsible for recording all Treasury IPAC transactions in the financial system; however, the Forest Service should ensure these transactions are recorded in its financial system accurately and timely. Failure to record these transactions accurately and timely could result in erroneous and inaccurate financial statements.

The Forest Service completes a Statement of Differences reconciliation to ensure the accuracy and timeliness of deposit and disbursement data reflected in the Fund Balance with Treasury

(FBWT). Additionally, the Forest Service completes a reconciliation of its FBWT information to identify and resolve differences between the agency financial records and Treasury balances. The Forest Service's cash collection and reconciliation control environments include design and operation weaknesses that, when combined, are considered to be a significant deficiency, as summarized below.

- The FBWT reconciliation amount peaked at \$2T as of March 30, 2013 for several reasons, including the continuing resolution and backlog of Treasury IPAC transactions. Of the \$2T, \$1.9T was provided under the continuing resolution and apportioned in accordance with OMB's automatic apportionment bulletin. Once the continuing resolution was passed, Treasury processed the warrant for the \$1.9T, and the overall FBWT reconciliation amount decreased to \$26M as of June 30, 2013. Further, the Forest Service encountered delays in processing cash activity, to include IPAC transactions. Treasury developed IPAC to standardize and streamline the payment or collection of funds for goods or services provided between Federal agencies. The Forest Service should record these transactions in its financial system accurately and timely. Failure to record these transactions could result in erroneous and inaccurate financial statements.

IPAC transactions processed between the Forest Service and other Federal agencies will follow their respective process areas through most of the acquisition or agreement stage (i.e., if it is a grant, it will follow the grant process; if it is a contract for goods, it will follow the IAS process, etc.). NFC is responsible for managing and monitoring IPAC transactions. The Forest Service's ASC B&F receives and reviews a weekly suspense report detailing the outstanding IPAC transactions for which funds have been transferred but the transfer has not yet been matched to the agreement. The Forest Service does not enter the IPAC transactions into the financial records until the agreement matching occurs. For unrecorded transfers that are aged over 60 days, ASC B&F will follow up on the status of the payment with NFC. During FY 2013, this suspense account balance grew significantly over the previous year. As of July 25, 2013, there was a net unrecorded balance of \$85M.

The Forest Service Collections Clearinghouse (CCH) is primarily responsible for resolving collection records created by a Citibank lockbox that have not successfully interfaced into FMFI. Transactions that are not interfaced into FMFI are recorded into a suspense fund. If balances in the suspense fund are not cleared in a timely manner, the financial information may be overlooked and misallocated to the proper account.

Kearney conducted a process overview with Forest Service personnel, including individuals responsible for unidentified lockbox collections. As of March 31, 2013, the Forest Service CCH reported 3,949 unidentified transactions with a net book value of \$28M.

The unidentified transactions may result in classifications and allocations to improper accounts. As a result of this finding, revenue and accounts receivable may be incomplete and inaccurate, which could result in a misstatement on the proprietary financial

statements. Untimely recording of a collection or payment could result in a misstatement of assets or liabilities on the financial statements.

As of September 30, 2013, the FBWT reconciliation amount was \$2M and the IPAC net unrecorded balance was \$9M; the Forest Service cleared the remaining backlog of unidentified Citibank lockbox cash collections.

The untimely recording of a collection or payment could result in a misstatement of assets or liabilities on the financial statements. Accounts receivable and suspense accounts may be overstated, which could result in a misstatement to the financial statements.

Recommendation Number 8: Kearney recommends that the Forest Service continue to monitor and manage the changes made to its control environment in the second half of the year to ensure continued performance. In addition, Kearney recommends that the Forest Service continue to find automated fixes to remove the labor intensive component for reporting unidentified Citibank lockbox collections. Kearney also recommends that the Forest Service continually review its process for outstanding IPAC transactions to facilitate the matching process performed by NFC. The level of detailed knowledge held by Forest Service personnel may be leveraged to decrease the time that the transactions remain in the aging status.

## **V. Payroll (New Condition)**

The Forest Service recognizes that it has liabilities that exist as of the Balance Sheet date that are not recorded in the accounting system. These items are material in amount, and estimates of these liabilities must be recorded in the financial statements. Periodically, these estimates need to be validated to ensure that the methodology being utilized to create the accounting estimate is statistically relevant and is a true representation of the liability being accrued. If the methodology used to create an accounting estimate is not statistically sound or the accrual amounts posted are not validated, the agency risks misstating its Balance Sheet at the financial statement date.

During testing, Kearney and the Forest Service determined that there are data quality issues in the actual payroll expenditures. The Forest Service received notification that pay period 19 payroll corrections were still being posted in pay period 23 to the GL. Without complete payroll information, the Forest Service currently does not have the ability to validate the payroll accrual. Additionally, the Forest Service's efforts to validate the accrual did not identify inaccuracies in payroll data.

Subsequent to Kearney's initial testing, the Forest Service recalculated the pay period 19 payroll expenditures and noted a \$16M difference between the accrual and the actual expenditures. Further observations and details of the testing are summarized below.

Kearney determined that the weakness in the payroll data is considered to be a significant deficiency, as summarized below.

- Kearney performed an analysis of actual pay period 19 expenditures and compared them to the payroll accrual posted. Based on the accrual analysis, Kearney noted that the accrual amount posted for the fourth quarter of FY 2013 was \$73M and the actual amount for the pay period covered by the accrual was \$57M, which equates to a variance of \$16M, or 22%. The variance is due to the data integrity issue with the pay period 19 data. The actual pay period 19 expenditures did not load correctly from the NFC Time and Attendance Validation System (TIME). TIME loaded pay period 19 into FY 2014 instead of FY 2013. Therefore, the payroll expenditures for pay period 19 in the amount of \$57M were incorrect.

The Forest Service sets the parameters for the formulation and calculation of the payroll accrual, which is then executed and posted by NFC. Quarterly, the Forest Service's Internal Quality Assurance (IQA) Branch performs a review of the payroll accrual amounts posted as well as a comparison to actual payroll expenditures. Historically, variances have been noted. A large variance was noted between the accrual amount and the actual expenditures, leading to an overstatement of estimated liabilities as of the FY 2013 Balance Sheet date. Once the variance in question was brought to its attention, the Forest Service was not able to confirm the accuracy of the variance due to ongoing pay period 19 corrections.

The weakness in the accuracy of payroll data may increase the risk that liabilities are misstated on the financial statements.

Recommendation Number 9: Kearney recommends that the Forest Service implement a process to identify payroll data integrity issues and ensure that the payroll accrual is within an acceptable range of actual payroll expenditures.

**APPENDIX A: STATUS OF PRIOR YEAR DEFICIENCIES**

In the Independent Auditor's Report on Internal Control on the United States Forest Service's (Forest Service) fiscal year (FY) 2012 financial statements,<sup>1</sup> two issues were noted related to internal control over financial reporting. The table below presents a summary of the current year status of these issues.

**Prior Year Internal Control Significant Deficiencies**

<b>Control Deficiency</b>	<b>2012 Status</b>	<b>2013 Status</b>
Information Technology Internal Control Environment	Significant Deficiency	Significant Deficiency
Property, Plant, and Equipment	Significant Deficiency	Significant Deficiency

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<sup>1</sup> *Independent Auditor's Report on the U.S. Forest Service 2012 and 2011 Financial Statements.*



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH APPLICABLE  
PROVISIONS OF LAWS, REGULATIONS, CONTRACT, AND GRANT  
AGREEMENTS**

To the Chief of the United States Forest Service and Inspector General of the United States  
Department of Agriculture

We have audited the accompanying consolidated financial statements of the United States Forest Service (Forest Service), which comprise the consolidated balance sheets as of and for the year ended September 30, 2013, the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as the “consolidated financial statements”) for the year then ended, and have issued our report thereon, dated December 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

**Compliance with Applicable Provisions of Laws, Regulations, Contract, and Grant Agreements**

As part of obtaining reasonable assurance about whether the Forest Service’s consolidated financial statements are free from material misstatement, we tested its compliance with certain provisions of laws, regulations, contract, 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. 14-02, including the provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contract, and grant agreements applicable to the Forest Service. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests, exclusive of those referred to in FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and are described in the accompanying Schedule of Findings.

The results of our tests of compliance with FFMIA disclosed that the Forest Service’s financial management systems substantially complied with applicable Federal accounting standards and application of the United States Standard General Ledger at the transaction level. However, we noted a certain instance, described in the Schedule of Findings below, in which the Forest Service’s financial management systems and related controls were not in compliance with certain Federal financial management systems requirements.

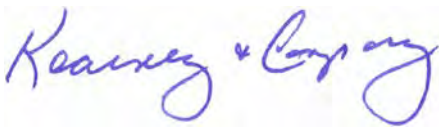


### **Forest Service's Response to Findings**

The Forest Service's management has provided its response to our findings in a separate memorandum attached to this report. The Forest Service's response was not subject to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
December 5, 2013

## **Schedule of Findings**

### **Noncompliance and Other Matters**

#### **I. Noncompliance with the Antideficiency Act (New Condition)**

As noted in its Assurance Letter, the Forest Service disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 14-02. This instance is summarized in the following paragraphs.

The Forest Service identified an Antideficiency Act (ADA) – 31 United States Code (U.S.C.) 1517(a) violation. The Forest Service is subject to the ADA, which prohibits Federal agencies from obligating or expending Federal funds in advance or in excess of an appropriation, apportionment, or similar funding. On December 31, 2012, the Forest Service’s management identified Energy Policy Act Pilot (EPAP) obligations/expenditures, totaling \$6,782, that were in excess of available funding. Partial funding of this Department of the Treasury (Treasury) Account Fund Symbol consisted of transfers from the United States Department of the Interior (DOI), Bureau of Land Management (BLM) to the Forest Service. The Forest Service expended more than the fiscal year (FY) 2012 carryover and had not formally received the FY 2013 DOI BLM transfers. Reports indicated that the Forest Service spent \$6,782 in excess of the \$72,000 carried over from FY 2012. Although several actions had transpired between the Forest Service and BLM to obtain the funding needed for FY 2013 work, the Forest Service did not receive the warrant for additional funding until after December 31, 2012. This noncompliance is being reported to Congress and the President; estimated delivery of this letter is unknown, as the Forest Service is working with the Office of the General Council and the United States Department of Agriculture on the final letter.

Failure to maintain effective controls and/or compensating controls to ensure compliance with the ADA could:

- Increase the risk of fraud, waste, and mismanagement of funds
- Affect the Government’s ability to effectively monitor budget execution
- Affect the Government’s ability to accurately measure the full cost of its programs.

Federal employees and/or agencies violating the ADA may be subject to appropriate administrative discipline, including suspension from duty without pay or removal from office. Employees and/or agencies may also be subject to fines, imprisonment, or both.

#### **II. Noncompliance with the Prompt Payment Act (New Condition)**

The Forest Service is subject to Title 5 of the Code of Federal Regulations (CFR), Section 1315, “The Prompt Payment Act (PPA).” The PPA generally requires that Federal agencies pay commercial vendors within 7, 10, or 30 days of receipt of a proper invoice, depending on the nature of the product or service being provided. When timely payments are not made, the PPA requires that agencies calculate and include interest penalties in the vendor payments. Interest

penalties represent additional and avoidable costs that decrease the amount of funds available for other needs.

We conducted a process overview walkthrough with Forest Service personnel, including individuals responsible for monitoring transactions requiring payment of PPA interest penalties. We noted during the walkthrough that violations of the PPA occurred in the form of untimely payments to vendors, in which the incorrect interest penalty amount was calculated and disbursed. We also noted instances in which the vendors were not paid interest penalties when, in accordance with PPA, they were due to the vendors. The Forest Service was unable to quantify the total amount of PPA interest due.

By not complying with the PPA, the Forest Service incurred additional and avoidable costs in the form of interest penalties. This decreases the amount of funds available for other needs.

### **III. Noncompliance with Grants Management Pre-Award Requirements (Repeat Condition)**

As noted in its Assurance Letter, the Forest Service disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 14-02. This instance is summarized in the following paragraphs.

The Forest Service was not in compliance with grants management pre-award requirements of Title 2 of the CFR, Section 225.35, “Agencies responsible for administering programs that involve cost reimbursement contracts, grants, and other agreements with governmental units shall issue regulations to implement the provisions of this part and its appendices,” and Title 7 of the CFR, Section 3016.20 (b), “The financial management systems of other grantees and subgrantees must meet the following standards: (1) Financial reporting; (2) Accounting records; (3) Internal control; (4) Budget control; (5) Allowable cost; (6) Source documentation; and (7) Cash management.”

By not complying with the grants management pre-award requirements, the Forest Service is unable to determine if the recipient of the funding has adequate procedures in place to ensure the purpose, time, and extent of the funding is executed appropriately, and if the funding is used in accordance with the provisions set forth in the agreement.

### **IV. FFMIA Noncompliance (Repeat Condition)**

#### ***Federal Financial Management Systems Requirements***

- User access, authorization, and password controls were not in compliance with Forest Service policy and Federal financial management systems requirements in some cases. In addition, adequate segregation of duties was not maintained in one financial system. For a detailed account of the FFMIA Federal financial management systems requirements noncompliance, see the *Independent Auditor’s Report on Internal Control Over*

*Financial Reporting, Schedule of Findings, Significant Deficiencies, II. Information Technology (Repeat Modified Condition), pages 6-7.*

***Applicable Federal Accounting Standards***

- No issues noted.

***Standard General Ledger at the Transaction Level***

- No issues noted.



United States  
Department of  
Agriculture

Forest  
Service

Washington  
Office

1400 Independence Avenue, SW  
Washington, DC 20250

File Code: 1430

Date: DEC -5 2013


Mr. Bill Kubistal  
Partner  
Kearney & Company  
1701 Duke Street, Suite 500  
Alexandria, VA 22314

Dear Mr. Kubistal:

We have reviewed Kearney & Company Independent Auditor's Report dated the day of this letter, and generally agree with its contents. The U.S. 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 the Office of the Inspector General in identifying the specific actions that will assist us in successfully addressing the recommendations.

If you have questions or require additional information, please contact me at (202) 205-1321.

Sincerely,

  
THELMA J. STRONG  
Chief Financial Officer

cc: Kelli R Smith, Dianna Capshaw, Erica Y Banegas, Jennifer McGuire



**Management's Discussion and Analysis—Unaudited  
For The Years Ended September 30, 2013 and 2012**

## **About This Report**

The Forest Service, an agency of the U.S. Department of Agriculture (USDA), has chosen to produce a separate Agency Financial Report (AFR) and Annual Performance Report (APR) in accordance with the Office of Management and Budget (OMB) Circulars A-136 and A-11, Section 200.4.

The AFR provides an overview of the agency's financial performance and results to help Congress, the President, and the public assess the Forest Service's stewardship over the financial resources entrusted to it. This approach improves the Forest Service's performance reporting in the following ways:

- Eliminating redundancy, especially where actual data can be used in lieu of estimates due to the timing of the report.
- Making the information more meaningful and transparent to the public.
- Providing a more succinct and easily understood analysis of the Forest Service's accountability over its resources.

The fiscal year (FY) 2013 Management's Discussion and Analysis (MD&A) serves as a high-level overview of the Forest Service's financial reporting, programmatic performance, and compliance with legal and regulatory requirements. The content of the MD&A is the responsibility of Forest Service management.

The Forest Service's APR will be published with the FY 2015 Congressional Budget Justification in February 2014 at <http://www.fs.fed.us>.

Management's Discussion and Analysis—Unaudited  
For The Years Ended September 30, 2013 and 2012

## About the Agency

### Mission

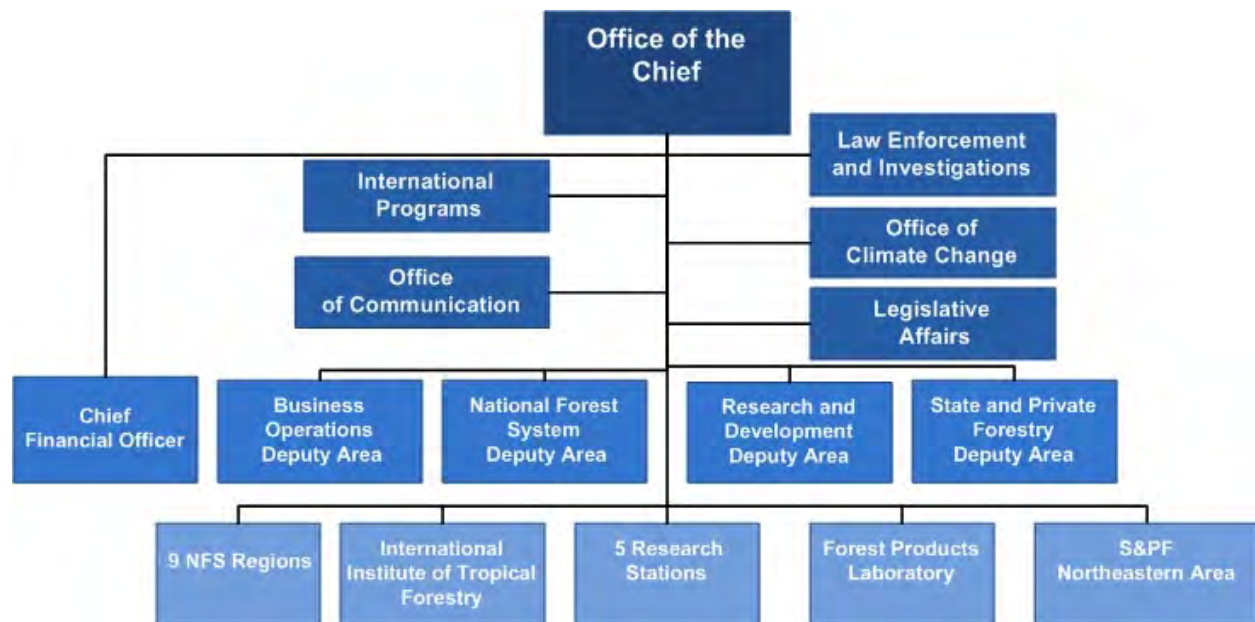
*Sustain the health, diversity, and productivity of the  
Nation's forests and grasslands to  
meet the needs of present and future generations.*

### Organization

The Forest Service fulfills its mission through the following organizational structure.

The Chief of the Forest Service is a career Federal employee of the Forest Service who reports to the U.S. Department of Agriculture Under Secretary for Natural Resources and Environment.

The Chief Financial Officer (CFO) and four deputy chiefs report to the Chief. The deputy areas are Business Operations, National Forest System (NFS), Research and Development (R&D), and State and Private Forestry (S&PF).



**Management's Discussion and Analysis—Unaudited  
For The Years Ended September 30, 2013 and 2012**

***Forest Service Chief Financial Officer and Deputy Areas***

The CFO and deputy areas enable the Forest Service to accomplish its mission. The following sections highlight the programs from the CFO and each deputy area. Several FY 2013 accomplishments are included.

***Chief Financial Officer***

The CFO supports the agency's mission by providing timely, accurate, and reliable financial and program performance information in compliance with the Chief Financial Officers Act of 1990.

The CFO programs are Financial Management Systems, Financial Policy, Financial Reporting and Reconciliation, Audit and Assurance, and Budget and Finance.

**FY 2013 Chief Financial Officer Accomplishments**

- The Forest Service received its 12th consecutive unqualified opinion from the independent auditors and no material weaknesses were noted for FY 2013. The unqualified or clean opinion is the Forest Service's assurance that internal controls are in place in the agency's financial systems, processes, and procedures.
- In FY 2013, the USDA Office of Inspector General (OIG) performed audits in areas of ecosystem management, roads, bridges, watersheds, firefighting succession planning, forest legacy, special uses, and financial statement reporting. By streamlining processes and increasing collaboration with the program areas, the Forest Service reached management decision on 86 OIG recommendations and closed 8 audits. The agency also participated in 31 Government Accountability Office (GAO) audits for firefighting aircraft fleet, trails, coal leasing, climate change, hydropower relicensing, Forest Service work planning, and border security. Nine of these GAO audits were closed, including 29 related recommendations.
- In this first year of migration to USDA's new accounting system, the Financial Management Modernization Initiative (FMMI), the Forest Service interfaced six priority candidate systems for revenue accounting for programs such as minerals, recreation, and timber and eliminated one payment system.
- The Forest Service implemented Phase II of the Point of Sales System (POSS), installing equipment for credit card and online payments at an additional 43 national forests. With these installations, the agency has now installed POSS at 420 ranger districts, visitor centers, and supervisor's offices for 84 of 154 national forests. Customers generated \$70 million in agency revenue through POSS, up from \$23 million in FY 2012.
- The Forest Service performed 174 internal reviews of fees, timber cost collections, Job Corps Centers, and other special assignments to ensure that agency controls are established and are working as they should in accordance with agency policy and OMB guidance.



**Management's Discussion and Analysis—Unaudited  
For The Years Ended September 30, 2013 and 2012**

***Business Operations***

The Business Operations Deputy Area provides the tools that Forest Service employees rely on to accomplish the agency's mission. From modernizing an outdated radio system to hiring tomorrow's workforce, Business Operations staff provides critical services to the agency and its employees.

The Business Operations programs are the Chief Information Office; Enterprise Program; Strategic Planning, Budget, and Accountability; Human Resource Management; Job Corps Civilian Conservation Centers; Office of Regulatory and Management Services; Office of Safety and Occupational Health; and Acquisition Management.

