United States General Accounting Office

GAO

Report to Congressional Requesters

August 1998

FOREST SERVICE

Better Procedures and Oversight Needed to Address Indirect Expenditures

GAO/RCED-98-258

GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

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Congressional Requesters

In response to your interest in overhead costs at the Forest Service, we examined the issue in a May 1998 report and found that such costs—called “indirect” by the Forest Service—had risen over time.[1] According to the Forest Service’s data, these costs grew from 16 percent to 27 percent of total expenditures between fiscal years 1993 and 1997 for the five funds we reviewed—the Brush Disposal Fund, the Salvage Sale Fund, the Reforestation Trust Fund, the Cooperative Work—Other Fund, and the Cooperative Work—Knutson-Vandenberg (K-V) Fund.[2] In response to this increase, you next requested that we identify (1) the reasons why indirect costs rose; (2) actions taken by the Forest Service and others to control these costs; and (3) other actions that may help the Forest Service control these costs in the future.

We based this portion of our review on work at the Forest Service’s Washington Office and in four of its nine regions—the Southwestern, Rocky Mountain, Pacific Southwest, and Pacific Northwest regions. These regions were selected because together they represented a mix of high and low indirect costs and small and large timber sale programs. Additional information on the offices reviewed is provided in appendix II.

Results in Brief

Inconsistencies in the Forest Service’s accounting system make it difficult to ascertain specifically why indirect costs rose for these five funds during fiscal years 1993-97. According to the Forest Service, indirect costs rose for four main reasons: the implementation of a congressionally established program to increase the amount of salvage timber offered for sale, additional costs associated with downsizing, the allocation of costs incurred in previous years but not charged against the funds at the time, and computer modernization. However, during this same time period, the Forest Service was changing its policies about how to account for indirect costs, and individual regions and forests were implementing these policies in markedly different ways. As a result, the accounting system produced information that was not consistent from year to year or location to location. Neither we nor the Forest Service is able to say how much indirect costs increased as a result of the factors the Forest Service cites and how much they changed because of these accounting inconsistencies.

[1] Forest Service: Indirect Expenditures Charged to Five Funds (GAO/RCED-98-164R, May 6, 1998).

[2] See app. I for a description of each of these funds.

To control costs, the Forest Service took a number of actions, most of which were aimed at reducing costs generally and not targeted specifically at indirect costs. In particular, the agency reduced its permanent staff by 14 percent, and individual regions used a variety of other measures, including closing some district offices; consolidating others; and centralizing certain administrative functions, such as contracting and procurement. For their part, congressional appropriation committees reduced the budget line item for some indirect costs. One way the Forest Service responded to the reductions was to reclassify some indirect costs to other accounts.

An essential step for controlling indirect costs is establishing clear definitions for them and applying the definitions consistently over time and across locations. If implemented properly, a new accounting standard released by the Financial Accounting Standards Advisory Board, which recommends accounting principles for the federal government, will go a long way towards providing consistent and reliable data on the Forest Service's indirect costs. Just as important is ensuring that all of the agency's offices consistently implement guidance on these costs. Once the problems with the Forest Service's accounting system are solved and the agency's indirect costs are clearly known, there is the opportunity for informed decisions to be made on how to control them.