**FY 2013 Business Operations Accomplishments**

- The Forest Service exceeded its procurement preference goals for Women-Owned, Veteran-Owned, Small-Disadvantaged, and Historically Underutilized Business Zones (HubZone) businesses.
- The Forest Service consolidated the Customer Help Desk contract to a USDA-wide contract, saving the agency \$500,000 and USDA over \$1.2 million in the first year.
- The agency strategically broadened its recruitment and outreach to increase minority representation in candidate pools with a newly developed corporate hiring model. As a result, more than 12,000 candidates submitted applications and nearly half were from underrepresented groups. Of that, the Forest Service hired 300 students with more than 21 percent in underrepresented groups. The model also ensures each student intern receives a standard career experience, including training and mentoring.
- Stewardship contracting contributes to the development of sustainable rural communities, restores and maintains healthy forest ecosystems, and provides a continuing source of local income and employment. The agency awarded 3 stewardship contracts in FY 2013 with values more than \$8 million, \$8.7 million, and \$13.8 million and executed 27 stewardship agreements for a combined value of \$3.2 million.
- The Forest Service cleared an outstanding Office of Personnel Management (OPM) audit issue from 2012 and led four field audits for 2013 that show Human Resource Service Teams meeting all OPM standards.
- The Forest Service completed the design of a Coordinated Response Protocol (CRP) that requires a claims investigation for any fatality or serious injury of on-duty Forest Service employees. The CRP received the Chief's approval for its immediate implementation and the standup of the Office of Learning on July 26, 2013, which was months ahead of initial expectations.
- The agency developed a national protocol for check-in and check-out, a policy for temporary and hosted employees' safety, a servicewide deployment of the Satellite Emergency Notification Devices, and the National Capital Region integration of an emergency notification system in response to employee feedback and in support of an enhanced safety culture in the Forest Service.

**Management's Discussion and Analysis—Unaudited  
For The Years Ended September 30, 2013 and 2012**

***National Forest System***

The NFS provides stewardship and management of the 193 million acres of national forests and grasslands. Following Secretary of Agriculture Secretary Tom Vilsack's vision, the Forest Service has placed a focus on improving the health of its watersheds, restoring ecosystem functions, increasing forest resilience to climate change, and contributing to vibrant local economies.

The NFS programs are Engineering; Lands; Wilderness and Wild and Scenic Rivers; Rangeland Management; Recreation, Heritage, and Volunteer Resources; Forest Management; Watershed, Fish, Wildlife, Air, and Rare Plants; Minerals and Geology Management; Ecosystem Management Coordination; and the National Partnership Office.

**FY 2013 National Forest System Accomplishments**

- The Forest Service treated 2,390,000 acres through integrated resource restoration (IRR)-type activities. The IRR-type activities contribute significantly to the improvement of watershed conditions by restoring and sustaining watershed function and resilience.
- The Forest Service prepared and sold 2,600 MMBF (board feet) of timber as an important tool to increase watershed health and improve resilience at the landscape level.
- The Forest Service decommissioned 1,490 miles of road; this decommissioning will contribute directly to achieving resource restoration goals by addressing environmental impacts from the transportation systems.
- The agency used high-impact targeted (HIT) practices to achieve the sustainable management of 363,000 acres within the USDA Landscapes of National Importance areas. These HIT practices are implemented in priority landscapes to achieve USDA's Agency Priority Goal #3 to "accelerate the protection of clean, abundant water resources by advancing USDA's capacity to measure the effectiveness of conservation investments in addressing water resource concerns."
- Of the 15,000 watersheds associated with NFS lands, the Forest Service has 52 percent of those in fully functional condition. An additional 12 watersheds are expected to be moved to an improved condition class through maintenance, enhancement, and restorative activities.

***Research and Development***

Forest Service R&D provides scientific information and new technologies to support sustainable management of the Nation's forests and rangelands. The program is federally mandated to provide new knowledge and technologies to foster healthy watersheds, forest products, wildlife protection, outdoor recreation opportunities, and other benefits across all U.S. territories and States (including Federal and non-Federal lands).

Research is organized under seven Strategic Program Areas (SPAs), which support an integrated approach to studying broad, complex environmental and social issues. See the Required Supplementary Stewardship Information section of the AFR for details on the R&D SPAs.

**Management's Discussion and Analysis—Unaudited  
For The Years Ended September 30, 2013 and 2012**

**FY 2013 Research and Development Accomplishments**

- The Forest Service developed methods based on new sources of satellite data to provide near real-time fire mapping and measurement. These data have also been incorporated in a simulation model that includes weather forecasts for more realistic short-term predictions of fire spread and activity. These advances greatly enhance the ability of fire-fighting agencies to identify and respond to wildland fires quickly, as well as to plan for tactical fire operations and strategic fire planning.
- The agency published Mapping Multiple Forest Threats in the Northwestern United States in collaboration with Oregon State University. The publication is a tool that uses a 15-mile radius “neighborhood analysis” to identify locations where forest threats such as wildfire, insects and disease, and development may be more concentrated relative to other areas and where multiple threats intersect.
- The Forest Service hosted a climate change workshop for tribal environmental and natural resource managers in Flagstaff, AZ. The event led to an increased knowledge of climate change issues and the necessary dialogue on the needs and opportunities for tribes in Arizona and New Mexico to engage in climate-change planning.
- The Forest Service collaborated with the U.S. Department of the Interior (DOI) U.S. Geological Survey's National Wildlife Health Center and Fish and Wildlife Service to identify key fungal species needed to understand the mysteries of White Nose Syndrome in bats. These fungi live in bat hibernation sites and even directly on the bats, but do not cause the devastating disease that has killed millions of bats in the Eastern United States. Researchers are examining these fungi to understand why one fungus can be deadly to bats while its close relatives are benign.

***State and Private Forestry***

America's forests, grasslands, and other open spaces are integral to the social, ecological, and economic well-being of the Nation. More than 50 percent of our Nation's forests are privately owned and supply almost 30 percent of the surface drinking water to cities and rural communities. S&PF programs help protect these forests, providing support to keep them intact. Partnerships—so critical in implementing and delivering S&PF programs—help facilitate sound stewardship of lands across all ownerships on a landscape scale, while maintaining flexibility for individual forest landowners to pursue their objectives.

The S&PF programs are Fire and Aviation Management, Cooperative Forestry, Conservation Education, Urban and Community Forestry, Forest Health Protection, and the Office of Tribal Relations.

**FY 2013 State and Private Forestry Accomplishments**

- The Forest Service provided funding to the Veterans Fire Corps to assist veterans in their transition to civilian life. Through this partnership, more than 250 veterans were trained for wildland fire and fuels work. The agency hired 74 of these veterans, and other wildland fire agencies hired another 35 veterans. The Forest Service has also begun a dialogue with the Wounded Warrior Regiment of the Quantico Marine Corps Base to explore non-firefighting opportunities.

**Management's Discussion and Analysis—Unaudited  
For The Years Ended September 30, 2013 and 2012**

- In FY 2013, Secretary of Agriculture Tom Vilsack approved the Report to the Secretary of Agriculture, USDA Policy and Procedures Review and Recommendations: Indian Sacred Sites (December 2012). The Forest Service addressed the recommendations with a strategic and inspirational approach that integrates Indian Sacred Sites into the Forest Service mission and provides for their protection through interagency coordination and collaboration
- In partnership with the Ad Council as part of the Discover the Forest Campaign, the agency increased public awareness of family recreation opportunities through a newly developed targeted outreach for African-American audiences and increased awareness of DescubreElBosque.org, the campaign fulfillment site, by 15 percent among Spanish-speaking audiences. The Forest Service provided wildfire-prevention and science-education materials in English and Spanish to over 55,000 teachers in nearly 14,000 middle schools.
- The Forest Service invested in the USDA Wood to Energy Initiative by awarding cooperative agreements to five statewide wood energy teams in 2013. The teams—comprised of Federal and State agencies, private businesses, and nongovernmental organizations—support rural communities by addressing choices in financing, wood supply, and combustion technology that must be resolved before installing a system. The agency's investment reduces energy costs for rural schools, hospitals, and businesses and increases these communities' health and resilience.

### *Responsibility Segments*

The Forest Service's mission is dedicated to the principle of multiple-use management of the Nation's forest resources for sustained yields of wood, water, forage, wildlife, and recreation. Through management of the national forests and grasslands; research; and cooperation with States, tribes, and private forest owners, the agency strives to meet the needs of the Nation. Some of the responsibility segment names are the same as those used for deputy areas, but the terms are not necessarily synonymous for financial management reporting purposes. The mission is divided into four major responsibility segments.

National Forests and Grasslands: This responsibility segment includes management of an estimated 193 million acres of NFS land, which includes 36.6 million acres of designated wilderness areas. In addition, the Forest Service partners with other agencies, 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 accountable for research and development of forestry and rangeland management practices to develop and deliver scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the estimated 1.3 billion acres of forests and associated rangelands in the United States.

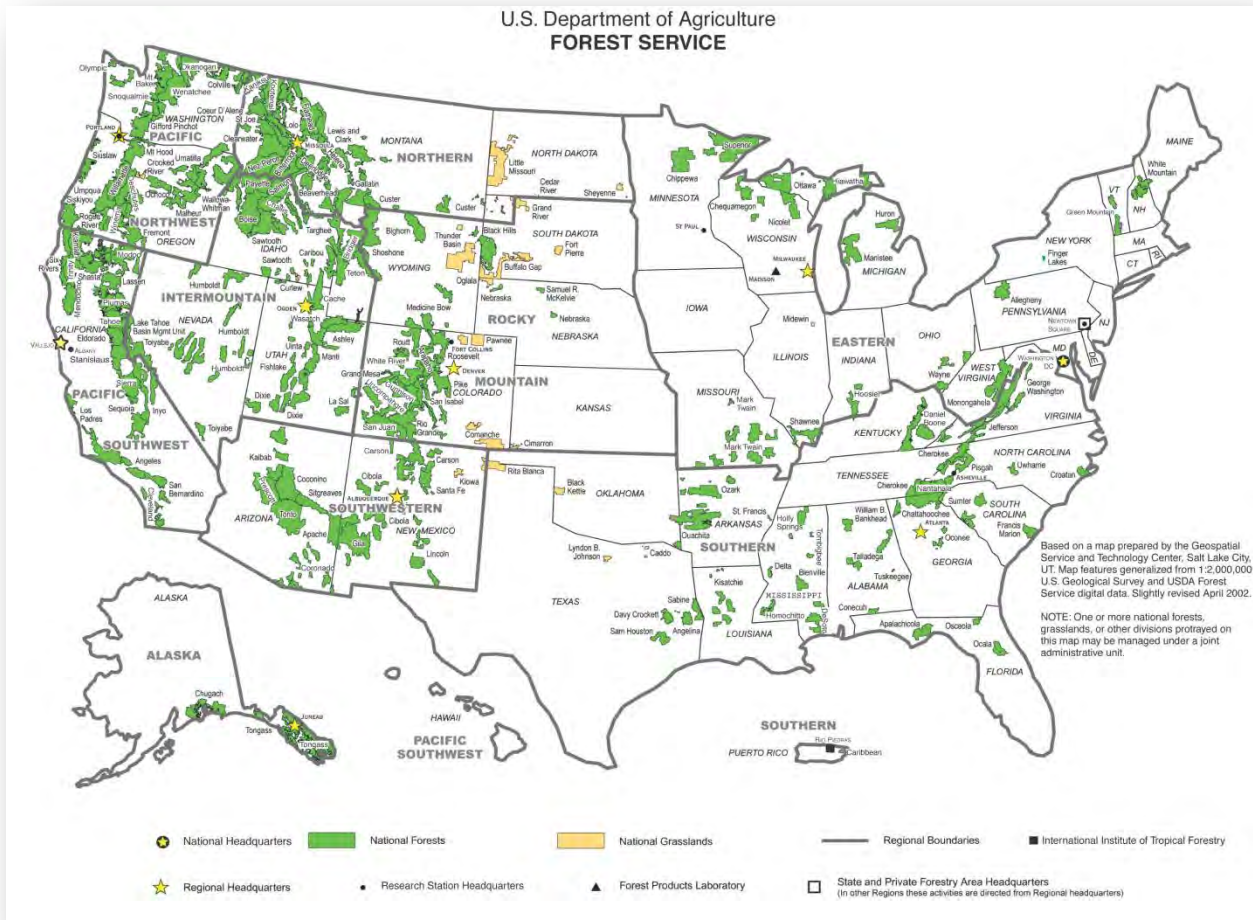
State and Private Forestry: This responsibility segment reaches across the boundaries of national forests and uses cooperative agreements with State and local governments, tribal governments, forest industries, and private landowners to provide technical and financial assistance that helps protect and manage non-Federal forests and associated rangeland and watershed areas.

## Management's Discussion and Analysis—Unaudited For The Years Ended September 30, 2013 and 2012

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.

**FIGURE 1. LOCATIONS OF FOREST SERVICE ADMINISTRATIVE UNITS**

The map illustrates the 154 national forests and 20 national grasslands that collectively make up the NFS of the Forest Service.



**Management's Discussion and Analysis—Unaudited  
For The Years Ended September 30, 2013 and 2012**

*Demands, Risks, Conditions, and Trends*

The Forest Service has a vital role in providing the values and benefits that people receive from healthy and resilient forests and grasslands by ensuring their sustainability and productivity for present and future generations.

These values and benefits are now at risk. Drought, invasive species, uncharacteristically severe wildfires, and outbreaks of insects and disease are affecting the sustainability and productivity of America's forests, grasslands, and watersheds. These stresses and disturbances, accelerated by the changing climate, are now occurring at an unprecedented rate.

For FY 2013, Forest Service Chief Tidwell reinforced his commitment to three focus areas—Safety, Restoration, and Wildland Fire Management—that address this risk and are the agency's greatest hope for protecting rural communities and those who live or work in the wildland-urban interface (WUI) from wildfire.

***Safety***

For Forest Service employees, working safely in high-risk environments that are prone to wildfire means recognizing that wildfires are not preventable, but rather inevitable. The Forest Service will continue its Safety Learning Journey with the goal of becoming a zero-fatality organization by focusing on the inherent risks in its mission-critical work and by developing mitigation strategies that involve the State and local firefighting communities.

***Restoration***

The Forest Service will continue to work with State and Federal agencies, our partners, and local communities to achieve ecological sustainability by restoring high-priority watersheds, identifying areas at greatest risk from insects and disease, supporting the Collaborative Forest Landscape Restoration Program, and implementing the Western Bark Beetle Strategy. Perhaps most importantly, the agency will develop public and private partnerships to leverage resources that support these restoration goals. The Forest Service will continue these efforts into FY 2014, albeit at a reduced rate if agency budgets do not support all restoration initiatives. To improve the agency's efficiency in all restoration efforts, the Forest Service will streamline environmental analysis and reduce forest plan revision costs by implementing the new [planning rule](#).

***Wildland Fire Management***

While it is not humanly possible to control a wind-driven wildfire, it may be possible to minimize the potential for catastrophic wildfire by restoring or building fire-adapted communities and ecosystems and by working through cross-jurisdictional partnerships to develop community wildfire protection plans (CWPPs).

The Forest Service's wildland fire management policies, developed by research scientists and fire ecologists, allow some remote wildfires to burn today to reduce the risk from future catastrophic wildfires. People living in the fire-prone areas of the Western States likely expect catastrophic wildfires,

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asking themselves not “if” but “when” because they understand these ecosystems have evolved with fire. To reduce the risks to homeowners and communities, the Forest Service encourages participation in the Firewise Program to learn mitigation measures that make it possible for firefighters to safely defend homes and communities, such as building homes with burn-resistant materials and clearing nearby trees, shrubs, and grasses.

The fire management agencies recognize that fire suppression is not achieved solely by boots on the ground, but by having air tankers that fight wildfires from the air. Although the Forest Service's 10-year average cost of fire suppression has risen today to more than \$1 billion and 40 percent of the agency's budget, there is still a critical shortage of large air tankers needed to fight wildfires, having decreased by 75 percent over the last decade from 44 to only 11 air tankers.

During the past 10 years, the Forest Service made transfers from nonfirefighting accounts to pay for these fire suppression costs, ranging from \$100 million in FY 2007 to \$999 million in FY 2012, and totaling approximately \$2.7 billion. Of that total, \$2.3 billion was repaid to the nonfirefighting accounts, but the transfers led to disruptions within many Forest Service programs. Each time the agency transfers money out of accounts to pay for fire suppression, there are significant and lasting impacts across the entire Forest Service. Not only do the impacts affect the ability of the Forest Service to conduct stewardship work on national forests and grasslands, they also affect agency partners, local governments, and tribes. In FY 2013, transfers from nonfirefighting accounts to pay for suppression costs totaled approximately \$505 million.

In addition to Safety, Restoration, and Wildland Fire Management, Chief Tidwell focuses on jobs in local communities and an inclusive and diverse workforce.

***Jobs and Communities***

The Forest Service builds economic sustainability in local communities by delivering jobs and economic benefits from hazardous fuels reduction and other activities on the national forests and grasslands. The agency will continue to work with partners to expand markets for the biomass that is a product of fuels reduction activities, including wood-to-energy projects.

***Inclusiveness and Diversity***

Diversity of thought is the foundation of every successful organization. Accordingly, the Forest Service will continue its focus on providing an inclusive work environment where everyone is respected and valued. The Forest Service welcomes the opportunity to be an employer of choice and to continue providing jobs, training, and community support in urban and underserved communities and in traditional, resourced-based communities.

However, with 83 percent of the Nation's population living in urban areas, many Forest Service programs must also promote healthier, more livable urban environments. The Forest Service is helping all Americans reconnect with the outdoors by encouraging their participation in its work and decisionmaking processes for forestry-related activities.

## Performance Goals, Objectives, and Results

### *The Government Performance and Results Modernization Act of 2010*

In May 2013, OMB provided updated guidance to all Federal agencies for changes coming from implementation of the Government Performance and Results Modernization Act of 2010 for strategic planning, setting priority goals, and quarterly performance reporting.

All performance reported for the Agency Priority Goal and Key Performance Measures in this section is aligned with the USDA Strategic Plan FY 2010–2015. The Forest Service strategic plan is currently being updated and will be implemented in FY 2014.

The Federal Government's shutdown delayed the Forest Service's field reporting for FY 2013, so not all accomplishments were available when the AFR was prepared for publication. The final FY 2013 performance totals will be available in the FY 2013 APR that is published with the Forest Service's FY 2015 Budget Justification in February 2014 at <http://www.fs.fed.us>.

### ***Strategic Goals and Objectives***

The Forest Service's program of work is aligned with USDA's Strategic Goal 2 and its objectives.

**USDA's Strategic Goal 2**—*Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources.*

**Strategic Objective 2.1**—Restore and Conserve the Nation's Forests, Farms, Ranches, and Grasslands

**Strategic Objective 2.2**—Lead Efforts to Mitigate and Adapt to Climate Change

**Strategic Objective 2.3**—Protect and Enhance America's Water Resources

**Strategic Objective 2.4**—Reduce Risk from Catastrophic Wildfire and Restore Fire to its Appropriate Place on the Landscape

In FY 2013, the Forest Service prioritized its efforts to achieve USDA's strategic objectives with an emphasis on the "theme" of each objective. These themes align the agency's program of work directly to the objectives and are defined as Restoration—Forests, Grasslands and Watersheds; Communities—Strengthening Communities and Sustaining Jobs; and Fire—Responding to Wildfires and Reducing Risks.

### ***USDA's Key Performance Measures***

In collaboration with USDA, the Forest Service identified key performance measures (KPMs) that report progress toward the strategic objectives on a cumulative basis.

The Forest Service records accomplishments performed under contract at the time the contract is issued to provide a consistent link between annual appropriated dollars and accomplishments. Other accomplishments are recorded at the time the work is completed. Actual performance data will be



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available at the end of the calendar year and published in the Forest Service FY 2013 APR at <http://www.fs.fed.us> in February 2014.

**Restoration Theme—Forests, Grasslands and Watersheds**

The Restoration Theme—aligned with USDA's Strategic Objective 2.1—Restore and Conserve the Nation's Forests, Farms, Ranches, and Grasslands—ensures that forest and grassland ecosystems are more adaptable to changing conditions, especially when faced with severe natural or human-induced disturbances. The Forest Service's stewardship of these ecosystems improves the resiliency of the Nation's forests and rangelands and provides the long-term benefits of clean air, clean drinking water for communities, renewable energy from biomass, wildlife and fish habitat, and forest products.

In FY 2013, the Forest Service achieved its restoration goals by focusing on active forest management through collaboration with its partners. The agency also integrated activities for watershed restoration at broad, landscape scales using peer-reviewed science of its research of ecosystems, the effects of changing climate, and the dynamics of invasive species. The Forest Service relied on this research and multiparty monitoring to guide its efforts through the continuous cycle of assessing, implementing, and adapting new information.

The KPM for annual acres of public and private forest lands restored or enhanced is the sum of acres treated annually that contribute significantly to improvement in watershed conditions. The KPM for the volume of timber sold from NFS lands is the amount of wood fiber provided each year to help meet the Nation's demand for forest products in an environmentally sustainable manner.

**TABLE 1. RESTORATION THEME'S KPM RESULTS**

Key Performance Measure	Result
Annual acres of public and private forest lands restored or enhanced (in millions)	Met
Volume of timber sold (million board feet)	Met

**Communities Theme—Strengthening Communities and Sustaining Jobs**

The Communities Theme—aligned with USDA's Strategic Objective 2.1—Restore and Conserve the Nation's Forests, Farms, Ranches, and Grasslands—provides opportunities for economic expansion that can support diverse employment in forest-dependent communities. The Forest Service is committed to engaging communities across the Nation to reconnect with the outdoors, expand recreation benefits, and harness the many economic opportunities of our restoration activities.

In FY 2013, the Forest Service supported forest-dependent communities by maintaining and creating new jobs in rural communities and helping to diversify the forest products industry. This diversification nurtures the sustainability of local communities and the forest-contractor infrastructure that is needed to perform restoration work into the future.

Results for the KPM for communities with urban and community forestry programs is not available for the publication in the AFR. The results will be available in the agency's APR that will be published with the Forest Service's FY 2015 Budget Justification in February 2014 at <http://www.fs.fed.us>.

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**TABLE 2. COMMUNITY THEME'S KPM RESULTS**

Key Performance Measure	Result
Communities with urban and community forestry programs resulting from Forest Service assistance (number of communities)	Deferred

**Fire Theme—Responding to Wildfires and Reducing Risks**

The Fire Theme—aligned with USDA's Strategic Objective 2.4—Reduce Risk from Catastrophic Wildfire and Restore Fire to its Appropriate Place on the Landscape—restores and maintains resilient landscapes, fire-adapted communities, and effective responses to wildfire with local, State, tribal and Federal organizations.

The Fire Theme is integral to the goals of landscape-scale restoration and cross-boundary landscape conservation. In FY 2013, the agency partnered with States, communities and federal agencies to maximize suppression capabilities and support community efforts to reduce the direct threat of wildland fire. The Forest Service also supported the diversification and innovation of new markets for woody biomass extracted in the process of reducing hazardous fuels.

In FY 2013, the Forest Service focused on the treatment of hazardous fuels in high-priority areas, including non-Federal acres under partnership agreements, to reduce the intensity, severity, or effects of wildland fire on communities and natural resources. The Forest Service lowered the targeted acres for FY 2013 due to the increased costs of treatments if numerous entries into the area are required to achieve and maintain desired results.

In order to build community capacity to suppress and reduce losses from wildfires, the Forest Service provided technical assistance to develop CWPPs or equivalent plans. CWPPs are more common for communities in the Western States, while the communities that fall in the Southern Wildfire Risk Assessment and the Northeast Wildfire Risk Assessment areas develop plans that are equivalent, but not necessarily the same as the CWPP.

In FY 2012, the Forest Service updated its data systems to more thoroughly capture fuels treatments that were identified not only in CWPPs, but also in the equivalent plans. For FY 2013, this change enabled the Forest Service to fully capture the integrated, partner-driven planning efforts that are going on at all levels of management.

The KPM for wildland-urban interface (WUI) acres treated to reduce the risk of catastrophic fire reported 1,608,000 acres.

The KPM for acres treated in the WUI that have been identified in CWPPs is calculated from the total number of acres that are associated with a CWPP divided by the total number of treated WUI acres.

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**TABLE 3. FIRE THEME'S KPM RESULTS**

Key Performance Measure	Result
Acres of WUI fuels treated to reduce the risk of catastrophic fire (in millions)	Met
Percentage of acres treated in the WUI that have been identified in CWPPs	Met

***Agency Priority Goal***

OMB defines an Agency Priority Goal (APG) as one that supports improvements in near-term outcomes, customer service, or certain efficiencies for an agency and advances progress toward longer term, outcome-focused strategic goals and objectives. APGs reflect the most critical, implementation-focused, performance improvement priorities of agency leadership and the Administration, and therefore do not reflect the full scope of the agency mission.

For USDA's Priority Goal 3, the Department identified USDA's Landscapes of National Importance including national forests and private working lands in the Chesapeake Bay, Great Lakes, Upper and Lower Mississippi, and California Bay Delta. USDA's Priority Goal 3 is—

*Accelerate the protection of clean, abundant water resources by advancing USDA's capacity to measure the effectiveness of conservation investments in addressing water resource concerns.*

The Forest Service contributes to USDA's achievement of this APG by accelerating the protection of clean, abundant water resources through the implementation of HIT practices on national forests and private working lands in priority watersheds. These HIT practices include specific activities and treatments that protect watersheds and water resources such as establishing forest vegetation, improving rangeland vegetation, restoring lake and stream habitat, and maintaining or decommissioning roads.

Performance	USDA Baseline	FY 2011 Actual	FY 2012 Actual	FY 2013 Target	FY 2013 Year to Date	FY 2014 Target	FY 2015 Target <sup>1</sup>
Acres on which high-impact targeted practices are implemented on national forest and private working lands in priority landscapes to accelerate the protection of clean, abundant water resources	0	304,565	321,203	300,000	363,000	270,000	300,000

These HIT practices were implemented in partnership with individuals, communities, and tribal, State, and local governments to ensure a clean and abundant supply of water for people and the environment.

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<sup>1</sup> FY 2015 targets reflect published targets—or Forest Service contribution to multiagency targets—in the USDA Strategic Plan.

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The annual USDA performance results for this APG are reported on the [Performance.gov](http://Performance.gov) Web site. The Forest Service's FY 2013 APR will provide actual accomplishments for the Forest Service's contribution to these performance measures in February 2014.

The HIT practices implemented by the Forest Service resulted in treating 363,000 acres of lands of national importance. The contributing performance measures include:

1. Acres of lake habitat restored or enhanced
2. Acre equivalent for stream habitat restored or enhanced
3. Acres of water or soil resources protected, maintained, or improved
4. Acres of water or soil resources protected, maintained, or improved by fuels treatment
5. Acre equivalent for roads decommissioned
6. Acre equivalent for high-clearance road improved
7. Acre equivalent for passenger car road improved
8. Acre equivalent for high-clearance road maintained
9. Acre equivalent for passenger car road maintained
10. Acre equivalent for road or stream crossings reconstructed or constructed for providing aquatic organism passage
11. Acres of forestland vegetation established
12. Acres of rangeland vegetation improved
13. Acres treated for noxious weeds or invasive plants on NFS lands
14. Acre equivalent for contaminated Abandoned Mine Land sites mitigated using CERCLA<sup>2</sup> and non-CERCLA authority
15. Acre equivalent for road bridges constructed, rehabilitated or replaced

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<sup>2</sup> CERCLA is the Comprehensive Environmental Response, Compensation, and Liability Act. The objective of CERCLA is to clean up any uncontrolled releases of specified hazardous substances.

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## **Summary Analysis of Financial Statements and Stewardship Information**

The Forest Service produces a series of financial statements on a quarterly basis to summarize the activity and associated financial position of the agency. In producing these statements, the agency seeks to provide relevant, reliable, and accurate financial information related to Forest Service activities. An analysis of the agency's September 30, 2013, financial statements provides the following highlights and exhibits, reflecting the comparative amounts for FY 2013 and FY 2012.

### *Consolidated Balance Sheets*

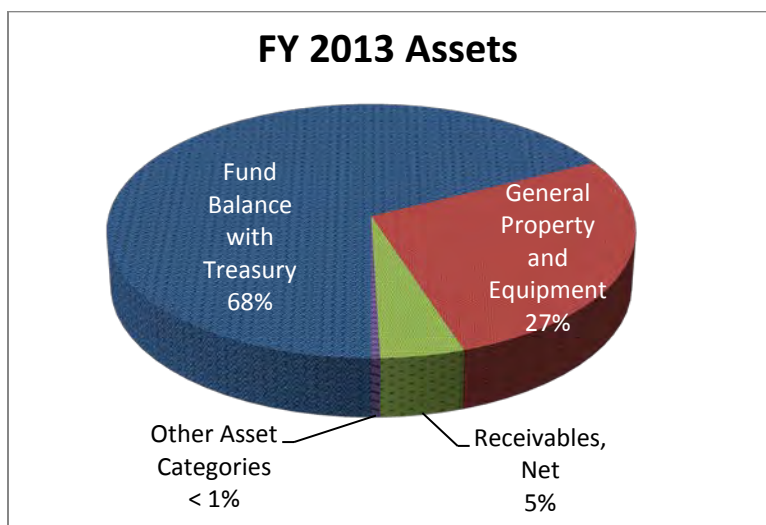
The Balance Sheet is a presentation of the Forest Service's financial condition at the end of the fiscal year. It shows the resources Forest Service holds to meet its statutory requirements (Assets), the amounts it owes that will require payment from these resources (Liabilities), and the difference between them (Net Position).

#### **Assets**

As of September 30, 2013, Forest Service reports \$4.9 billion in assets, representing a decrease of 9 percent from FY 2012 amounts.

**TABLE 4. FOREST SERVICE ASSETS (IN MILLIONS)**

Asset	FY 2013	FY 2012	Difference in Dollars	Difference in Percentage
Fund Balance with Treasury	\$3,305	\$3,684	\$(379)	(10%)
General Property and Equipment	1,338	1,392	(54)	(4%)
Receivables, Net	226	296	(70)	(24%)
Total of Major Categories	\$4,869	\$5,372	\$(503)	(9%)
Other Asset Categories	24	26	(2)	(8%)
Grand Total Assets	\$4,893	\$5,398	\$(505)	(9%)



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**Fund Balance with Treasury**

The Fund Balance with Treasury (68 percent of assets) decreased \$379 million (10 percent) from FY 2012, primarily due to sequestration, which were across-the-board spending cuts enacted to reduce the national budget deficit.

**General Property, Plant, and Equipment**

General Property, Plant, and Equipment (PP&E) (27 percent of assets) consists primarily of forest road-surface improvements, bridges, campgrounds, administrative buildings, other structures, and equipment. General PP&E also includes assets acquired by the Forest Service for conducting business activities, such as providing goods or services. General PP&E does not include the value of heritage assets or stewardship assets, which are categorized as Stewardship PP&E.

*Stewardship PP&E*

Stewardship PP&E assets—both heritage and stewardship assets—do not have a readily identifiable financial value as do the general PP&E assets, so they are not recorded within the Forest Service financial statements.

Heritage assets are assets that are historical or significant for their natural, cultural, aesthetic, or other important attributes and that are expected to be preserved indefinitely. Stewardship assets are primarily land, held by the Forest Service as part of the NFS, and not acquired for, or in connection with, other general PP&E.

For an in-depth discussion of heritage and stewardship assets, see the Financial Statement Note 5—Stewardship PP&E and the Required Supplementary Information section.

**Receivables, Net**

Accounts Receivable, Net (5 percent of assets) decreased \$70 million (24 percent) from FY 2012, primarily due to the collection in FY 2013 of outstanding FY 2012 fire billings with the State of Texas.

**Other Assets**

Other Assets (<1 percent of assets) represent advances and prepayments for goods and services provided to the Forest Service.

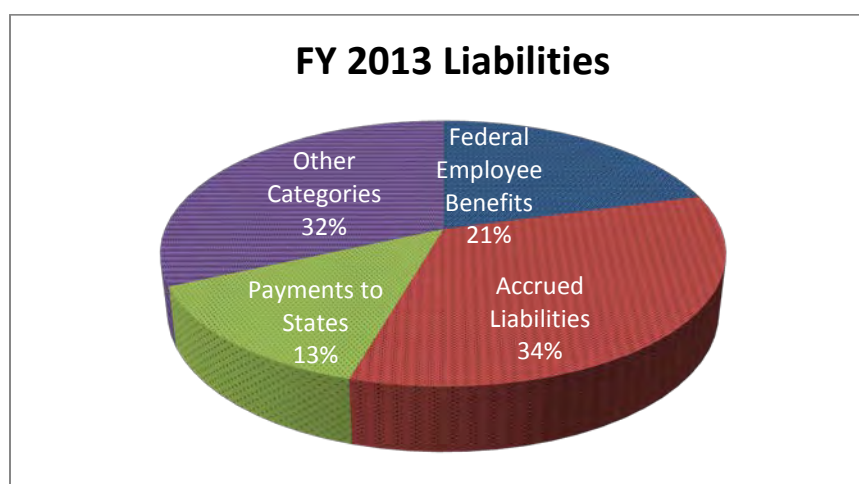
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***Liabilities***

As of September 30, 2013, the Forest Service reports \$2.4 billion in liabilities, representing a decrease of 1 percent from FY 2012 amounts.

**TABLE 5. FOREST SERVICE LIABILITIES (IN MILLIONS)**

Liability	FY 2013	FY 2012	Difference in Dollars	Difference in Percentage
Federal Employee Benefits	\$491	\$470	\$21	4%
Other Liabilities				
Accrued Liabilities	800	961	(161)	(17%)
Payments to States	325	346	(21)	(6%)
Other Categories	753	618	135	22%
Grand Total Liabilities	\$2,369	\$2,395	\$(26)	(1%)



**Federal Employee Benefits**

Federal Employee Benefits (21 percent of liabilities) had an increase of \$21 million (4 percent) from FY 2012. The Federal Employees' Compensation Act (FECA) liability is accrued workers' compensation benefits, not yet paid by the Forest Service. FECA benefits include the current and expected future liability for death, disability, medical, and other approved workers' compensation costs. By law, Federal agencies cannot make these payments until Congress appropriates and OMB apportions the funds, and they are liabilities on the balance sheet.

**Accrued Liabilities**

Accrued Liabilities (34 percent of liabilities) had a decrease of \$161 million (17 percent) from FY 2012. Accrued Liabilities consist primarily of accruals for payroll and for receipt of goods and services. Accrued liabilities for occupancy agreements between U.S. General Services Administration and the Forest Service are also included. A portion of the accrued liabilities total is calculated by a mathematical model based on a regression between open obligation balances and subsequent payments.

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**Payments to States**

The liability for Payments to States (13 percent of liabilities) decreased \$21 million (6 percent) from FY 2012 primarily due to sequestration.

The Payments to States Program was authorized by the Twenty-Five Percent Fund Act of May 23, 1908, as amended (16 U.S.C. 500). 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. The Secure Rural School and Community Self Determination Act of 2000, reauthorized on October 2, 2013, for FY 2013 as part of Public Law 113-40, also provides for roads and schools, Forest Service projects, and emergency services. In addition, the Payments to Counties, Bankhead-Jones Farm Tenant Act of 1937 requires 25 percent of the net revenues from each national grassland or land utilization project to be paid to the counties in which such lands are located.

**Other Categories**

Other Categories (32 percent of liabilities) increased \$135 million (22 percent) from FY 2012. Other categories of liabilities include deposit liabilities and annual leave liabilities. Deposit liabilities consist of collections deposited in clearing accounts awaiting disposition or reclassification.

**Net Position**

As reported in the Consolidated Statements of Changes in Net Position section, the Forest Service reported \$2.5 billion for both unexpended appropriations and cumulative results of operations. The total net position decreased by \$479 million (16 percent) from FY 2012. See the Consolidated Statements of Changes in Net Position section for further information on the changes in net position.

***Consolidated Statements of Net Cost***

The Consolidated Statements of Net Cost report the difference of two amounts: total gross costs minus total gross revenue for the year. The Forest Service's net cost of operations was \$5.8 billion, representing a decrease of 5 percent from FY 2012 amounts.

**TABLE 6. FOREST SERVICE NET COST OF OPERATIONS (IN MILLIONS)**

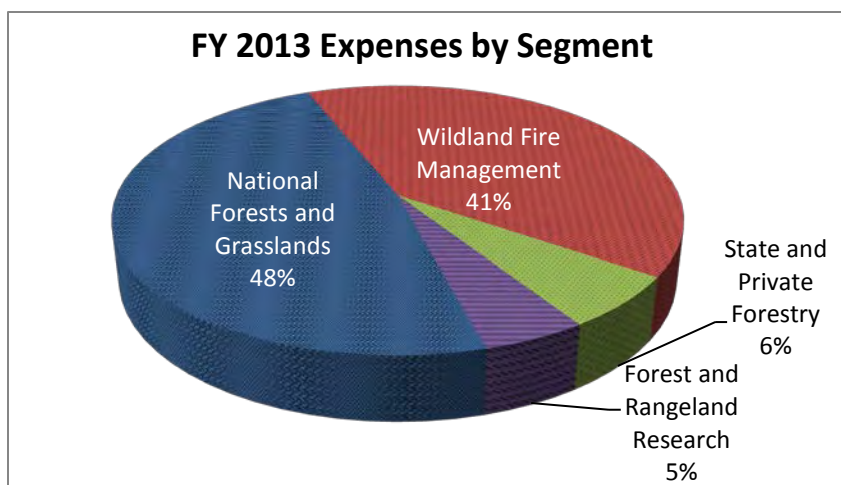
<b>Net Cost of Operations</b>	<b>FY 2013</b>	<b>FY 2012</b>	<b>Difference in Dollars</b>	<b>Difference in Percentage</b>
Program Cost by Segment:				
National Forests and Grasslands	\$3,143	\$3,377	\$(234)	(7%)
Wildland Fire Management	2,658	2,833	(175)	(6%)
State and Private Forestry	411	388	23	6%
Forest and Rangeland Research	329	342	(13)	(4%)
Total Program Costs	6,541	6,940	(399)	(6%)
Less: Total Earned Revenue	761	839	(78)	(9%)
Net Cost of Operations	\$5,780	\$6,101	\$(321)	(5%)



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***Expenses***

Forest Service program costs are \$6.5 billion for FY 2013, representing a decrease of 6 percent from FY 2012.



***Revenue***

The Forest Service's earned revenue—from both public and intragovernmental sources—is \$761 million for FY 2013 and \$839 million for FY 2012, resulting in a decrease of \$78 million.

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 for fire and other activities completed for other Federal agencies, in accordance with the Economy Act and other authorities.

***Consolidated Statements of Changes in Net Position***

The Statements of Changes in Net Position report the change in net position during the reporting period. Net position is affected by changes to its two components: Unexpended Appropriations and Cumulative Results of Operations.

**TABLE 7. FOREST SERVICE NET POSITION (IN MILLIONS)**

Net Position	FY 2013	FY 2012	Difference in Dollars	Difference in Percentage
Unexpended Appropriations	\$1,043	\$1,510	\$(467)	(31%)
Cumulative Results of Operations	1,481	1,493	(12)	(1%)
Total Net Position	\$2,524	\$3,003	\$(479)	(16%)

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***Unexpended Appropriations***

The Unexpended Appropriations balance is \$1.0 billion for FY 2013, representing a decrease of 31 percent from FY 2012. The decrease is primarily due to sequestration. Unexpended Appropriations reflect the spending authority made available by congressional appropriation, but not used.

***Cumulative Results of Operations***

The Cumulative Results of Operations amount reflects the cumulative effect of financing in excess of expenditures and includes funds from dedicated collections. It is the funds from dedicated collections that predominately finance the enhancement and maintenance of NFS lands, including reforestation. Funds from dedicated collections are presented separately on the Statements of Changes in Net Position, in accordance with the Statement of Federal Financial Accounting Standard 43—Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds. For a detailed description of each fund, see Note 11: Funds from Dedicated Collections in Part B. Financial Section of the AFR.

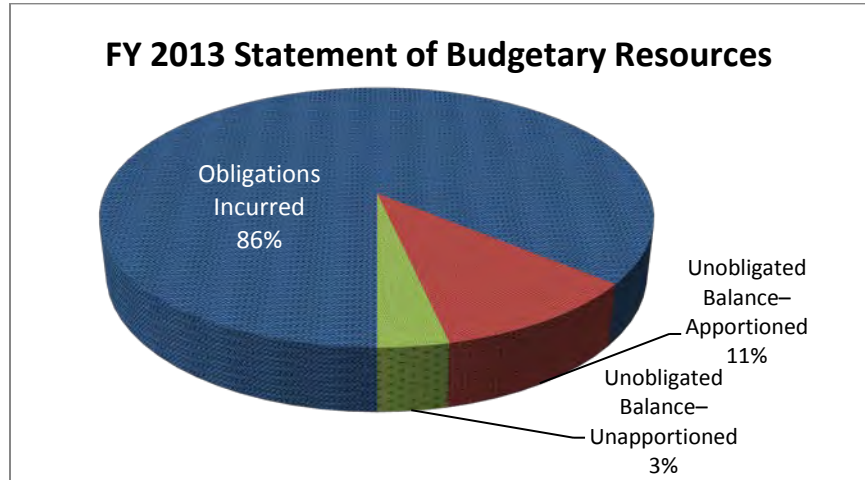
***Combined Statements of Budgetary Resources***

In accordance with Federal statutes and implementing guidance from OMB, the Forest Service may incur obligations and make payments to the extent it has budgetary resources to cover such items. The Combined Statements of Budgetary Resources presents the sources of these budgetary resources, the status of the funds at yearend, and the relationship between its budgetary resources and the outlays made against them. Forest Service's total budgetary resources were \$7.8 billion in FY 2013 and \$8.1 billion in FY 2012, representing a decrease of 4 percent from FY 2012.

**TABLE 8. FOREST SERVICE STATEMENT OF BUDGETARY RESOURCES (IN MILLIONS)**

<b>Statement of Budgetary Resources</b>	<b>FY 2013</b>	<b>FY 2012</b>	<b>Difference in Dollars</b>	<b>Difference in Percentage</b>
Total Budgetary Resources	\$7,779	\$8,090	\$(311)	(4%)
Status of Budgetary Resources				
Obligations Incurred	6,692	6,698	(6)	(<1%)
Unobligated Balance—Apportioned	816	800	16	2%
Unobligated Balance—Unapportioned	271	592	(321)	(54%)
Total Status of Budgetary Resources	\$7,779	\$8,090	\$(311)	(4%)

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***Unobligated Balance—Appportioned***

The Unobligated Balance—Appportioned was \$816 million (10 percent) in FY 2013.