Background

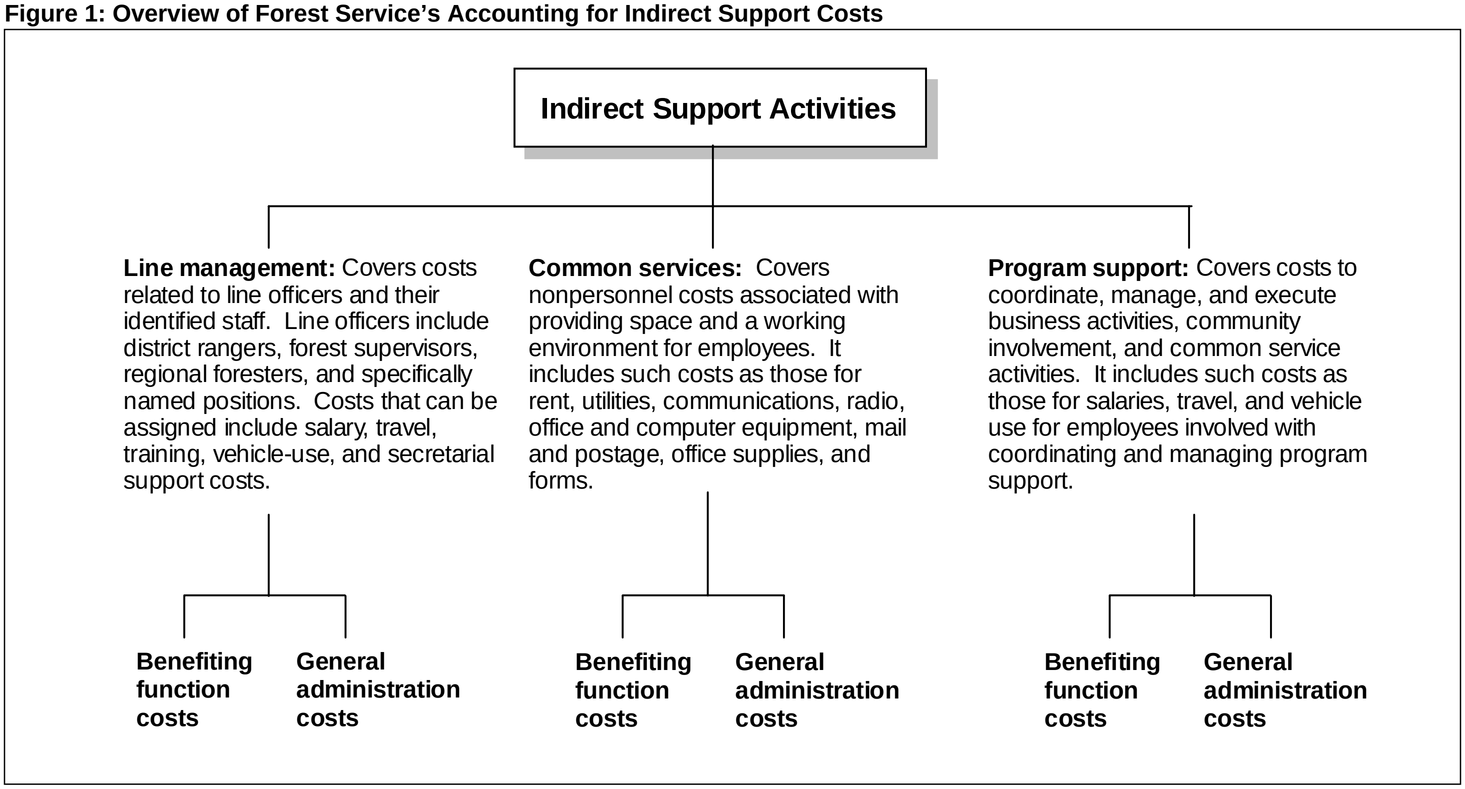
In fiscal year 1996, the Forest Service reported that, for the first time, the expenses associated with preparing and administering timber sales exceeded the receipts generated by the sale of the timber. This loss heightened the interest in the financial status and spending practices of the Forest Service. After we reported that indirect expenditures had nearly doubled in 5 years,[3] legislation was introduced in the House of Representatives (H.R. 4149) to improve the fiscal accountability of the Forest Service through an improved financial accounting system. This legislation would first limit, and then eliminate, all indirect costs that could be charged to the funds. In addition, H.R. 4193, the appropriations bill for the Department of the Interior and related agencies for fiscal year 1999, contains provisions that would limit indirect costs to 25 percent of total costs for the Salvage Sale Fund and eliminate them entirely for the K-V Fund.

The Forest Service separates indirect costs into three main categories: line management, common services, and program support (see fig. 1). Within

[3]See app. III for a summary chart of indirect expenditures for each fund for fiscal years 1993-97.

each of these categories, its accounting system further divides such costs into two subcategories, differentiated on the basis of whether the cost can readily be identified with a specific project or function. For example, personnel support provided to the timber program can be readily identified with a single program, while a management position providing leadership for many programs (e.g., a forest supervisor) cannot. Costs that can be readily identified with a project or program are called “benefiting function” costs; costs that cannot be so identified are called “general administration” costs.

Figure 1: Overview of Forest Service’s Accounting for Indirect Support Costs



The Forest Service derives its funding from two main sources—congressional appropriations and trust and permanent funds such as the five we reviewed.[4] Both sources of funding are used to pay for

[4]In general, funding from trust and permanent funds covers certain activities for which the funds were specifically established, such as reforestation or trail building.

relevant indirect costs, but the funding mechanisms operate somewhat differently for each source.

- When indirect costs are charged to appropriations, benefiting function costs are charged to the appropriations made specifically for a program, while general administration costs are charged to a separate budget line item that covers general administration costs for all programs.
- When indirect costs are charged to a trust or permanent fund, both the general administration and benefiting function costs are paid for by the fund. Since 1995, Forest Service's guidance has called for offices to separate the accounting of these costs into the two subcategories of general administration and benefiting function, although doing so is not mandatory.

Factors Increasing Indirect Costs

The Forest Service identified four main factors that have contributed to the increase in indirect expenditures. However, year-to-year and office-to-office differences in the accounting system hamper any effort to determine the effect of any of these factors. Neither we nor Forest Service officials can isolate the effect of these factors from the effects of inconsistencies in the way the accounting system was implemented.

Factors Identified by the Forest Service

According to the Forest Service, the four factors contributing most to indirect cost increases during the 5-year review period were the implementation of the emergency salvage timber sale program, employee buyouts, the late assignment of costs, and a new computer system.