***Unobligated Balance—Unapportioned***

The Unobligated Balance—Unapportioned was \$271 million (4 percent) in FY 2013. The decrease is primarily due to sequestration.

## **Analysis of Systems, Controls, and Legal Compliance**

### *Management Assurances*

#### ***Federal Managers' Financial Integrity Act***

The Federal Managers' Financial Integrity Act (FMFIA) management control objectives (below) identify those deficiencies that seriously affect an agency's ability to meet these management control objectives as "material weaknesses."

The FMFIA or Integrity Act requires agency managers to reasonably assure Congress and the American public that all financial information meets the following control objectives:

- Programs achieve their intended results
- Resources are used consistent with overall mission
- Programs and resources are free from waste, fraud, and mismanagement
- Laws and regulations are followed
- Controls are sufficient to minimize any improper or erroneous payments
- Performance information is reliable
- System security is in substantial compliance with all relevant requirements
- Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels

#### **FMFIA Assertions**

Forest Service management conducted its annual evaluations of internal control (FMFIA, Section 2) and financial systems (FMFIA, Section 4), effective for the period ending September 30, 2013.

#### ***Federal Financial Management Improvement Act***

The Federal Financial Management Improvement Act (FFMIA) mandates that agencies "...implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level." FFMIA also requires any agency unable to report substantial compliance with these requirements to develop remediation plans.

#### **FFMIA Assertions**

As of September 30, 2013, the Forest Service's financial management systems overall substantially comply with applicable Federal accounting standards, application of the USSGL at the transaction level, and Federal financial management systems requirements. However, there was a certain instance in which Forest Service user access, authorization, and password controls were not in compliance with Forest Service policy and Federal financial management systems requirements. In addition, adequate segregation of duties was not maintained in one financial system.

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***Federal Information Security Management Act***

The Federal Information Security Management Act (FISMA) provides the framework for securing the Federal Government's information technology (IT). 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. No IT material weaknesses were noted for Assurance Year 2013 (ending June 30, 2013), in accordance with USDA's Implementation Guide for OMB Circular A-123, Internal Control over Financial Reporting, Appendix A.

***Internal Control Over Financial Reporting (Circular A-123, Appendix A)***

Forest Service management recognizes its responsibility for monitoring and correcting all internal control deficiencies.

To identify potential deficiencies, the agency conducted an assessment of the effectiveness of internal control over financial reporting for the 2013 Assurance Year (ending June 30, 2013).

The Forest Service prepares risk assessments to evaluate program vulnerabilities for internal controls and then tests the controls to assess the level of internal control at the agency level. The agency uses the following procedures in this process:

- Process narratives and flowcharts are used to evaluate workflow and internal control from beginning to end of program responsibility
- Documentation and design of key controls are reviewed with management and key staff
- The operating effectiveness of properly designed controls is tested by recalculating and verifying compliance with policy and procedures
- Corrective action plans are developed for control and significant deficiencies

Based on the results of the assessment, the Forest Service can provide qualified assurance that controls over the financial reporting area are operating effectively.

***Anti-Deficiency Act Compliance***

In FY 2013, the Forest Service identified an Anti-Deficiency Act (ADA) violation relating to 31 U.S.C. Section 1517 that specifically prohibits an agency from making obligations or expenditures in excess of an apportionment or reapportionment or in excess of the amount permitted by agency regulations.

***Background***

The Energy Policy Act of 2005 (Public Law 109-85) established congressional direction in Section 365 for the Secretary of the Interior to create a pilot project to improve Federal permit coordination. The Bureau of Land Management (BLM) transfers funds to the Forest Service to participate in the pilot. Priorities for the piloted program are to identify additional expertise to accomplish congressional direction to improve Federal permit coordination, continue improvement in processing oil and gas permits, and establish a joint Geographic Information Systems database tracking system between the BLM and the Forest Service. The White River National Forest and Thunder Basin Grasslands in the Rocky

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Mountain Region, the Carson National Forest in the Southwest Region, and the Ashley National Forest in Intermountain Region participated in the pilot.

**Situation**

The Forest Service reported obligations or expenditures in excess of the balance transferred to the Forest Service from the DOI BLM as of December 31, 2012. Reports indicated that the Forest Service spent \$6,781.90 in excess of the \$72,000 carried over from FY 2012. Although actions had transpired to obtain the funding needed for FY 2013 work by Forest Service and BLM, the warrant with additional funding was not received until January 31, 2013.

*Limitations of Financial Statements*

The Forest Service's principal financial statements have been prepared to report the financial position and results of operations of the agency, pursuant to the requirements of Title 31 of the United States Code, Section 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 that are prepared from the same books and records.

These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

U.S. Department of Agriculture  
Forest Service  
CONSOLIDATED BALANCE SHEETS  
As of September 30, 2013 and 2012  
(in millions)

	<u>2013</u>	<u>2012</u>
<b>Assets:</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$3,305	\$3,684
Accounts Receivable, net (Note 3)	22	16
Total Intragovernmental	<u>3,327</u>	<u>3,700</u>
Cash and Other Monetary Assets	0	1
Accounts Receivable, net (Note 3)	204	280
General Property, Plant, and Equipment (PP&E), net (Note 4)	1,338	1,392
Other (Note 1D)	24	25
<b>Total Assets</b>	<u>\$4,893</u>	<u>\$5,398</u>
Stewardship PP&E (Note 5)		
<b>Liabilities:</b>		
Intragovernmental:		
Accounts Payable	\$1	\$0
Federal Employee Benefits (Notes 6 & 7)	71	71
Other (Note 9)	46	159
Total Intragovernmental	<u>118</u>	<u>230</u>
Accounts Payable	52	32
Federal Employee Benefits (Notes 6 & 7)	420	399
Environmental and Disposal Liabilities (Note 8)	120	2
Other (Note 9)	1,659	1,732
<b>Total Liabilities (Note 6)</b>	<u>2,369</u>	<u>2,395</u>
Commitments and Contingencies (Note 9)		
<b>Net Position:</b>		
Unexpended Appropriations - All Other funds	1,043	1,510
Cumulative Results of Operations - Funds from Dedicated Collections (Note 11)	669	803
Cumulative Results of Operations - All Other funds	812	690
<b>Total Net Position</b>	<u>2,524</u>	<u>3,003</u>
<b>Total Liabilities and Net Position</b>	<u>\$4,893</u>	<u>\$5,398</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, 2013 and 2012  
(in millions)

	<u>2013</u>	<u>2012</u>
Program Costs (Note 12):		
Total Gross Costs	\$6,541	\$6,940
Less: Total Earned Revenue	761	839
Net Cost of Operations	<u>\$5,780</u>	<u>\$6,101</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, 2013 and 2012  
(in millions)

	2013			2012		
	Funds from Dedicated Collections (Note 11)	All Other Funds	Consolidated Total	Funds from Dedicated Collections (Note 11)	All Other Funds	Consolidated Total
Cumulative Results of Operations:						
Beginning Balance	\$803	\$690	\$1,493	\$1,002	\$759	\$1,761
Adjustment						
Change in Accounting Principle (Note 1T)	0	(118)	(118)	0	0	0
Beginning Balance, as Adjusted	\$803	\$572	\$1,375	\$1,002	\$759	\$1,761
Budgetary Financing Sources:						
Appropriations Used	0	5,509	5,509	0	5,264	5,264
Non-Exchange Revenue	0	0	0	0	1	1
Donations and Forfeitures of Cash	1	0	1	1	0	1
Transfers - In/Out without Reimbursement	27	110	137	(219)	355	136
Other Financing Sources (Non-Exchange):						
Transfers without Reimbursement	(188)	1	(187)	(18)	18	0
Imputed Financing	0	348	348	0	372	372
Other	80	(2)	78	76	(17)	59
Total Financing Sources	(80)	5,966	5,886	(160)	5,993	5,833
Net Cost of Operations	(54)	(5,726)	(5,780)	(39)	(6,062)	(6,101)
Net Change	(134)	240	106	(199)	(69)	(268)
Cumulative Results of Operations	669	812	1,481	803	690	1,493
Unexpended Appropriations:						
Beginning Balance	0	1,510	1,510	0	2,056	2,056
Budgetary Financing Sources:						
Appropriations Received	0	5,303	5,303	0	4,728	4,728
Appropriation Transfers - In/Out	0	(4)	(4)	0	(1)	(1)
Other Adjustments	0	(257)	(257)	0	(9)	(9)
Appropriations Used	0	(5,509)	(5,509)	0	(5,264)	(5,264)
Total Budgetary Financing Sources	0	(467)	(467)	0	(546)	(546)
Total Unexpended Appropriations	0	1,043	1,043	0	1,510	1,510
Net Position	\$669	\$1,855	\$2,524	\$803	\$2,200	\$3,003

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, 2013 and 2012  
(in millions)

	2013	2012
Budgetary Resources:		
Unobligated Balance, Brought Forward, October 1	\$1,392	\$1,907
Unobligated Balance Brought Forward, October 1, as Adjusted	1,392	1,907
Recoveries of Prior Year Unpaid Obligations	21	131
Other Changes in Unobligated Balance (+ or -)	0	(2)
Unobligated Balance from Prior Year Budget Authority, net	1,413	2,036
Appropriations (Discretionary & Mandatory)	5,653	5,296
Spending Authority from Offsetting Collections (Discretionary & Mandatory)	713	758
Total Budgetary Resources (Note 15)	<u>\$7,779</u>	<u>\$8,090</u>
Status of Budgetary Resources:		
Obligations Incurred (Note 14)	\$6,692	\$6,698
Unobligated Balance, End of Period:		
Apportioned (Note 2)	816	800
Unapportioned (Note 2)	271	592
Total Unobligated Balance, End of Period	<u>1,087</u>	<u>1,392</u>
Total Status of Budgetary Resources (Note 15)	<u>\$7,779</u>	<u>\$8,090</u>
Change in Obligated Balance:		
Unpaid Obligations, Brought Forward, October 1	\$2,557	\$2,771
Obligations Incurred	6,692	6,698
Outlays (Gross) (-)	(6,877)	(6,781)
Recoveries of Prior Year Unpaid Obligations (-)	(21)	(131)
Unpaid Obligations, End of Year	<u>2,351</u>	<u>2,557</u>
Uncollected Payments:		
Uncollected Customer Payments from	(531)	(485)
Federal Sources, Brought Forward, October 1 (-)		
Change in Uncollected Customer Payments, Federal Sources (+ or -)	72	(46)
Uncollected Payments, Federal Sources, End of Year (-)	<u>(459)</u>	<u>(531)</u>
Memorandum (non-add) Entries:		
Obligated Balance, Start of Year (+ or -)	2,026	2,286
Obligated Balance, End of Year (+ or -)	1,892	2,026
Budget Authority and Outlays, Net:		
Budget Authority, Gross (Discretionary and Mandatory)	\$6,366	\$6,054
Actual Offsetting Collections (Discretionary and Mandatory)	(785)	(712)
Change in Uncollected Customer Payments from Federal sources (Discretionary and Mandatory) (+ or -)	72	(46)
Budget Authority, net (Discretionary and Mandatory)	<u>\$5,653</u>	<u>\$5,296</u>
Outlays, Gross (Discretionary and Mandatory)	\$6,877	\$6,781
Actual Offsetting Collections (Discretionary and Mandatory)	(785)	(712)
Outlays, net (Discretionary and Mandatory)	6,092	6,069
Distributed Offsetting Receipts (-)	(693)	(530)
Agency Outlays, net (Discretionary and Mandatory)	<u>\$5,399</u>	<u>\$5,539</u>

The accompanying notes are an integral part of these statements.

**U.S. Department of Agriculture  
Forest Service  
Notes to the Consolidated and Combined Financial Statements  
For the years ended September 30, 2013 and 2012**

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**NOTE 1:     SIGNIFICANT ACCOUNTING POLICIES**

**A: REPORTING ENTITY**

The U.S. Department of Agriculture (USDA), Forest Service (Forest Service) was established on February 1, 1905, as an agency of the United States Federal Government within the USDA, for the purpose of maintaining and managing the Nation's forest reserves. It operates under the guidance of the Under Secretary for Natural Resources and Environment. Forest Service policy is implemented through nine regional National Forest System (NFS) offices, one State and Private Forestry area office, five Research and Development stations, the Forest Products Laboratory, and the International Institute of Tropical Forestry. The Forest Service functions in nearly all States, Puerto Rico, and the U.S. Virgin Islands.

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

- National Forests and Grasslands—Protection and management of an estimated 193 million acres (unaudited) of NFS land that include 36.6 million acres (unaudited) of designated wilderness areas. In addition, the Forest Service partners with other nations and organizations to foster global natural resource conservation and sustainable development of the world's forest resources.
- Forest and Rangeland Research—Research and development of forest and rangeland management practices to provide scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the 1.3 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.
- Wildland Fire Management—Protection of life, property, and natural resources on NFS lands, extending to an estimated additional 20 million acres (unaudited) of adjacent State and private lands.

The accompanying consolidated and combined financial statements of the Forest Service account for all funds under the Forest Service's control. Substantially, all assets are considered "entity assets" and are available for use in the Forest Service's operations.

**B: BASIS OF PRESENTATION AND ACCOUNTING**

The Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and the Combined Statements of Budgetary Resources (SBR) (hereinafter referred to as the "financial statements") were prepared to report the financial position, net costs, changes in net position, and budgetary resources of the Forest Service. The financial statements have been prepared from the books and records of the Forest Service in accordance with accounting principles generally accepted in the United States of America as promulgated by the Federal Accounting Standards Advisory Board (U.S. GAAP) and in accordance with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised October 21, 2013. All material intra-agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the SBR is presented on a combined basis in accordance with OMB Circular A-136.

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

The Forest Service recognizes budgetary resources as assets when cash funds held by U.S. Department of

**U.S. Department of Agriculture  
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Notes to the Consolidated and Combined Financial Statements  
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Treasury (Treasury) is made available through the Treasury General Fund warrants and other transfers. In addition to appropriated funds, the 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 Forest Service's earned revenues are monies collected from timber sales or recreation fees.

**C: FUND BALANCE WITH TREASURY**

Treasury processes cash receipts and disbursements on behalf of the Forest Service. Funds on deposit with 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 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.

**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 Forest Service capitalization threshold for real and personal property is \$25,000 or more. Internal use software is capitalized in accordance with U.S. GAAP if the fair value meets or exceeds \$100,000. The Forest Service recognizes liabilities for capital leases in accordance with U.S. GAAP. Under U.S. GAAP, 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. There are no restrictions on the use or convertibility of general PP&E.

See Note 5 for specific disclosures related to multiuse Heritage Assets.

**F: STEWARDSHIP PP&E**

Stewardship PP&E includes assets such as heritage assets and stewardship land, which due to their unique nature would be difficult to value. In accordance with U.S. GAAP, all heritage assets and stewardship land information has been reclassified as basic, except for condition information, which is reclassified as required supplementary information.

See Note 5 for specific disclosures related to Stewardship PP&E.

**G: LIABILITIES**

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

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**H: ENVIRONMENTAL AND DISPOSAL LIABILITIES**

***Environmental and Disposal Liabilities***

The Forest Service's estimated environmental and disposal liabilities are Government-related and Government-acknowledged in origin, principally associated with the future remediation of certain landfills, buildings, and other related sites in accordance with all applicable Federal, State, and local laws.

See Note 8 for specific disclosures related to cleanup costs for ongoing operations.

***Asbestos Abatement Liabilities***

In accordance with the Financial Accounting Standards Advisory Board's (FASAB) Technical Bulletin 2006-1, issued September 28, 2006, the Forest Service implemented new reporting requirements for estimated abatement liabilities for nonfriable asbestos. Prior to this technical bulletin, Forest Service recognized liabilities for the removal of asbestos that posed an immediate health threat (i.e., friable asbestos), but had not prepared an estimate of cleanup costs for the future removal of asbestos that did not pose an immediate health threat (i.e., nonfriable asbestos). The new reporting requirement is effective for reporting periods beginning after September 30, 2012. The amount of the asbestos liability shall be shown as a "change in accounting principle" in the Statement of Changes in Net Position for fiscal year 2013.

See Note 8 for specific disclosures related to asbestos abatement liabilities.

**I: COMMITMENTS AND CONTINGENCIES**

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

See Note 9 for specific disclosures related to commitments and contingencies.

**J: WORKERS' COMPENSATION LIABILITY**

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

**K: EMPLOYEE ANNUAL, SICK, AND OTHER LEAVE**

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

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**L: PENSION AND OTHER RETIREMENT BENEFITS**

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 Forest Service's matching contribution, equal to 7.0 percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987, pursuant to Public Law 99-335. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984, could elect to join FERS and Social Security, or choose to remain in CSRS. FERS offers a savings plan to which the Forest Service automatically contributes 1.0 percent of pay and matches any employee contribution up to an additional 4.0 percent of pay. For FERS participants, the Forest Service also contributes the employer's matching share for Social Security.

The Forest Service recognizes the imputed cost of pension and other health and life insurance retirement benefits during the employees' active years of service. The 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 Forest Service for current period expense reporting.

**M: REVENUES AND OTHER FINANCING SOURCES**

The Forest Service is funded principally through congressional appropriations and other authorizations in the budget of the United States. The Forest Service receives annual, multiyear, 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 U.S. GAAP, the 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 Forest Service is required to remit exchange revenue receipts to Treasury. In other instances, the 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 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 U.S. GAAP, the 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 12 as intragovernmental or with the public based on the related source or customer, respectively.

**N: IMPUTED FINANCING**

The 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, OPM. Amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against the Forest Service are also recognized as imputed financing. Imputed financing for the years ended September 30, 2013 and 2012 was \$348 million and \$372 million, respectively.

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**O: PARENT/CHILD REPORTING REQUIREMENTS**

The Forest Service is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. In accordance with OMB Circular A-136, all financial activity related to these allocation transfers (e.g., budget authority, obligations, and outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived. The Forest Service allocates funds as the parent to the U.S. Department of the Interior (DOI), Department of the Army, Department of the Navy, Department of the Air Force, and the U.S. Corps of Engineers, Civil. The Forest Service receives allocation transfers, as the child, from the DOL, Department of Transportation, and DOI.

**P: USE OF ESTIMATES**

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

**Q: FUNDS FROM DEDICATED COLLECTIONS**

The Forest Service reports the funds from dedicated collections for which it has program management responsibility, using the following three criteria:

- A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-Federal source only for designated activities, benefits, or purposes.
- Explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes.
- A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the Federal Government's general revenues.

For further information see Note 11.

**R: INTER-ENTITY COST IMPLEMENTATION**

In accordance with U.S. GAAP, each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods and services has the responsibility to provide the receiving entity with information on the full cost of such goods or services either through billing or other advice.

Recognition of inter-entity costs that are not fully reimbursed is limited to material items that (1) are significant to the receiving entity, (2) form an integral or necessary part of the receiving entity's output, and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provided by an entity to all or most other entities should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity.

**S: RECLASSIFICATIONS**

Certain amounts in the prior year's SBR have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported SBR.

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**T: CHANGE IN ACCOUNTING PRINCIPLE**

Effective for FY 2013, the Forest Service implemented a change in accounting principle to comply with the Federal Accounting Standards Advisory Board's Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*. This change requires (1) estimation of both friable and nonfriable asbestos-related cleanup costs and (2) recognition of a liability and related expense for those costs that are both probable and reasonably estimable, consistent with the current guidance in Statement of Federal Financial Accounting Standard (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, SFFAS 6, *Accounting for Property, Plant, and Equipment*, Chapter 4: Cleanup Costs, and Technical Release (TR) 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*. The liability for FY 2013 is recognized as an adjustment to the beginning balance of Cumulative Results of Operations in the Statement of Changes in Net Position.

See Note 8 for specific disclosures related to asbestos abatement liabilities.



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**NOTE 2: FUND BALANCE WITH TREASURY**

Funds with the U.S. Department of Treasury (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 suspense accounts. It is the Forest Service's policy to ensure the Fund Balance with Treasury (FBWT) reported on the balance sheets is consistent with the records of the Treasury.

**Fund Balance with Treasury as of September 30, 2013 and 2012 (in millions)**

	<b>2013</b>	<b>2012</b>
A. Fund Balances:		
(1) Trust Funds	\$207	\$236
(2) Special Funds	774	909
(3) Revolving Funds	179	185
(4) General Funds	1,993	2,235
(5) Other Fund Types	152	119
<b>Total</b>	<b>\$3,305</b>	<b>\$3,684</b>
B. Status of Funds:		
(1) Unobligated Balance		
(a) Available	\$816	\$800
(b) Unavailable	271	592
(2) Obligated Balance not yet Disbursed	1,892	2,026
(3) Non-Budgetary FBWT Accounts	326	266
<b>Total</b>	<b>\$3,305</b>	<b>\$3,684</b>

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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 Forest Service. An Allowance for Uncollectible Accounts is not established for these amounts because monies due from other Federal entities are considered fully collectible. As of September 30, 2013 and 2012, the Intragovernmental Accounts Receivable balances were \$22 million and \$16 million, respectively.

Nonintragovernmental Accounts Receivable is comprised primarily of timber harvest and reimbursements and refunds owed to the Forest Service for fire prevention and suppression activities. An Allowance for Uncollectible Accounts is established against outstanding non-Federal accounts receivable based on historical experience. The historical percentage is calculated by comparing the ending fiscal year balance in the write-off account against the previous ending fiscal year balance of open accounts receivable. The historical percentage is then applied to the ending balance of open accounts receivable. This approach is used to estimate the allowance for uncollectible accounts and recording receivables at net realizable value.

**Nonintragovernmental Accounts Receivable as of September 30, 2013 and 2012 (in millions)**

	<u>2013</u>	<u>2012</u>
Accounts Receivable	\$217	\$300
Allowance for Uncollectible Accounts	<u>(13)</u>	<u>(20)</u>
<b>Accounts Receivable, Net</b>	<b><u>\$204</u></b>	<b><u>\$280</u></b>

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**NOTE 4: GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET**

Depreciation of General PP&E for the 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.

**General Property, Plant, and Equipment as of September 30, 2013 (in millions)**

<b>Property Class</b>	<b>Estimated Useful Life (Years)</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
<b>Personal Property</b>				
Equipment	5 - 20	\$698	\$(446)	\$252
Internal Use Software	5	108	(98)	10
Internal Use Software in Development	n/a	76	0	76
<b>Total Personal Property</b>		<b>882</b>	<b>(544)</b>	<b>338</b>
<b>Real Property</b>				
Land and Land Rights	n/a	52	0	52
Improvements to Land	10	747	(681)	66
Construction in Progress	n/a	91	0	91
Buildings, Improvements, and Renovations	15 - 30	1,106	(656)	450
Other Structures and Facilities	15 - 50	1,742	(1,420)	322
Assets Under Capital Lease	5 - 30	57	(41)	16
Leasehold Improvements	10	12	(9)	3
<b>Total Real Property</b>		<b>3,807</b>	<b>(2,807)</b>	<b>1,000</b>
<b>Total</b>		<b>\$4,689</b>	<b>\$(3,351)</b>	<b>\$1,338</b>

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**General Property, Plant, and Equipment as of September 30, 2012 (in millions)**

<b>Property Class</b>	<b>Estimated Useful Life (Years)</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
<b>Personal Property</b>				
Equipment	5 - 20	\$686	\$(438)	\$248
Internal Use Software	5	107	(91)	16
Internal Use Software in Development	n/a	68	0	68
<b>Total Personal Property</b>		<b>861</b>	<b>(529)</b>	<b>332</b>
<b>Real Property</b>				
Land and Land Rights	n/a	52	0	52
Improvements to Land	10	745	(662)	83
Construction in Progress	n/a	138	0	138
Buildings, Improvements, and Renovations	15 - 30	1,058	(631)	427
Other Structures and Facilities	15 - 50	1,720	(1,382)	338
Assets Under Capital Lease	5 - 30	58	(39)	19
Leasehold Improvements	10	12	(9)	3
<b>Total Real Property</b>		<b>3,783</b>	<b>(2,723)</b>	<b>1,060</b>
<b>Total</b>		<b>\$4,644</b>	<b>\$(3,252)</b>	<b>\$1,392</b>

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**NOTE 5: STEWARDSHIP PROPERTY, PLANT, AND EQUIPMENT**

This note provides information on certain resources entrusted to and stewardship responsibilities assumed by the Forest Service. These resources and responsibilities are referenced in accordance with U.S. GAAP on the Forest Service's Balance Sheets.

***Stewardship PP&E***

Stewardship PP&E are assets whose physical properties resemble those of the General PP&E that are 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 Forest Service reports Stewardship PP&E by site. Sites include national forests, national grasslands, other Forest Service-managed sites, and non-Forest Service-managed sites, such as museums and university laboratories. The protection of these lands and resources is a fundamental Forest Service responsibility.

The mission of the Forest Service is to sustain the health, diversity, and productivity of the Nation's forests and grasslands to meet the needs of present and future generations. The Forest Service strives to achieve quality land management under the sustainable multiple-use management concept to deliver the necessary products and services that are essential for enhancing natural resource stewardship and to meet the diverse needs of people.

The preservation and management of heritage assets is guided through the enactment of many laws and regulations, including the Organic Administration Act of 1897 (16 U.S.C. 473-478, 479-482, 551), the Antiquities Act of 1906 (16 U.S.C. 431), the National Historic Preservation Act of 1966 (16 U.S.C. 470), the Archaeological Resources Protection Act of 1979 (16 U.S.C. 470aa *et seq.*), the Native American Graves Protection and Repatriation Act of 1990 (25 U.S.C. 3001), Executive Order 13287—Preserve America (issued March 3, 2003), National Register of Historic Places (36 CFR, part 60), Protection of Archaeological Resources Uniform Regulations (36 CFR part 296), and the Curation of Federally-owned and Administered Archaeological Collections (36 CFR part 79), as well as many others.

The predominant laws governing the management of stewardship land are the Transfer Act of 1905 (16 U.S.C. 472, 478, 495, 551, 554a, 615b, 554, 524), the Multiple Use-Sustained Yield Act of 1960 (16 U.S.C. 528-531, 528 note), the Forest and Rangeland Renewable Resources Planning Act of 1974 (16 U.S.C. 1600 note, 1600-1614), and the National Forest Management Act of 1976 (16 U.S.C. 472a).

These laws and regulations are implemented through Forest Service policy and guidance. Program management evaluations and technical reviews are performed to ensure compliance.

***Heritage Assets***

Heritage assets, as defined by U.S. GAAP, are PP&E that are unique for one or more of the following reasons:

- Historical or natural significance
- Cultural, educational, or artistic (e.g. aesthetic) importance
- Significant architectural characteristics

Heritage assets can include noncollection type assets, such as historic or prehistoric sites, monuments, and buildings, or collection type assets, such as objects gathered and maintained for exhibition at Forest Service locations and at non-Forest Service sites.

Some heritage assets may also be classified as multiuse heritage assets if they serve two purposes—a heritage function and a general government operations function, such as a forest guard station building. The building may be listed on the National Register of Historic Places, but it serves primarily as an administrative site, hence, it is considered a “multiuse” heritage asset. Multiuse heritage assets are capitalized as General PP&E. Multiuse

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heritage assets are reported as Stewardship PP&E.

Heritage Asset categories can include the following:

Priority Heritage Assets (PHA): Heritage assets of distinct public value that are, or should be, actively maintained, and meet one or more of the following criteria:

- The property is recognized through an official designation, such as a listing on the National Register of Historic Places, State register, etc.
- The property is recognized through prior investment in preservation, interpretation, and use. Any improvement to a PHA that meets real property designation criteria is considered real property.
- The property is recognized in an agency-approved management plan.
- The property exhibits critical deferred maintenance needs, and those needs have been documented.

Other Heritage Assets: Assets that may have potential important historical or cultural significance, but lack formal listing and the demonstrated need for active maintenance.

Assemblage Assets: Any grouping of artifacts or archival materials aggregated through donation, agency events, site-specific or other field collection, other acquisition method, or combination therein.

***Addition and Deletion 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 may be added through the procurement process, but this rarely occurs. Normally, heritage assets are part of the land acquisition and inventory process. Deletion occurs through land exchange or natural disasters. Most additions occur through inventory activities where previously undocumented sites are discovered and added to the total.

**Heritage Assets Site by Management Area as of September 30, 2013**

<b>Heritage Asset Sites by Management Area</b>	<b>2012 Final Sites</b>	<b>Additions</b>	<b>Deletions</b>	<b>2013 Final Sites</b>
<b>National Forests</b>				
Region 1 - Northern Region	15	0	0	15
Region 2 - Rocky Mountain Region	17	0	0	17
Region 3 - Southwestern Region	12	0	0	12
Region 4 - Intermountain Region	18	0	0	18
Region 5 - Pacific Southwest Region	18	0	0	18
Region 6 - Pacific Northwest Region	21	0	0	21
Region 8 - Southern Region	34	0	0	34
Region 9 - Eastern Region	17	0	0	17
Region 10 - Alaska Region	2	0	0	2
Subtotal	154	0	0	154

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<b>Heritage Asset Sites by Management Area</b>	<b>2012 Final Sites</b>	<b>Additions</b>	<b>Deletions</b>	<b>2013 Final Sites</b>
<b>National Grasslands</b>				
Region 1 - Northern Region	4	0	0	4
Region 2 - Rocky Mountain Region	7	0	0	7
Region 3 - Southwestern Region	4	0	0	4
Region 4 - Intermountain Region	1	0	0	1
Region 5 - Pacific Southwest Region	1	0	0	1
Region 6 - Pacific Northwest Region	1	0	0	1
Region 8 - Southern Region	2	0	0	2
Subtotal	20	0	0	20
<b>Non-Forest Service Sites</b>	168	7	(7)	168
<b>TOTAL SITES</b>	<b>342</b>	<b>7</b>	<b>(7)</b>	<b>342</b>

- Region 1— Montana, North Dakota, northern Idaho, and northwestern South Dakota
- Region 2—Colorado, Kansas, Nebraska, South Dakota, and Wyoming
- Region 3—Arizona and New Mexico
- Region 4—Southern Idaho, Nevada, Utah, and western Wyoming
- Region 5—California, Hawaii, Guam, and Trust Territories of the Pacific Islands
- Region 6—Oregon and Washington
- Region 8—Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, Virgin Islands, and Virginia
- Region 9—Delaware, Illinois, Indiana, Iowa, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, West Virginia, and Wisconsin
- Region 10—Alaska

***Stewardship Land***

Stewardship land consists primarily of the national forests and grasslands owned by the 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.

***National Forests***

The national forests are formally established and permanently set aside and reserved for national forest purposes. The following categories of National Forest System (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.

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- 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.

***Research and Experimental Areas***

Research and experimental areas are reserved and dedicated by the Secretary of Agriculture for forest and range research experimentation. Areas reported are located outside the exterior boundaries of a national forest or grassland.

***National Preserves and Other Areas***

National preserves are established to protect and preserve scientific, scenic, geologic, watershed, fish, wildlife, historic, cultural, and recreational values and provide for multiple use and sustained yield of its renewable resources. Other areas include areas administered by the Forest Service that are not included in one of the above groups.

***Addition and Deletion of Stewardship Lands***

The Land and Water Conservation Fund (L&WCF) Land Acquisition Program acquires land for the NFS. The program coordinates with a variety of partners, including State, local, and tribal governments, and private landowners through statewide planning for development of a land-adjustment strategy.

The Land Acquisition Program preserves, develops, and maintains access to NFS lands and waters for the public and provides permanent access to public lands for recreation, commodity production, resource management, public safety, and community economic viability.

The L&WCF statutory authority specifically defines the purpose to also include protecting the quality of scientific, scenic, historical, ecological, environmental, air and atmospheric, water resource, archeological values, as well as food and habitat for fish and wildlife, and managing the public lands for minerals, food, timber and fiber.

From these several allowable uses of program funding, the program concentrates on protecting habitat for priority species identified in the national forest and grassland's land management plans and enhancing recreational opportunities for areas with high demand for recreation. The program focuses acquisitions on inholdings and areas adjacent to existing NFS lands.



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**NFS Sites Reported by Major Category as of September 30, 2013**

<b>Stewardship Land Asset Sites</b>	<b>2012 Final Sites</b>	<b>Additions</b>	<b>Deletions</b>	<b>2013 Final Sites</b>
National Forests	154	0	0	154
National Grasslands	20	0	0	20
Research and Experiment Areas	3	0	0	3
National Preserves and Other Areas	3	0	0	3
<b>TOTAL SITES</b>	<b>180</b>	<b>0</b>	<b>0</b>	<b>180</b>

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

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided. Liabilities not covered by budgetary resources as of September 30, 2013 and 2012, consisted of the following:

**Liabilities Not Covered by Budgetary Resources as of September 30, 2013 and 2012 (in millions)**

	<b>2013</b>	<b>2012</b>
Intragovernmental:		
Treasury Judgment Fund	\$23	\$21
Other Unfunded Employment Related Liability (Note 9)	19	22
Federal Employee Benefits (Note 7)	71	71
Total Intragovernmental Not Covered by Budgetary Resources	<u>113</u>	<u>114</u>
Federal Employee Benefits (Note 7)	420	399
Environmental and Disposal Liabilities (Note 8)	120	0
Annual Leave Liability (Note 9)	201	209
Contingent Liabilities (Note 9)	40	43
Accrued Liability for Payments to States & Counties (Note 9)	325	346
Total Liabilities Not Covered by Budgetary Resources	<u>1,219</u>	<u>1,111</u>
Total Liabilities Covered by Budgetary Resources	<u>1,150</u>	<u>1,284</u>
<b>Total Liabilities</b>	<b><u>\$2,369</u></b>	<b><u>\$2,395</u></b>

Other Unfunded Employment Related Liability consists of the Forest Service portion of the unemployment compensation unfunded liability as established in § 909 of the Social Security Act, approved, August 14, 1935.

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**NOTE 7: FEDERAL EMPLOYEE BENEFITS**

Liabilities under the Federal Employees' Compensation Act (FECA) are incurred as a result of accrued workers' compensation benefits not yet paid by the Forest Service.

Workers' compensation benefits include the current and expected future liability for death, disability, medical, and other approved costs. The U.S. Department of Labor (DOL) actuarially determines the expected future liability for the USDA as a whole, including the Forest Service. The Forest Service is billed annually as its claims are paid by the DOL. Payments to the DOL are deferred for 2 years so that the bills may be funded through the budget. The amounts of unpaid FECA billings constitute the accrued FECA payable.

**Accrued FECA Payable as of September 30, 2013 and 2012 (in millions)**

	<u>2013</u>	<u>2012</u>
Intragovernmental Federal Employee Benefits (Note 6)	\$71	\$71
Federal Employee Benefits (Note 6)	420	399
<b>Total</b>	<b><u>\$491</u></b>	<b><u>\$470</u></b>

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**NOTE 8: ENVIRONMENTAL AND DISPOSAL LIABILITIES**

Forest Service discloses information related to cleanup costs for environmental hazards, in accordance with U.S. GAAP, which addresses liabilities associated with Government-related events and Government-acknowledged events.

Government-related events are nontransaction based events that involve interaction between the Forest Service and the environment; damages caused by such factors as ongoing operations or natural forces. The resulting liability is considered probable based on Forest Service's responsibility for the clean up of Government-related events and is recognized in the period the event occurs or as soon as it becomes measurable.

Government-acknowledged events are nontransaction events that are of financial consequence to the Forest Service because it chooses to respond to the event, and the primary responsible party cannot be located. Cleanup costs associated with events such as toxic waste damage caused by non-Federal entities or natural disasters may ultimately become the responsibility of the Forest Service. However, these costs do not meet the definition of a "liability" until, and to the extent that financial responsibility is acknowledged by the Forest Service, Congress has appropriated resources and an exchange or nonexchange transaction has occurred.

The Forest Service is subject to environmental laws and regulations regarding air, water, and land use; the storage and disposal of hazardous materials; and the operation and closure of facilities at which environmental contamination may be present. Forest Service project managers confer with the appropriate States, the Office of General Counsel (OGC), and occasionally, the U.S. Environmental Protection Agency (EPA), and local governments. The agency follows cleanup requirements from the legislative sources in Appendix I of Federal Financial Accounting and Auditing, Technical Release No. 2, Financial Accounting Standards Advisory Board publication Technical Bulletin 2006-1, including the Comprehensive Environmental Response Compensation and Liability Act of 1980, the Resource Conservation and Recovery Act, other Federal or State regulations, and USDA or Forest Service policy, as necessary. Estimated environmental and disposal liabilities include expected future cleanup costs, and the cost of studies necessary to evaluate response requirements for those sites where future liability is unknown. Estimated asbestos abatement liabilities also include expected future cleanup costs and the cost of preabatement inspection surveys. These surveys are used to determine the extent and type of asbestos-containing building materials requiring removal and disposal during asset renovation or demolition.

***Environmental and Disposal Liabilities***

PP&E cleanup cost estimates, usually immaterial to the total project cost for the majority of demolitions, deconstructions, or renovations, are included in PP&E operations and maintenance costs (O&M). When contamination occurs that is not addressed under regular O&M, the agency develops a cost estimate for the total clean up and, to the extent it is probable and reasonable to estimate, records the cost to clean up any contaminated PP&E. Professional judgment and prior experience is often the basis for cost estimates. If the agency has no previous similar experience, the staff performs other comparable technical reviews or derives estimates using standard cost estimating guides.

Exceptions occur when a *previous* activity results in release or potential release of a hazardous substance and if contamination migrates offsite from a *current* operation. In these instances, the total reasonably estimable costs are recognized when the exception is discovered.

Forest Service cleanup cost estimates are based on the current total cost for a contaminated site according to laws, technology, and inflation/deflation. Forest Service updates cost estimates, including changes relating to prior period operations, for Government-related liabilities, at least annually, to reflect changes in laws or regulations, technology, and inflation or deflation.

The Forest Service estimated liability for Government-related events as of September 30, 2013 and 2012, was \$2 million for both fiscal years.

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***Asbestos Abatement Liabilities***

The Forest Service reports the clean up of free-floating asbestos that is an immediate threat to human health as a Government-related Environmental and Disposal Liability. However, the asbestos contained in building materials, such as wall board and ceiling tiles, is undisturbed and presents no immediate threat to human health. Recognizing the financial liability for asbestos abatement costs is a change in accounting principle, recorded and reported for the first time in FY 2013, as required by the FASAB. The amount of the adjustment shall be shown as a “change in accounting principle” on the Statement of Changes in Net Position.

The asbestos-related cleanup costs are recorded as a prior period adjustment in FY 2013. The total estimated asbestos abatement costs relates to prior period operations since the PP&E has been in service for a substantial portion of its estimated useful life. Estimates are calculated for buildings and structures constructed in years prior to 1981, per EPA and USDA Office of the Chief Financial Officer (OCFO) guidance. No asbestos abatement costs will be recovered through user charges.

The USDA OCFO developed a Department-wide estimation methodology and calculated an abatement cost factor that is applied to the Forest Service square footage of asset groups expected to have asbestos. The “Construction Date” was used to identify the Forest Service assets built before 1981 to determine the assets expected to have asbestos. A “Building Type” indicator is used to identify Forest Service asset groups. The asset groups are broken out between “Complex” and “Basic” building structures: “Complex” buildings and structures are those with electrical, plumbing, and heating, ventilation, and air conditioning (HVAC) systems; “Basic” buildings and structures are those without electrical, plumbing, and HVAC systems. “Basic” buildings and structures were examined further to identify assets that are not expected to have asbestos, such as amphitheaters or picnic pavilions. Forest Service total square footage for complex assets are multiplied times the Department cost rate, in recognition of the high probability, on average, that asbestos was present. For basic assets expected to contain asbestos (such as a cabin or barn), 50 percent of the square footage is multiplied times the Department cost rate, in recognition of the lower probability, on average, that asbestos was present. A liability amount was not calculated for “Basic” buildings and structures that are not expected to contain asbestos.

In addition to the estimate for asbestos abatement, Forest Service estimates preabatement inspection costs for each building over 4,999 square feet. These larger buildings are generally “central features” in a group of smaller buildings on one site or compound. An asbestos inspection generally includes all structures on the site, which is an economical approach because inspectors often must travel from larger cities to remote Forest Service locations. A construction industry standard publication for estimating the cost of construction jobs, R.S. Means Building Construction Cost Data, is used to determine the preabatement inspection cost for buildings over 4,999 square.

The only unrecognized portion of estimated asbestos abatement costs is the small segment of PP&E in which the presence of asbestos-containing materials is probable but not reasonably estimable. It is probable that numerous water and wastewater systems contain asbestos building materials but sufficient information is not available to determine a reasonable estimate of abatement costs. Water and wastewater systems constructed prior to 1981 include underground lengths of “transite pipe” (cement mixed with asbestos fibers), the linear footage of which cannot be estimated.

The Forest Service initial recognition of estimated liability for asbestos abatement costs as of September 30, 2013, is \$118 million.

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**NOTE 9: OTHER LIABILITIES**

**Other Liabilities as of September 30, 2013 and 2012 (in millions)**

	2013			2012		
	Non-Current	Current	Total	Non-Current	Current	Total
<b>Intragovernmental</b>						
Employer Contributions & Payroll Tax	\$0	15	\$15	\$0	37	\$37
Accrued Liabilities	23	14	37	21	34	55
Advances from Others	0	18	18	0	44	44
Deposit Liabilities	0	(43)	(43)	0	1	1
Other Unfunded Employment Related Liability (Note 6)	0	19	19	0	22	22
<b>Total Intragovernmental</b>	<b>\$23</b>	<b>23</b>	<b>\$46</b>	<b>\$21</b>	<b>138</b>	<b>\$159</b>
<b>Other</b>						
Accrued Liabilities	0	763	763	0	906	906
Advances from Others	0	89	89	0	86	86
Deposit Liabilities	0	215	215	0	119	119
Purchaser Road Credits	0	1	1	0	1	1
Accrued Liability for Payments to States & Counties (Note 6)	0	325	325	0	346	346
Annual Leave Liability (Note 6)	0	201	201	0	209	209
Contingent Liabilities (Note 6)	0	40	40	0	43	43
Custodial Liabilities	0	7	7	0	1	1
Capital Leases (Note 10)	13	3	16	16	3	19
Other	0	2	2	0	2	2
<b>Total Other</b>	<b>\$13</b>	<b>1,646</b>	<b>\$1,659</b>	<b>\$16</b>	<b>1,716</b>	<b>\$1,732</b>
<b>Total Other and Intragovernmental Liabilities</b>	<b>\$36</b>	<b>1,669</b>	<b>\$1,705</b>	<b>\$37</b>	<b>1,854</b>	<b>\$1,891</b>

As of September 30, 2013 and 2012, the Forest Service's major components of other liabilities are as follows:

**Accrued Liabilities:** Accrued liabilities consist primarily of accruals for payroll and for receipt of goods and services. Accrued liabilities for occupancy agreements between U.S. General Services Administration and the Forest Service are also included. A portion of the accrued liabilities total is calculated by a mathematical model based on a regression between open obligation balances and subsequent payments.

**Deposit Liabilities:** Deposit liabilities consist of collections deposited in deposit funds or clearing accounts awaiting disposition or reclassification.

**Accrued Liability for Payments to States and Counties:** The Twenty-Five Percent Fund Act of May 23, 1908, as amended (16 U.S.C. 500), authorized the Payments to States 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. The Secure Rural School and Community Self Determination Act of 2000, reauthorized on October 2, 2013, for FY 2013 as part of Public Law 113-40, also provides for roads and schools, Forest Service projects and emergency services. In addition, the Payments to Counties, Bankhead-Jones Farm Tenant Act of 1937 requires 25 percent of the net revenues from each national grassland or land utilization project to be paid to the counties in which such lands are located.

**Annual Leave Liability:** Annual and other vested leave such as compensatory, credit hours, and restored leave

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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. 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.

**Contingent Liabilities and Commitments:** Forest Service reports contingent liabilities and commitments based on cases that are provided by OGC (see Note 11). Management accrues liabilities for some adverse actions determined to be probable in occurrence and reasonably estimable. The Forest Service discloses potential liabilities related to claims where the probability of occurrence is at least reasonably possible. 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 that may require future financial obligations.

These liabilities typically relate to Federal Tort Claims Act administrative and judicial claims, contract-related actions, personnel and employment-related matters, and various land and resource related claims and adjudications. Most of the cash settlements are expected to be paid out of the Judgment Fund, which is maintained by Treasury, rather than the operating resources of the Forest Service.

The accrued and potential contingent liabilities as of September 30, 2013 and 2012, are summarized as follows:

**Accrued and Potential Contingent Liabilities as of September 30, 2013**

	Accrued Liabilities	Estimated Range of Loss Lower End	Estimated Range of Loss Upper End
Contingent Liabilities			
Probable	\$40	\$40	\$593
Reasonably Possible		72	295

**Accrued and Potential Contingent Liabilities as of September 30, 2012**

	Accrued Liabilities	Estimated Range of Loss Lower End	Estimated Range of Loss Upper End
Contingent Liabilities			
Probable	\$43	\$43	\$567
Reasonably Possible		41	185

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**NOTE 10: LEASE LIABILITIES**

The Forest Service enters into leasing agreements through leasing authority delegated by U.S. General Services Administration 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 Forest Service's assets under capital leases as of September 30, 2013 and 2012, and future capital and operating lease agreement payments as of September 30, 2013, consisted of the following:

**Summary of Assets Under Capital Leases as of September 30, 2013 and 2012 (in millions)**

<b>Summary of Assets Under Capital Leases</b>	<b>2013</b>	<b>2012</b>
Land, Buildings, Machinery, and Equipment	\$57	\$58
Accumulated Amortization	(41)	(39)
<b>Total</b>	<b>\$16</b>	<b>\$19</b>

**Capital Lease Future Payment Schedule as of September 30, 2013 (in millions)**

<b>Fiscal Year</b>	<b>Land and Buildings, Machinery, and Equipment</b>
Year 1 (2014)	\$9
Year 2 (2015)	8
Year 3 (2016)	7
Year 4 (2017)	5
Year 5 (2018)	5
After 5 Years	15
<b>Total Future Lease Payments</b>	<b>\$49</b>
Less: Imputed Interest	(24)
Less: Executory Costs	(9)
<b>Subtotal</b>	<b>16</b>
<b>Lease Liabilities Covered by Budgetary Resources</b>	<b>\$16</b>

**Operating Lease Future Payment Schedule as of September 30, 2013 (in millions)**

<b>Fiscal Year</b>	<b>Land and Buildings, Machinery, and Equipment</b>
Year 1 (2014)	\$47
Year 2 (2015)	41
Year 3 (2016)	35
Year 4 (2017)	31
Year 5 (2018)	27
After 5 Years	126
<b>Total Future Lease Payments</b>	<b>\$307</b>



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**NOTE 11: FUNDS FROM DEDICATED COLLECTIONS**

In accordance with U.S. GAAP, the Forest Service administers certain funds from dedicated collections, which are specifically identified revenues, provided to the Government by non-Federal sources, often supplemented by other financing sources that remain available over time. These funds predominately finance the enhancement and maintenance of NFS 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 funds from dedicated collections and their base Treasury symbols for which the Forest Service has program management responsibility. Those with an asterisk (\*) are authorized by specific legislative acts as permanent indefinite appropriations.

<b>Treasury Account Symbols</b>	<b>Titles</b>
5004	Land Acquisition
5005	Land and Water Conservation Fund
5008	National Forest Fund Receipts
5201	Payments to States, National Forest Fund
*5202	Timber Roads Purchaser Election
*5203	Roads and Trails for States, National Forest Funds
*5204	Timber Salvage Sales
*5206	Expenses, Brush Disposal
5207	Range Betterment Fund
5208	Acquisition of Lands for National Forests, Special Acts
5212	Construction of Facilities or Land Acquisition
*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 (Funds EXSL and EXSC)
5217	Tongass Timber Supply Fund
*5219	Operation and Maintenance of Quarters
*5220	Resource Management Timber Receipts
*5223	Quinault Special Management Area
*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
5367	State, Private and International Forestry Land and Water Conservation Fund
*5462	Hardwood Technology Transfer and Applied Research Fund
*5540	Stewardship Contracting Product Sales, Funds Retained
*5896	Payments to Counties, National Grasslands
*8028	Cooperative Work, Forest Service
8034	Gifts, Donations, and Bequests for Forest and Rangeland Research
8039	Land Between the Lakes Trust Fund
8046	Reforestation Trust Fund
*8203	Gifts and Bequests, Department of Agriculture

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Financial information for all funds from dedicated collections is included. Significant funds are specifically identified as shown below:

**Funds from Dedicated Collections as of and for the year ended September 30, 2013 (in millions)**

	Cooperative Work *	State, Private, and International Forestry Land and Water Conservation Fund*	Payments to States National Forests Fund*	Other Funds	Total
<b>ASSETS</b>					
Fund Balance with Treasury	\$181	\$118	\$108	\$574	\$981
Accounts Receivable, Net	8	0	0	29	37
Advances To Others	0	0	0	0	0
General Property, Plant & Equipment, Net	15	0	2	98	115
<b>TOTAL ASSETS</b>	<b>\$204</b>	<b>\$118</b>	<b>\$110</b>	<b>\$701</b>	<b>\$1,133</b>
<b>LIABILITIES</b>					
Accounts Payable	\$1	\$ 0	\$0	\$4	\$5
Other Liabilities	82	36	302	39	459
<b>TOTAL LIABILITIES</b>	<b>83</b>	<b>36</b>	<b>302</b>	<b>43</b>	<b>464</b>
Total Net Position	121	82	(192)	658	669
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$204</b>	<b>\$118</b>	<b>\$110</b>	<b>\$701</b>	<b>\$1,133</b>
<b>CHANGE IN NET POSITION</b>					
Beginning Balances, as adjusted	\$147	\$99	\$(130)	\$687	\$803
Budgetary Financing Sources:					
Donations and Forfeitures of Cash	0	0	0	1	1
Transfers -in/out without Reimbursement	(10)	46	3	(12)	27
Other Financing Sources:					
Transfers-in/out without Reimbursement	0	0	(1)	(187)	(188)
Other	0	0	0	80	80
Total Financing Sources	(10)	46	2	(118)	(80)
Revenue	87	0	48	355	490
Expenses	(103)	(63)	(112)	(266)	(544)
Net Cost of Operations	(16)	(63)	(64)	89	(54)
<b>ENDING BALANCES</b>	<b>\$121</b>	<b>\$82</b>	<b>\$(192)</b>	<b>\$658</b>	<b>\$669</b>

\* Treasury symbols with total asset values greater than or equal to \$100M are reported individually.

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**Funds from Dedicated Collections as of and for the year ended September 30, 2012 (in millions)**

	Cooperative Work *	Payments to States National Forests Fund*	Payments to Counties, National Grasslands*	Restoration of Forest Lands and Improvements*	State, Private, and International Forestry Land and Water Conservation Fund*	Other Funds	Total
<b>ASSETS</b>							
Fund Balance with Treasury	\$213	\$186	\$138	\$135	\$131	\$343	\$1,146
Accounts Receivable, Net	2	0	0	2	0	12	16
Advances To Others	0	1	0	0	0	0	1
General Property, Plant & Equipment, Net	17	2	0	0	0	109	128
<b>TOTAL ASSETS</b>	<b>\$232</b>	<b>\$189</b>	<b>\$138</b>	<b>\$137</b>	<b>\$131</b>	<b>\$464</b>	<b>\$1,291</b>
<b>LIABILITIES</b>							
Accounts Payable	\$1	\$0	\$0	\$0	\$0	\$3	\$4
Other Liabilities	84	318	0	1	31	50	484
<b>TOTAL LIABILITIES</b>	<b>85</b>	<b>318</b>	<b>0</b>	<b>1</b>	<b>31</b>	<b>53</b>	<b>488</b>
Total Net Position	147	(129)	138	136	100	411	803
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$232</b>	<b>\$189</b>	<b>\$138</b>	<b>\$137</b>	<b>\$131</b>	<b>\$464</b>	<b>\$1,291</b>
<b>CHANGE IN NET POSITION</b>							
Beginning Balances, as adjusted	\$313	\$(123)	\$62	\$170	\$94	\$486	\$1,002
<b>Budgetary Financing Sources:</b>							
Donations and Forfeitures of Cash	0	0	0	0	0	1	1
Transfers -in/out without Reimbursement	(160)	0	0	(80)	53	(32)	(219)
<b>Other Financing Sources:</b>							
Transfers-in/out without Reimbursement	0	0	0	0	0	(18)	(18)
Other	0	0	77	0	0	(1)	76
<b>Total Financing Sources</b>	<b>(160)</b>	<b>0</b>	<b>77</b>	<b>(80)</b>	<b>53</b>	<b>(50)</b>	<b>(160)</b>
Revenue	92	107	(1)	64	0	248	510
Expenses	(98)	(113)	0	(18)	(47)	(273)	(549)
Net Cost of Operations	(6)	(6)	(1)	46	(47)	(25)	(39)
<b>ENDING BALANCES</b>	<b>\$147</b>	<b>\$(129)</b>	<b>\$138</b>	<b>\$136</b>	<b>\$100</b>	<b>\$411</b>	<b>\$803</b>

\* Treasury symbols with total asset values greater than or equal to \$100M are reported individually.

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Descriptions of the significant funds from dedicated collections 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 Forest Service. Cooperators include timber purchasers, not-for-profit organizations, and local hunting and fishing clubs. The governing authorities are the Cooperative Funds Act of July 31, 1914 (16 U.S.C. 498), and the Knutson-Vandenberg Act.

**State, Private, and International Forestry, Land and Water Conservation Fund**

The FY 2004 DOI and Related Agencies Appropriation Act (Public Law 108-108) authorizes the Forest Service to receive a transfer of receipts from DOI Land and Water Conservation Fund to finance the existing Forest Legacy Program, funded previously by State and Private Forestry general appropriation, 12X1105. To accommodate the new financing arrangement and at OMB's request, Treasury established a new special fund, 12X5367, "State, Private, and International Forestry Land and Water Conservation Fund." The program expenditures include grants and an occasional land purchase, but no real property will be procured or constructed.

**Payments to States, National Forests Fund**

The act of May 23, 1908, as amended (16 U.S.C. 500), commonly known as "Payments to States," requires, with a few exceptions, that 25 percent of all monies received from the national forests and deposited into the National Forest Fund (Treasury Symbol 125008) during a fiscal year from timber, grazing, special-use permits, power and mineral leases, and admission and user fees be paid 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.

**Payments to Counties, National Grasslands**

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

**Restoration of Forest Lands and Improvements**

The Restoration of Forest Lands and Improvements Acts (16 U.S.C. 579c) states any monies received by the United States with respect to lands under the administration of the Forest Service (a) as a result of the forfeiture of a bond or deposit by a permittee or timber purchaser for failure to complete performance of improvement, protection, or rehabilitation work required under the permit or timber sale contract or (b) as a result of a judgment, compromise, or settlement of any claim, involving present or potential damage to lands or improvements, shall be deposited into the Restoration of Forest Lands and Improvements Account—12X5215. The monies are then made available until expended to cover the cost of any improvement, protection, or rehabilitation work on lands under the administration of the Forest Service rendered necessary by the action which led to the forfeiture, judgment, compromise, or settlement, provided that any portion of the monies so received in excess of the amount expended in performing the work necessitated by the action which led to their receipt shall be transferred to miscellaneous receipts.

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**NOTE 12: SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT**

The 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. A USDA Forest Service Strategic Plan FY 2013-2017 is being developed. The document will identify strategic goals for the agency.

The following tables illustrate program costs by segment for the years ended September 30, 2013 and 2012.

**Program Costs by Segment for the year ended September 30, 2013 (in millions)**

	National Forests and Grasslands	Forest and Rangeland Research	State and Private Forestry	Wildland Fire Management	Total
<b>Intragovernmental Gross Costs:</b>					
Benefit Program Costs	\$321	\$38	\$13	\$258	\$630
Imputed Costs	348	0	0	0	348
Reimbursable Costs	152	20	12	197	381
Total Intragovernmental Gross Costs	821	58	25	455	1,359
Less: Intragovernmental Earned Revenue	134	16	51	26	227
Intragovernmental Net Costs	687	42	(26)	429	1,132
<b>Gross Costs With the Public:</b>					
Grants and Indemnities	308	12	256	47	623
Stewardship Land Acquisition (Note 13)	45	0	0	0	45
Other:					
Operating Costs	1,754	238	93	1,997	4,082
Depreciation Expense	118	2	0	27	147
Reimbursable Costs	97	19	37	132	285
Total Other	1,969	259	130	2,156	4,514
Total Gross Costs with the Public	2,322	271	386	2,203	5,182
Less: Earned Revenues from the Public	459	4	0	71	534
Net Costs with the Public	1,863	267	386	2,132	4,648
<b>Net Cost of Operations</b>	<b>\$2,550</b>	<b>\$309</b>	<b>\$360</b>	<b>\$2,561</b>	<b>\$5,780</b>

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**Program Costs by Segment for the year ended September 30, 2012 (in millions)**

	National Forests and Grasslands	Forest and Rangeland Research	State and Private Forestry	Wildland Fire Management	Total
<b>Intragovernmental Gross Costs:</b>					
Benefit Program Costs	\$350	\$42	\$15	\$240	\$647
Imputed Costs	372	0	0	0	372
Reimbursable Costs	175	23	13	180	391
Total Intragovernmental Gross Costs	897	65	28	420	1,410
Less: Intragovernmental Earned Revenue	47	19	56	10	132
Intragovernmental Net Costs	850	46	(28)	410	1,278
<b>Gross Costs With the Public:</b>					
Grants and Indemnities	368	6	231	90	695
Stewardship Land Acquisition (Note 13)	51	0	0	0	51
Other:					
Operating Costs	1,798	246	97	2,105	4,246
Depreciation Expense	117	2	0	27	146
Reimbursable Costs	146	23	32	191	392
Total Other	2,061	271	129	2,323	4,784
Total Gross Costs with the Public	2,480	277	360	2,413	5,530
Less: Earned Revenues from the Public	559	4	0	144	707
Net Costs with the Public	1,921	273	360	2,269	4,823
<b>Net Cost of Operations</b>	<b>\$2,771</b>	<b>\$319</b>	<b>\$332</b>	<b>\$2,679</b>	<b>\$6,101</b>

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**NOTE 13: COST OF STEWARDSHIP PP&E**

Stewardship PP&E acquired in FYs 2013 and 2012 amounted to \$45 and \$51 million, respectively. Cost of Stewardship PP&E includes purchases of lands, easements, and rights-of-way. Stewardship land is land and land rights owned by the Federal Government and are excluded from General PP&E. Examples of stewardship land includes land used for forests, grazing, and wildlife.

Costs for stewardship land include all costs to acquire and prepare the land for its intended use. The acquired land was adjacent to existing forest/grassland sites, thus the number of sites reported in Note 5 remains unchanged.

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**NOTE 14: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED**

An apportionment is an Office of Management and Budget (OMB) approved plan to use budgetary resources and limits the obligations that may be incurred for specified time periods, programs, activities, projects, objects, or any combination thereof. Apportionments received from OMB are categorized as Category A (by quarter), Category B (by project), or Category E (exempt from apportionment). The amounts of direct and reimbursable obligations incurred by apportionment category are shown below.

In FY 2012, the Forest Service had two treasury symbols that received Category A apportionments – 12X1106 (National Forest System) and 12X1115 (Wildland Fire Management). Per OMB direction, Forest Service changed the apportionment category for these treasury symbols to Category B. All Forest Service treasury symbols are receiving Category B apportionments in FY 2013.

**Apportionment Categories of Obligations Incurred for the year ended September 30, 2013 (in millions)**

	<b>Apportionment Category A</b>	<b>Apportionment Category B</b>	<b>Total</b>
Obligations Incurred - Direct	\$0	\$6,160	\$6,160
Obligations Incurred - Reimbursable	0	532	532
<b>Total Obligations Incurred</b>	<b>\$0</b>	<b>\$6,692</b>	<b>\$6,692</b>

**Apportionment Categories of Obligations Incurred for the year ended September 30, 2012 (in millions)**

	<b>Apportionment Category A</b>	<b>Apportionment Category B</b>	<b>Total</b>
Obligations Incurred - Direct	\$4,233	\$1,914	\$6,147
Obligations Incurred - Reimbursable	175	376	551
<b>Total Obligations Incurred</b>	<b>\$4,408</b>	<b>\$2,290</b>	<b>\$6,698</b>



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**NOTE 15: EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT**

The differences between the FY 2012 Statement of Budgetary Resources (SBR) and the FY 2012 actual numbers presented in the FY 2013 Budget of the U.S. Government (Budget) are summarized in the table below. The President's Budget with actual numbers for 2013 is expected to be published in February of 2014, and to be made available at <http://www.whitehouse.gov>. OMB Circular A-136 states that the note should "identify and explain material differences between amounts reported in the SBR and actual amounts reported in the Budget of the United States Government as required by U.S. GAAP." The Department's threshold for explaining material variances is \$25 million and 10 percent. No variances meet this threshold.

**Differences between the FY 2012 SBR and the FY 2012 actual numbers presented in the FY 2013 Budget of the U.S. Government (in millions)**

<b>SBR Line Description</b>	<b>SBR Amount</b>	<b>Budget Amount</b>	<b>Dollar Variance</b>	<b>Percentage Variance</b>
Total Budgetary Resources/Status of Resources	8,090	8,079	11	0%
Total Status of Resources	8,090	8,079	11	0%
Unobligated Balance-Beginning of Year	1,907	1,898	9	0%
Recoveries of Prior Year Obligations	131	124	7	6%
New Budget Authority - Appropriations	5,296	5,299	(3)	0%
Spending Authority from Offsetting Collections	758	758	0	0%
Total New Obligations	6,698	6,694	4	0%
Unobligated Balance and Unobligated Balance not Available	1,392	1,385	7	1%
Obligated Balance - Beginning of Year	2,771	2,770	1	0%
Obligated Balance - End of Year	2,026	2,027	(1)	0%
Gross Outlays	6,781	6,781	0	0%
Less: Offsetting Collections	(712)	(713)	1	(1%)
Less: Distributed Offsetting Receipts	(530)	(533)	3	0%
Net Outlays	5,539	6,068	(529)	(9%)

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**NOTE 16: INCIDENTAL CUSTODIAL COLLECTIONS**

Custodial collections represent miscellaneous general fund receipts such as collections on land leases for resource extraction, sale of timber and other products administered by the Forest Service, civil monetary penalties and interest, and commercial fines and penalties. Custodial collection activities are considered immaterial and incidental to the mission of the Forest Service. However, the custodial activity transfer for FY 2013 includes collections for multiple FY's, FY 2012 and prior, which should have been transferred to Treasury in previous years. Comparative presentation will begin in FY 2014.

**Incidental Custodial Collections for the year ended September 30, 2013 (in millions)**

<b>Revenue Activity:</b>	<u>2013</u>
<b>Sources of Collections:</b>	
Miscellaneous	<u>\$189</u>
Total Cash Collections	\$189
Accrual Adjustments	<u>\$6</u>
Total Custodial Revenue	\$195
Disposition of Collections:	
Transferred to Others:	
Treasury	\$(195)
(Increase)/Decrease in Amounts Yet to be Transferred	<u>\$0</u>
<b>Net Custodial Activity</b>	<u><u>\$0</u></u>

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**NOTE 17: UNDELIVERED ORDERS AT THE END OF THE PERIOD**

**Unpaid Obligations and Undelivered Orders as of September 30, 2013 and 2012 (in millions)**

	<u>2013</u>	<u>2012</u>
<b>Unpaid Obligations</b>	\$2,351	\$2,557
<b>Undelivered Orders</b>	\$1,513	\$1,559

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**NOTE 18: SEIZED PROPERTY**

A seizure is the act of taking possession of goods in consequence of a violation of public law. Seized property may consist of monetary instruments, real property, tangible personal property, and evidence. Until judicially or administratively forfeited, the Forest Service does not legally own such property. Seized evidence includes cash, weapons, illegal drugs, and nonmonetary 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.

The 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 most significant seized drug for the Forest Service. As of September 30, 2013 and 2012, the amount of marijuana on hand was 29,407 (kg) and 31,807 (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.

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**NOTE 19: RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)**

**Reconciliation of Net Cost of Operations to Budget for the years ended September 30, 2013 and 2012  
(in millions)**

	2013	2012
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated:		
Obligations Incurred	\$6,692	\$6,698
Less: Spending Authority from Offsetting Collections and Recoveries	734	889
Obligations Net of Offsetting Collections and Recoveries	5,958	5,809
Less: Offsetting Receipts	693	530
Net Obligations	5,265	5,279
Other Resources:		
Transfers in/out Without Reimbursement	(187)	0
Imputed Financing from Costs Absorbed by Others	348	372
Other	78	59
Net Other Resources Used to Finance Activities	239	431
<b>Total resources used to finance activities</b>	<b>5,504</b>	<b>5,710</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But not Yet Provided	43	297
Resources that Fund Expenses Recognized in Prior Periods	(214)	(4)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations		
Change in Unfilled Orders	36	23
Other	635	0
Resources that Finance the Acquisition of Assets	(95)	(133)
Other Resources or Adjustments to Net Obligated Resources that do not Affect the Net Cost of Operations	(41)	15
Total Resources Used to Finance Items not Part of the Net Cost of Operations	364	198
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>5,868</b>	<b>5,908</b>
<b>Components of the Net Cost of Operations that will not Require or Generate     Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	201	0
Increase in Environmental and Disposal Liability	2	1
Increase in Exchange Revenue Receivable from the Public	(440)	(2)
Other	20	37
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	(217)	36
Components not Requiring or Generating Resources:		
Depreciation and Amortization	147	146
Revaluation of Assets or Liabilities	(13)	2
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	(7)	13
Other	2	(4)
Total Components of Net Cost of Operations that will not Require or Generate Resources	129	157
<b>Total Components of Net Cost of Operations that will not Require or     Generate Resources in the Current Period</b>	<b>(88)</b>	<b>193</b>
<b>Net Cost of Operations</b>	<b>\$5,780</b>	<b>\$6,101</b>

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This note is intended to be a bridge between the entity's budgetary and financial (proprietary) accounting. This reconciliation first identifies total resources used by an entity during the period (budgetary and other) and then makes adjustments to the resources based upon how they were used to finance net obligations or cost. The budgetary information used to calculate net obligations (the first four lines) must be presented on a combined basis to enable a direct tie to the Statement of Budgetary Resources. The reconciliation then explains the difference between the budgetary net obligations and the proprietary net cost of operations by setting forth the items that reconcile the two amounts. The budgetary net obligations and the proprietary net cost of operations are different in that (1) the net cost of operations may be financed by nonbudgetary resources, (2) the budgetary and nonbudgetary resources used by an agency may finance activities that are not components of the net cost of operations, and (3) the net cost of operations may contain components that do not use or generate resources in the period.

**Required Supplementary Stewardship Information—Unaudited  
For The Years Ended September 30, 2013 and 2012**

## **Required Supplementary Stewardship Information**

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

### *Research and Development—Forest and Rangeland Research*

Fiscal year (FY) 2013 Net Cost of Operations: \$309 million. Of the \$309 million—

- \$284 million was an investment of Research and Development (R&D) funding
- \$25 million was an investment of National Fire Plan funding and Joint Fire Science Program funding.

Forest Service R&D has an integrated portfolio that supports achievement of the agency's strategic goals. The Forest Service R&D structure has two components: Priority Research Areas and Strategic Program Areas (SPAs).

The Priority Research Areas address urgent needs in seven areas: Forest Disturbances, Forest Inventory and Analysis, Watershed Management and Restoration, Bioenergy and Biobased Products, Urban Natural Resources Stewardship, Nanotechnology, and Localized Needs Research.

The SPAs are the long-term programs from which Priority Research Areas are funded. The following are the SPAs.

#### ***Wildland Fire and Fuels***

Wildland Fire and Fuels R&D provides managers with the knowledge and tools to reduce negative impacts, while enhancing the beneficial effects, of wildland fire as a natural process. This knowledge and these tools are critical to understanding the human process of fire and fuels management on society and the environment.

Research focuses on understanding and modeling fundamental fire processes; interactions of fire with ecosystems; and the environmental, social, and economic aspects of fire, as well as evaluating the integrated management strategies and disturbance interactions at multiple scales and the application of fire research to address management problems.

#### ***Invasive Species***

Invasive Species R&D provides the scientific information, methods, and technology to reduce or eliminate the introduction, spread, and impact of invasive species and to restore or improve the functionality of ecosystems affected by invasive species.

Research focuses on nonnative plants, animals, fish, insects, diseases, invertebrates, and other species whose introduction is likely to cause economic or environmental harm to an ecosystem.

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***Water, Air, and Soil***

Water, Air, and Soil R&D enables the sustainable management of these essential resources by providing clear air and safe drinking water, by protecting lives and property from wildlife fire and smoke, and by adapting to climate variability and change.

The program features ecosystem services with a high level of integration between water, air, and soil research, such as the effects of climate variability and change on water budgets or carbon sequestration metrics from an ecosystem perspective.

***Wildlife and Fish***

Wildlife and Fish R&D relies upon interdisciplinary research to inform policy initiatives affecting wildlife and fish habitat on private and public lands and the recovery of threatened or endangered species.

Scientists investigate the complex interactions among species, ecosystem dynamics and processes, land use and management, and any emerging broadscale threats, including global climate change, loss of open space, invasive species, and disease.

***Resource Management and Use***

Resource Management and Use R&D provides the science and technology base to sustainably manage and use forest resources and forest fiber-based products.

Research focuses on the plant sciences, soil sciences, social sciences, silviculture, productivity, forest and range ecology management, harvesting and operations, forest and biomass products and utilization, economics, urban forestry, and climate change.

***Outdoor Recreation***

Outdoor Recreation R&D promotes human and ecological sustainability by researching environmental management, activities, and experiences that connect people with the natural world.

Research in outdoor recreation is interdisciplinary, focusing on nature-based recreation and the changing trends in American society; connections between recreation visitors, communities, and the environment; human benefits and consequences of recreation and nature contact; the effectiveness of recreation management and decisionmaking; and sustaining ecosystems affected by recreational use.

***Inventory and Monitoring***

Inventory and Monitoring R&D provides the resource data, analysis, and tools that monitor vulnerable forest ecosystems for rapid change from threats of fire, insects, disease, natural processes, or management actions. From their research, scientists determine the status and trend of the health of the Nation's forests and grasslands and the potential impact from climate change.



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Their research integrates the development and use of science, technology, and remotely sensed data to better understand the incidences of forest fragmentation over time from changes in land use or from insects, disease, fire, and extreme weather events.

***Research Categories***

Each of the seven SPAs has stewardship investments in the following three categories: basic research, applied research, and development.

Basic research is the systematic study directed toward new or improved knowledge and understanding. Applied research is the systematic study intended to gain knowledge or understanding necessary to meet a specific need. Development is the systematic application of knowledge or understanding, directed toward the production of useful materials, devices, systems, or methods. The following tables report net cost of R&D operations by these categories and by the FY 2013 stewardship investment.

**TABLE 1. COST OF R&D STEWARDSHIP INVESTMENTS BY TYPE OF RESEARCH (IN MILLIONS)**

R&D Stewardship Investments	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009
Net Cost of Operations	\$309	\$319	\$327	\$338	\$323
Basic Research	77	80	91	94	87
Applied Research	192	207	220	227	220
Development	40	32	16	17	16

**TABLE 2. NUMBER OF R&D STEWARDSHIP INVESTMENTS BY TYPE OF INVESTMENT**

Types of R&D Stewardship Investments	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009
New interagency agreements and contracts	44	32	32	38	57
Continued interagency agreements and contracts	2	12	12	12	12
Articles published in journals	3,014	3,049	3,083	1,790	2,294
Articles published in all other publications	446	650	1,178	1,481	886
Patent(s) granted	2	8	3	2	3

## Required Supplementary Information

### *Deferred Maintenance and Repairs*

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

DM&R 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. DM&R 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.

DM&R 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 assets 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 Forest Service uses condition surveys to estimate DM&R on all major classes of its PP&E. Over the past decade, the Forest Service has implemented a national effort to collect detailed data on infrastructure condition and maintenance and improvement needs. No DM&R exists for fleet vehicles as they are managed through the agency's working capital fund. Each fleet vehicle is maintained according to schedule. The cost of maintaining the remaining classes of equipment is expensed.

The agency is committed to sustaining a manageable level of infrastructure—disinvesting in infrastructure that can no longer be managed to appropriate standards, rightsizing its asset portfolio, and eliminating the substantial backlog of deferred maintenance.

### ***Estimated Deferred Maintenance and Repairs***

DM&R estimates for most assets—except bridges—are based on condition surveys performed on a 5-year maximum revolving schedule. The bridge class is on a 2-year maximum revolving schedule. To date, surveys of all administrative buildings, dams, bridges, roads open to passenger cars, and recreation sites have been accomplished. The agency's DM&R for National Forest System (NFS) roads is determined annually from random sample surveys, providing an 80-percent level of confidence.

The dollar amounts in Table 1, DM&R Totals by Asset Class, include:

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- A Forest Service standard factor that includes design, contracting, and overhead costs
- A remoteness factor that includes the estimated travel time to the asset
- A heritage factor

**TABLE 1. DM&R TOTALS BY ASSET CLASS AS OF SEPTEMBER 30, 2013 (IN MILLIONS)**

Asset Class	Overall Condition	Critical Maintenance	Noncritical Maintenance	Cost To Return to Acceptable Condition
Bridge	Varies	\$38	\$172	\$210
Building	Varies	80	1,145	1,225
Dam	Varies	11	15	26
Fence	Varies	268	0	268
Handling Facility	Varies	22	0	22
Heritage	Varies	3	18	21
Minor Constructed Features	Varies	0	94	94
Roads	Varies	633	2,634	3,267
Trail	Varies	5	274	279
Trail Bridge	Varies	3	6	9
Wastewater System	Varies	16	16	32
Water System	Varies	51	47	98
Wildlife, Fish, and TES	Varies	5	2	7
<b>Grand Total</b>		<b>\$1,135</b>	<b>\$4,423</b>	<b>\$5,558</b>

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

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

1. Federal Highway Administration regulations for the Federal Highway Safety Act.
2. Best management practices for the nonpoint source provisions of the Clean Water Act from U.S. Environmental Protection Agency and States.
3. Road management objectives developed through the National Forest Management Act forest planning process.
4. Forest Service directives—Forest Service Manual (FSM) 7730, Operation and Maintenance (August 25, 2005, amendment was superseded with October 1, 2008, 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. 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 in acceptable condition, the agency needs to restore the dams to the original functional purpose, correct unsightly conditions, or prevent more costly repairs.

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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, with approximately 42.9 percent needing major repairs or renovations, approximately 14 percent in fair condition, and 43.1 percent of the facilities in good condition.<sup>1</sup>

The agency is currently developing an integrated strategy to realign its administrative facility infrastructure to meet current organizational structure and to reduce the maintenance liability for unneeded buildings, free up land for use by local communities and private enterprise, and provide added funds for infrastructure maintenance and development. Forest Service optimizes benefits from a combination of appropriations, facility conveyance receipts, and decommissioning of unneeded facilities.

Recreation facilities are located within recreation sites that range from highly developed sites to general forest areas such as 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. Recreation sites are managed in accordance with Federal laws and regulations (Code of Federal Regulations (CFR) 36).

Detailed management guidelines are contained in FSM 2330, Publicly Managed Recreation Opportunities, and forest- and regional-level user guides. Quality standards for developed recreation sites were established as Meaningful Measures for health and cleanliness, settings, safety and security, responsiveness, and the condition of the facility.

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

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<sup>1</sup> These percentages are estimated for the FY 2013 Forest Service Financial Report, or AFR.

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

*Condition of Heritage Assets and Stewardship Lands*

***Heritage Assets***

Heritage professionals are responsible for documenting and maintaining cultural resource condition assessments to standard. Periodic monitoring and condition assessments are the basis for applying protective measures and treatments to vulnerable, deteriorating, or threatened cultural resources. The condition of heritage assets depends on the type of asset and varies from poor to fair.

***Stewardship Land***

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

Although most of the estimated 193 million acres of stewardship lands continue to produce valuable benefits—clean air and water, habitat for wildlife, and products for human use—significant portions are at risk to pest outbreaks or catastrophic fires.

In FY 2013, the Forest Service developed the Invasive Species Framework to provide a vision for future agency policies and management strategies for all invasive species. Invasive species of insects, diseases, and plants continue to affect our native ecosystems by causing mortality to, or displacement of, native vegetation. The agency also released the next iteration of the National Insect and Disease Risk Map in FY 2013, providing a comprehensive public online database containing 750 forest pest hazard and risk models to support forest management across all landscapes. This key resource is used by not only the Forest Service, but State and academic partners across the country.

The FY 2013 year-to-date accomplishments on NFS and State and Private Forestry lands include treatment of 761,000 acres for invasives and 107,000 acres for native pests. These numbers should be considered preliminary, with final amounts of acres treated for invasives and native pests on NFS lands available in February 2014 at <http://www.fs.fed.us>.

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**TABLE 2. COMBINED STATEMENT OF BUDGETARY RESOURCES BY MAJOR BUDGET ACCOUNT FOR THE YEAR ENDED SEPTEMBER 30, 2013**  
**(IN MILLIONS)**

	National Forest and Grasslands	Forest and Rangeland Research	State and Private Forestry	Capital Improvement and Maintenance	Wildland Fire Management	Permanent and Trust Funds	Working Capital Fund	Total
<b>Budgetary Resources:</b>								
Unobligated Balance Brought Forward, October 1	\$180	\$44	\$104	\$63	\$181	\$677	\$143	\$1,392
Unobligated Balance Brought Forward, October 1, as Adjusted	180	44	104	63	181	677	143	1,392
Recoveries of Prior Year Unpaid Obligations	1	0	5	5	10	0	0	21
Unobligated Balance from Prior Year Budget Authority, net	181	44	109	68	191	677	143	1,413
Appropriations (Discretionary & Mandatory)	1,572	297	321	346	2,532	585	0	5,653
Spending Authority from Offsetting Collections (Discretionary & Mandatory)	56	18	45	26	258	26	284	713
<b>Total Budgetary Resources</b>	<b>\$1,809</b>	<b>\$359</b>	<b>\$475</b>	<b>\$440</b>	<b>\$2,981</b>	<b>\$1,288</b>	<b>\$427</b>	<b>\$7,779</b>
<b>Status of Budgetary Resources:</b>								
Obligations Incurred	\$1,676	\$325	\$372	\$383	\$2,895	\$796	\$245	\$6,692
Unobligated Balance, End of Year:								
Apportioned (Note 2)	119	35	100	50	111	203	198	816
Unapportioned (Note 2)	14	(1)	3	7	(25)	289	(16)	271
Total Unobligated Balance, End of Year	133	34	103	57	86	492	182	1,087
Total Status of Budgetary Resources	\$1,809	\$359	\$475	\$440	\$2,981	\$1,288	\$427	\$7,779
<b>Change in Obligated Balance:</b>								
Unpaid Obligations, Brought Forward, October 1	\$408	\$143	\$612	\$215	\$1,016	\$118	\$45	\$2,557
Obligations Incurred	1,676	325	372	383	2,895	796	245	6,692
Outlays (Gross) (-)	(1,658)	(342)	(402)	(448)	(2,983)	(801)	(243)	(6,877)
Recoveries of Prior Year Unpaid Obligations (-)	(1)		(5)	(5)	(10)	0	0	(21)
<b>Unpaid Obligations, End of Year</b>	<b>\$425</b>	<b>\$126</b>	<b>\$577</b>	<b>\$145</b>	<b>\$918</b>	<b>\$113</b>	<b>\$47</b>	<b>\$2,351</b>
<b>Uncollected Payments:</b>								
Uncollected Customer Payments from								
Federal Sources, Brought Forward, October 1 (-)	\$(92)	\$(41)	\$(71)	\$(63)	\$(262)	\$0	\$(2)	\$(531)
Change in Uncollected Customer Payments from Federal Sources (+ or -)	(3)	2	(20)	(6)	146	0	(47)	72
<b>Uncollected Customer Payments from Federal Sources, End of Year (-)</b>	<b>\$(95)</b>	<b>\$(39)</b>	<b>\$(91)</b>	<b>\$(69)</b>	<b>\$(116)</b>	<b>\$0</b>	<b>\$(49)</b>	<b>\$(459)</b>
<b>Memorandum (non-add) Entries:</b>								
Obligated Balance, Start of Year (+ or -)	\$316	\$102	\$541	\$152	\$754	\$118	\$43	\$2,026
Obligated Balance, End of Year (+ or -)	330	87	486	76	802	113	(2)	1,892

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	National Forest and Grasslands	Forest and Rangeland Research	State and Private Forestry	Capital Improvement and Maintenance	Wildland Fire Management	Permanent and Trust Funds	Working Capital Fund	Total
<b>Budget Authority and Outlays, Net:</b>								
Budget Authority, Gross (Discretionary and Mandatory)	\$1,628	\$315	\$366	\$372	\$2,790	\$611	\$284	\$6,366
Actual Offsetting Collections (Discretionary and Mandatory)	(54)	(20)	(26)	(20)	(402)	(26)	(237)	(785)
Change in Uncollected Customer Payments from Federal sources (Discretionary and Mandatory) (+ or -)	(3)	2	(20)	(6)	146	0	(47)	72
<b>Budget Authority, net (Discretionary and Mandatory)</b>	<b>\$1,571</b>	<b>\$297</b>	<b>\$320</b>	<b>\$346</b>	<b>\$2,534</b>	<b>\$585</b>	<b>\$0</b>	<b>\$5,653</b>
Outlays, Gross (Discretionary and Mandatory)	\$1,658	\$342	\$402	\$448	\$2,983	\$801	\$243	\$6,877
Actual Offsetting Collections (Discretionary and Mandatory)	(54)	(20)	(26)	(20)	(402)	(26)	(237)	(785)
Outlays, net (Discretionary and Mandatory)	1,604	322	376	428	2,581	775	6	6,092
Distributed Offsetting Receipts (-)	(271)	0	0	0	0	(422)	0	(693)
<b>Agency Outlays, net (Discretionary and Mandatory)</b>	<b>\$1,333</b>	<b>\$322</b>	<b>\$376</b>	<b>\$428</b>	<b>\$2,581</b>	<b>\$353</b>	<b>\$6</b>	<b>\$5,399</b>

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**TABLE 3. COMBINED STATEMENT OF BUDGETARY RESOURCES BY MAJOR BUDGET ACCOUNT FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(IN MILLIONS)**

	National Forest and Grasslands	Forest and Rangeland Research	State and Private Forestry	Capital Improvement and Maintenance	Wildland Fire Management	Permanent and Trust Funds	Working Capital Fund	Total
<b>Budgetary Resources:</b>								
Unobligated Balance Brought Forward, October 1	\$207	\$42	\$91	\$102	\$377	\$955	\$133	\$1,907
Unobligated Balance Brought Forward, October 1, as Adjusted	207	42	91	102	377	955	133	1,907
Recoveries of Prior Year Unpaid Obligations	7	2	7	11	100	3	1	131
Other Changes in Unobligated Balance (+ or -)	0	0	(2)	0	175	(175)	0	(2)
Unobligated Balance from Prior Year Budget Authority, net	214	44	96	113	652	783	134	2,036
Appropriations (Discretionary & Mandatory)	1,588	321	334	353	2,023	677	0	5,296
Spending Authority from Offsetting Collections (Discretionary & Mandatory)	57	21	78	28	300	29	245	758
<b>Total Budgetary Resources</b>	<b>\$1,859</b>	<b>\$386</b>	<b>\$508</b>	<b>\$494</b>	<b>\$2,975</b>	<b>\$1,489</b>	<b>\$379</b>	<b>\$8,090</b>
<b>Status of Budgetary Resources:</b>								
Obligations Incurred	\$1,679	\$342	\$404	\$432	\$2,793	\$812	\$236	\$6,698
Unobligated Balance, End of Year:								
Apportioned (Note 2)	160	34	96	55	115	309	31	800
Unapportioned (Note 2)	20	10	8	7	67	368	112	592
Total Unobligated Balance, End of Year	180	44	104	62	182	677	143	1,392
Total Status of Budgetary Resources	\$1,859	\$386	\$508	\$494	\$2,975	\$1,489	\$379	\$8,090
<b>Change in Obligated Balance:</b>								
Unpaid Obligations, Brought Forward, October 1	\$467	\$157	\$610	\$383	\$984	\$124	\$46	\$2,771
Obligations Incurred	1,679	342	404	432	2,793	812	236	6,698
Outlays (Gross) (-)	(1,731)	(354)	(395)	(589)	(2,661)	(815)	(236)	(6,781)
Recoveries of Prior Year Unpaid Obligations (-)	(7)	(2)	(7)	(11)	(100)	(3)	(1)	(131)
<b>Unpaid Obligations, End of Year</b>	<b>\$408</b>	<b>\$143</b>	<b>\$612</b>	<b>\$215</b>	<b>\$1,016</b>	<b>\$118</b>	<b>\$45</b>	<b>\$2,557</b>
<b>Uncollected Payments:</b>								
Uncollected Customer Payments from								
Federal Sources, Brought Forward, October 1 (-)	\$(102)	\$(40)	\$(52)	\$(61)	\$(229)	\$0	\$(1)	\$(485)
Change in Uncollected Customer Payments from Federal Sources (+ or -)	10	(1)	(19)	(2)	(33)	0	(1)	(46)
<b>Uncollected Customer Payments from Federal Sources, End of Year (-)</b>	<b>\$(92)</b>	<b>\$(41)</b>	<b>\$(71)</b>	<b>\$(63)</b>	<b>\$(262)</b>	<b>\$0</b>	<b>\$(2)</b>	<b>\$(531)</b>



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**Memorandum (non-add) Entries:**

Obligated Balance, Start of Year (+ or -)	\$365	\$117	\$558	\$322	\$755	\$124	\$45	\$2,286
Obligated Balance, End of Year (+ or -)	316	102	541	152	754	118	43	2,026
<b>Budget Authority and Outlays, Net:</b>								
Budget Authority, Gross (Discretionary and Mandatory)	\$1,645	\$342	\$412	\$381	\$2,323	\$706	\$245	\$6,054
Actual Offsetting Collections (Discretionary and Mandatory)	(67)	(19)	(60)	(26)	(268)	(29)	(243)	(712)
Change in Uncollected Customer Payments from Federal sources (Discretionary and Mandatory) (+ or -)	10	(1)	(19)	(2)	(33)	0	(1)	(46)
<b>Budget Authority, net (Discretionary and Mandatory)</b>	<b>\$1,588</b>	<b>\$322</b>	<b>\$333</b>	<b>\$353</b>	<b>\$2,022</b>	<b>\$677</b>	<b>\$1</b>	<b>\$5,296</b>
Outlays, Gross (Discretionary and Mandatory)	\$1,731	\$354	\$395	\$589	\$2,661	\$815	\$236	\$6,781
Actual Offsetting Collections (Discretionary and Mandatory)	(67)	(19)	(60)	(26)	(268)	(29)	(243)	(712)
Outlays, net (Discretionary and Mandatory)	1,664	335	335	563	2,393	786	(7)	6,069
Distributed Offsetting Receipts (-)	(31)	0	0	0	0	(499)	0	(530)
<b>Agency Outlays, net (Discretionary and Mandatory)</b>	<b>\$1,633</b>	<b>\$335</b>	<b>\$335</b>	<b>\$563</b>	<b>\$2,393</b>	<b>\$287</b>	<b>\$(7)</b>	<b>\$5,539</b>

**Other Information—Unaudited**  
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## Other Information

### *Schedule of Spending*

The Schedule of Spending (SOS) presents an overview of how and where the Forest Service is spending money for the reporting period. The data that populate this schedule are the same underlying data used to populate the Statement of Budgetary Resources. The following SOS presents total budgetary resources, gross outlays, and total obligations incurred for the year ending September 30, 2013.

**TABLE 1. SCHEDULE OF SPENDING FOR THE YEAR ENDED SEPTEMBER 30, 2013 (IN MILLIONS)**

	<b>2013</b>
<b>What Money is Available to Spend?</b>	
Total Resources	\$7,779
Less Amount Available but Not Agreed to be Spent	816
Less Amount Not Available to be Spent	271
<b>Total Amounts Agreed to be Spent</b>	<b>\$6,692</b>
<b>How was the Money Spent/Issued?</b>	
USDA Strategic Goal 2—Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:	
Personnel Compensation and Benefits	\$2,962
Travel and transportation	150
Rent, communications, and utilities	183
Other contractual services	2,063
Supplies and materials	245
Equipment, land, and structures	177
Grants, subsidies, and contributions	589
Insurance claims and indemnities	7
Interest, dividends, and refunds	(11)
Other	327
Total	<b>\$6,692</b>
<b>Total Amounts Agreed to be Spent</b>	<b>\$6,692</b>
<b>Who did the Money go to?</b>	
Federal	\$49
Non-Federal	6,643
<b>Total Amounts Agreed to be Spent</b>	<b>\$6,692</b>

**Other Information—Unaudited  
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## *Management Challenges*

The Reports Consolidation Act of 2000 requires the U.S. Department of Agriculture (USDA), Office of Inspector General (OIG) to identify and report annually on the most serious management challenges the Department faces. To identify these Departmental challenges, OIG examines issued audit reports with recommendations where corrective actions have yet to be taken, assesses ongoing investigative and audit work to ascertain significant vulnerabilities, and analyzes new programs and activities that could pose significant challenges due to their range and complexity.

### ***Management Challenge 6—Action Needed To Improve Natural Resources Stewardship***

“One of USDA’s mission areas is ensuring the health of the land through sustainable management and conservation of the Nation’s natural resources. Over the years, USDA’s Forest Service and Natural Resource Conservation Service have had to balance budgetary concerns with the increasing demands placed on our Nation’s public and private lands, as well as the logistical issues of managing vast and geographically diverse natural resources. These agencies now face growing concerns such as climate change, increasing land development, conservation measures that affect human safety, and drilling for oil and gas on National Forest System (NFS) land. Successfully managing these demands will continue to pose a challenge in future years.”<sup>1</sup>

There were two Forest Service audits whose specific findings were identified under Management Challenge 6 of the OIG USDA Management Challenges (August 2013).

### **OIG Audit Report No. 08703-05-SF—American Recovery and Reinvestment Act (Recovery Act)—Forest Service Hazardous Fuels Reduction and Ecosystem Restoration Projects on Non-Federal Lands**

OIG reported that by continuing to improve its internal controls and coordination, the agency will be able to better fulfill its mission of caring for the Nation’s forests and grasslands. OIG’s findings include:

- The Forest Service’s Wildland Fire Management (WFM) Program allocated grants, including those under the Recovery Act, for activities without the necessary controls to ensure that the grant funds were both properly accounted for and used for their intended purpose.
- The agency also did not enhance existing controls despite the Recovery Act’s requirements for greater transparency and accountability.
- The agency did not ensure that it met the Recovery Act’s overall objective of maximizing job creation and retention in the most cost-effective manner possible.

### *Fiscal Year (FY) 2013 Accomplishments*

- Implemented several actions to address grant-related Recovery Act inquiries as well as to improve overall Forest Service grant administration.

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<sup>1</sup> Quoted text is from OIG USDA Management Challenges (August 2013).

**Other Information—Unaudited  
For The Years Ended September 30, 2013 and 2012**

- Revisited multiple Recovery Act equipment purchases and certified that the purchase of the equipment was necessary and that it was used primarily or exclusively for the projects to which it was charged.
- Reviewed all active Recovery Act grant agreements to determine whether the required provisions were included and if they were not, revised the agreements to include the provisions.
- Reviewed all existing non-Federal WFM Recovery Act and non-Recovery Act-funded grants to ensure that grant recipients claiming indirect costs have the required approvals and supporting documentation from the Office of Management and Budget (OMB).
- Provided training for Forest Service program managers, grants and agreement specialists, and agency partners. Training included Webinars on financial management systems review, indirect costs, and OMB Circular A-133 audits; a Webinar on the proper distribution of salary, which was attended by over 700 people; 3 week-long training sessions covering Uniform Administrative Requirements; and training to employees and partners in multiple geographic locations on cost principles and basic grant management.
- Worked closely with the Wyoming State Forestry Division to improve its controls over subgrant administration to ensure they reflect Federal requirements.

*FY 2014 Planned Actions*

- Conduct and implement actions to address Recovery Act-related inquiries and improve overall Forest Service grant administration.
- Improve grant recipients' use of funds by enhancing pre-award and post-award controls and by continuing to increase training for Forest Service staffs and grant recipients.
- Conduct various reviews to determine whether recipients charged Forest Service Recovery Act and non-Recovery Act grants appropriately and if funds were charged erroneously, recover the funds.
- Establish controls to address processes that resulted in inadequate accounting, unsupported salaries, noncompetitive procurements, and unauthorized indirect costs.

**OIG Audit Report No. 08601-01-21—Management of Oil and Gas Resources on National Forest System Land**

OIG reported that rising energy prices have increased interest in the exploration and development of domestic oil and gas resources, some of which are found beneath public lands within national forests. The Forest Service needs to take greater strides in managing the growing practice of drilling for oil and gas on NFS land. OIG's findings include:

- The agency was not adequately safeguarding NFS lands against environmental damage because it could not validate whether all well sites were being inspected annually, as required.
- The Forest Service does not require operators to submit a spill plan that would ensure that operators are prepared to quickly respond to any spills even though permitting for oil and gas drilling on NFS lands does pose an environmental risk.

**Other Information—Unaudited**  
**For The Years Ended September 30, 2013 and 2012**

- The agency must work more closely with the Bureau of Land Management (BLM) in the U.S. Department of the Interior to regulate drilling operations, including establishing a more formal means of communication.

*FY 2013 Accomplishments*

- Enhanced exploration and development of Forest Service oil and gas resources on NFS land by taking steps to improve coordination with BLM, including monthly meetings to discuss the status of oil and gas issues as well as higher level monthly meetings.
- Coordinated with BLM to request access to the Automated Fluid Mineral Support System (AFMSS) to track nominations for oil and gas leasing and improve processing time, track inspections, improve retrieval of information in AFMSS, and implement a training plan for agency officials with AFMSS access.
- Issued a letter to the regional foresters with oil and gas operations reiterating the guidance contained in the Forest Service Manual, Section 2165—Response to Hazardous Material Releases, to develop spill response plans.

*FY 2014 Planned Actions*

- Continue working with BLM to assess or improve cooperative efforts in reducing leasing and permitting backlogs, improving processing timeframes, and ensuring surface compliance.
- Update the existing regional mineral leasing file databases to identify the number of requests for leasing NFS lands and their acreages (lease offers and expressions of interest) and to track critical dates associated with individual nominations.
- Track leasing and permit processing times, using average processing times as a managerial tool for monitoring and improving processing efficiency from year-to-year.

*Net Cost of Operations by Strategic Goal*

The Forest Service's Strategic Plan for FY 2007–2012 was the basis for the Consolidated Statements of Net Cost in FY 2012, but the strategic plan expired and was not updated in FY 2013. The Forest Service's program of work remains aligned with USDA's Strategic Goal 2—Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources in the current USDA Strategic Plan for FY 2010–2015.

**TABLE 2. CONSOLIDATED STATEMENT OF NET COST FOR THE YEAR ENDED SEPTEMBER 30, 2013  
(IN MILLIONS)**

**USDA's Strategic Goal 2**—Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources

	<b>2013</b>
<b>Total Gross Costs</b>	\$6,541
<b>Less: Total Earned Revenue</b>	761
<b>Net Cost of Operations</b>	<u>\$5,780</u>

**Other Information—Unaudited**  
**For The Years Ended September 30, 2013 and 2012**

A comparative analysis in FY 2013 by Forest Service strategic goals is not available due to the expired strategic plan. For more information on the Consolidated Statements of Net Cost, refer to the Summary Analysis of Financial Statements and Stewardship Information section in the Management's Discussion and Analysis.

**TABLE 3. CONSOLIDATED STATEMENT OF NET COST BY STRATEGIC GOAL FOR THE YEAR ENDED SEPTEMBER 30, 2012 (IN MILLIONS)**

FOREST SERVICE STRATEGIC GOALS	2012
<b>1. Restore, Sustain, and Enhance the Nation's Forests and Grasslands:</b>	
1A. Gross Costs	\$4,997
1B. Less: Earned Revenue	604
1C. Net Goal Cost	4,393
<b>2. Provide and Sustain Benefits to the American People:</b>	
2A. Gross Costs	278
2B. Less: Earned Revenue	34
2C. Net Goal Cost	244
<b>3. Conserve Open Space:</b>	
3A. Gross Costs	347
3B. Less: Earned Revenue	42
3C. Net Goal Cost	305
<b>4. Sustain and Enhance Outdoor Recreation Opportunities:</b>	
4A. Gross Costs	624
4B. Less: Earned Revenue	75
4C. Net Goal Cost	549
<b>5. Maintain Basic Management Capabilities of the Forest Service:</b>	
5A. Gross Costs	486
5B. Less: Earned Revenue	59
5C. Net Goal Cost	427
<b>6. Engage Urban America with Forest Service Programs:</b>	
6A. Gross Costs	69
6B. Less: Earned Revenue	8
6C. Net Goal Cost	61
<b>7. Provide Science-based Applications and Tools for Sustainable Natural Resource Management:</b>	
7A. Gross Costs	139
7B. Less: Earned Revenue	17
7C. Net Goal Cost	122
8A. Gross Costs not assigned to programs	0
8B. Less: Earned Revenue not attributed to programs	0
8C. Net Costs not assigned to programs	0
<b>9A. Total Gross Costs</b>	<b>\$6,940</b>
<b>9B. Less: Total Earned Revenue</b>	<b>839</b>
<b>9C. Net Cost of Operations</b>	<b>\$6,101</b>

**Other Information—Unaudited**  
**For The Years Ended September 30, 2013 and 2012**

*Summary of Financial Statement Audit and Management Assurances*

**TABLE 4. AUDIT AND MANAGEMENT ASSURANCE TERMS AND DEFINITIONS**

TERM	DEFINITION
Beginning Balance	The FY 2013 beginning balance agrees with the FY 2012 ending balance of material weaknesses.
New	The total number of material weaknesses that have been identified during FY 2013.
Resolved	The total number of material weaknesses that dropped below the level of materiality in FY 2012.
Consolidated	The combining of two or more findings.
Reassessed	The removal of any finding not attributable to corrective actions. For example, management may have re-evaluated and determined a material weakness does not meet the criteria for materiality or is reclassified under another heading, such as the Federal Managers' Financial Integrity Act (FMFIA), <a href="#">Section 2 Effectiveness of Internal Control Over Financial Reporting</a> to a FMFIA, <a href="#">Section 4 Conformance with Financial Management System Requirements</a> .
Ending Balance	The Forest Service's FY 2013 ending balance for material weaknesses at yearend.

*Summary of Financial Statement Audit*

**TABLE 5. SUMMARY OF FINANCIAL STATEMENT AUDIT**

<b>Audit Opinion</b>	Unqualified					
<b>Restatement</b>	No					
<b>Material Weaknesses</b>	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
<b>Total Material Weaknesses</b>	0	0	0	0	0	0

*Summary of Management Assurances*

**TABLE 6. EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA SECTION 2)**

Statement of Assurance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Material Weaknesses	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0

**TABLE 7. EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA SECTION 2)**

Statement of Assurance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Material Weaknesses	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0

**Other Information—Unaudited**  
**For The Years Ended September 30, 2013 and 2012**

The Statement of Assurance: “Systems conform, conform except for the below nonconformance(s), or do not conform to financial management system requirements.”<sup>2</sup>

**TABLE 8. CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA SECTION 4)**

Statement of Assurance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Nonconformances	0	0	0	0	0	0
Total Nonconformances	0	0	0	0	0	0

**TABLE 9. CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)**

Overall Substantial Compliance	Agency	Auditor
System Requirements	Yes	Yes
Accounting Standards	Yes	Yes
U.S. Standard General Ledger at the Transaction Level	Yes	Yes

### *Improper Payments Improvement Act Reporting*

As required by the Improper Payments Information Act of 2002 (IPIA) and OMB Circular A-123, Appendix C, agencies are to measure high-risk programs annually, estimate the amount of improper payments, and report the estimate in the Performance and Accountability Report or Agency Financial Report.

#### ***The Criteria for the Risk Assessment***

USDA programs have been divided into two categories for the purpose of performing risk assessments: management certification and risk assessments.

Risk assessments are performed on all programs at least once every 3 years or more frequently if the USDA Office of the Chief Financial Officer (OCFO) deems necessary. In addition to risk assessments, agencies are required to provide a management certification that asserts among other things that:

1. The program is still determined to be at low risk of improper payments.
2. There have been no significant program changes since the last risk assessment.
3. There have been no significant internal control changes since the last risk assessment.
4. There have been no new audit reports describing significant improper payments or internal control issues.

Wildland Fire Suppression Fund (WFSU) has been identified as a high-risk program for Forest Service since FY 2004. No new high-risk programs were identified for FY 2013.

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<sup>2</sup> The Statement of Assurance is defined in the Office of Management and Budget’s (OMB) Circular A-136, Section 4 Other Information.



**Other Information—Unaudited**  
**For The Years Ended September 30, 2013 and 2012**

***The Description of the Statistical Sampling Process***

The IPIA requires statistical sampling for high-risk programs only. The Forest Service used Monetary Unit Sampling (MUS) to systematically analyze and review WFSU transactions (the IPIA reporting period of October 1, 2011 through September 30, 2012).

***The Description of the Corrective Action Plan(s)***

The result of Forest Service sampling over the WFSU program resulted in a testing error rate of 0.0 percent for FY 2013. In addition, the enhanced analytics conducted over the WFSU program resulted in \$0 of improper payments or 0.0 percent of total outlays.

Below is a table of the statistical sampling results of the WFSU assessment.

**TABLE 10. THE STATISTICAL SAMPLING RESULTS OF THE WFSU ASSESSMENT**

Fund	IPIA Reporting FY 2013/ Actual FY 2012 Population Outlays <sup>3</sup>	IPIA Reporting FY 2013/ Actual FY 2012 Tested Outlay Amount	IPIA Reporting FY 2013/ Actual FY 2012 Population Insufficient Documentation in Dollars	IPIA Reporting FY 2013/ Actual FY 2012 Population Insufficient Documentation in Percent	IPIA Reporting FY 2013/ Actual FY 2012 Population Improper Payment Error in Dollars	IPIA Reporting FY 2013/ Actual FY 2012 Population Improper Payment Error in Percent
WFSU	\$835,023,441	\$48,341,628	\$0.00	0.0%	\$0.00	0.0%

During the current and previous three fiscal years, WFSU testing error rates have been 0 percent. The Forest Service has significantly reduced the potential for errors through continuous improvement and strengthening of internal controls, internal monitoring and reviews of potential improper payments, centralizing of accounting functions, improved communications, and follow-up prior to payment authorizations.

In FY 2014, management will be made aware of payments and held accountable for reduction and recoveries of improper payments. Dissemination of audit findings, recovery efforts, and identification of root causes ensure management's awareness. Quarterly monitoring and corrective actions will improve accountability, identification, and resolution of improper payments in a timely manner. Statistical sampling will also be performed over all payments to identify the areas where erroneous payments are more prevalent.

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<sup>3</sup> In the FY 2012 Forest Service Agency Financial Report, the agency previously reported FY 2012 dollars for the IP Reduction Outlook as \$885,500,000, which was an estimated amount.

**Other Information—Unaudited**  
**For The Years Ended September 30, 2013 and 2012**

***Improper Payment Reduction Outlook***

The following tables for the Improper Payment (IP) Reduction Outlook are limited to the WFSU.

**TABLE 11. ESTIMATED IMPROPER PAYMENT REDUCTION OUTLOOK (IN THOUSANDS)**

Program	IPIA Reporting FY 2014/ Actual FY 2013 Estimated Outlays	IPIA Reporting FY 2014/ Actual FY 2013 Estimated IP %	IPIA Reporting FY 2014/ Actual FY 2013 Estimated IP \$
WFSU <sup>3</sup>	\$992,700	0.00%	\$0.00

Program	IPIA Reporting FY 2015/ Actual FY 2014 Estimated Outlays	IPIA Reporting FY 2015/ Actual FY 2014 Estimated IP %	IPIA Reporting FY 2015/ Actual FY 2014 Estimated IP \$
WFSU <sup>3</sup>	\$1,015,563	0.00%	\$0.00

Program	IPIA Reporting FY 2016/ Actual FY 2015 Estimated Outlays	IPIA Reporting FY 2016/ Actual FY 2015 Estimated IP %	IPIA Reporting FY 2016/ Actual FY 2015 Estimated IP \$
WFSU <sup>3</sup>	\$1,035,874	0.00%	\$0.00

***Recovery of Improper Payment***

The Improper Payments Elimination and Recovery Act of 2010 requires Federal agencies to enhance their efforts in preventing, detecting, and recovering improper payments. The Forest Service conducted a retroactive review of FYs 2012 and 2013 billings to enhance its ability to identify and report recovery of improper payments. Internal reviews were also conducted periodically and reported to USDA's Office of the Chief Financial Officer through the quarterly High Dollar Report for the high-risk WFSU fund.

**TABLE 12. RECOVERY OF IMPROPER PAYMENTS ACTUAL DOLLARS RECOVERED**

FY 2009	FY 2010 <sup>4</sup>	FY 2011	FY 2012	FY 2013 <sup>5</sup>
\$1,720	\$1,700,000	\$2,115,003	\$7,309,194	\$1,660,372

***Risk Assessment and Oversight Benefits***

The benefits of enhanced risk assessments and oversight provide Forest Service management with information regarding the payment processes that have higher inherent risk. This will allow management to identify the root causes and improve and enhance internal controls and dedicate additional resources to reduce the risk of improper payments.

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<sup>4</sup> The methodology for reporting improper payments changed for FY 2010. The Forest Service previously reported FY 2010 dollars recovered as \$584,994 in the FY 2010 Forest Service Agency Financial Report.

<sup>5</sup> Improper Payment Recoveries (IPERA) reported to OCFO for FY 2013 First and Second Quarter.

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