Emergency Salvage Timber Sale Program

In July 1995, the Congress established the emergency salvage timber sale program, commonly called the salvage rider. It was intended to increase the amount of salvage timber offered and sold by instituting an expedited sale process. As a result, regions with a large need for salvage sales (among the regions we reviewed, the Pacific Southwest and Pacific Northwest regions) experienced a sharp increase in both direct and indirect expenditures to the Salvage Sale Fund. The rider ended on December 31, 1996, but indirect expenditures continued to increase in two of the four regions we reviewed through fiscal year 1997. A regional official attributed this continued increase to the time lag between when the direct "on-the-ground" work ended and when the work necessary to administer and close the contracts and finish other administrative tasks was completed.

Employee Buyouts

The Federal Workforce Restructuring Act of 1994 (Pub.L. 103-226) authorized executive agencies, including the Forest Service, to conduct a buyout of employees who met certain criteria and wanted to leave the agency. A buyout incentive payment of up to $25,000 per employee was to be paid from appropriations or funds available to pay the employee. The act also required agencies to pay the Office of Personnel Management: (1) for fiscal years 1994 and 1995, 9 percent of the basic pay for each employee that left and (2) for fiscal years 1995 through 1998, $80 for each remaining permanent employee (termed a "head tax"). Consequently, Forest Service regions with large staffs in positions classified as indirect have experienced increases in indirect expenditures. For example, for the 5 years we reviewed, the Pacific Northwest Region had more employees—some of them in indirect positions—than any other region and accounted for almost half of the $2.5 million charged to the funds since fiscal year 1994 for the head tax in the offices we reviewed.

Similarly, indirect expenditures for the Salvage Sale Fund at the Washington Office increased almost $1.1 million between fiscal year 1994 and 1995. Of this amount, the Forest Service's accounting records show that $211,423 was the result of the head tax. For fiscal year 1995, Forest Service officials stated that the National Finance Center[5] requested that the agency account centrally for the head tax because the Center's computer system could not appropriately account for it. As a result, the Washington Office funded the entire $2.6 million assessed to the agency in that year, which included the $211,423 indirect cost charged to the Salvage Sale Fund.

Late Assignment of Costs

The Pacific Southwest Region experienced an increase in indirect expenditures charged to the K-V, Brush Disposal and Salvage Sale funds in fiscal year 1997. According to regional office officials, this increase occurred because the Washington Office billed the region for about $5 million in charges for rent, telephones, and unemployment and disability payments that the region had incurred in fiscal years 1992, 1993, and 1994. The region had not expected to be billed for these costs at such a late date, so it had dismissed the associated obligations for those years. Other offices were also affected by this late assignment of costs.

New Computer System

The regions and most funds experienced a rise in expenditures in fiscal years 1995, 1996, and 1997 due to a modernization of the Forest Service's computer system. Agency officials stated that the software license fee contract associated with this modernization is funded centrally through

[5]The National Finance Center provides financial and administrative management services.

the Washington Office. For the funds reviewed, this license fee increased the Washington Office's indirect expenditures by $762,000 in fiscal year 1996 and $885,000 in fiscal year 1997. Regions are assessed for their share of the hardware and related technical support costs. Between fiscal years 1993 and 1997, charges for computer related indirect expenditures to the Salvage Sale Fund in the Pacific Northwest Region, for example, increased from $22,000 to $556,000.

Accounting System's Inconsistencies

Although Forest Service officials could broadly quantify the rise in indirect expenditures associated with the four major factors just discussed, they could not separate what increases were specifically attributable to these factors from those caused by inconsistencies in the way indirect costs are recorded. During the 5-year review period, definitions of indirect costs changed, and offices often decided how, when, and whether to implement guidance issued by the Washington Office. Changing definitions and inconsistent implementation of accounting system guidance created data that were not comparable from year to year or office to office.

Changing Definitions and Policies

In order to determine why costs increased, it is necessary to have data that are comparable from year to year. However, over our 5-year review period, the instructions explaining how to account for indirect costs changed several times. For example, agency officials stated that prior to fiscal year 1994, there was no central and specific policy on how rent, utilities, and communications costs were to be charged. While the majority of the cost for rent charged to the funds was classified as a direct cost, some offices classified rent as an indirect cost, and still others classified it as both. The Forest Service recognized that a better system was needed to track indirect costs. Towards this end, the Forest Service established the common services category for rent, utilities, and communications costs in that fiscal year.

However, the impact of this new account cannot be clearly measured. For example, in fiscal year 1993, rent charged to the Salvage Sale Fund in the Southwestern Region included $12,000 classified as direct and $1,000 classified as indirect. In fiscal year 1994, the Salvage Sale Fund had no rent classified as direct and $23,000 classified as indirect. Although rent costs charged to this fund nearly doubled, it is unclear how much of this change was attributable to an actual increase in rent and how much was attributable to the use of the new common services account.

Other changes were brought about by policy decisions. For example, in fiscal year 1993, indirect expenditures as a percentage of total expenditures were less than 1 percent for the Reforestation Trust Fund. After determining that not all regions were assessing this fund for general administration costs, the Washington Office directed that the fund be assessed starting in fiscal year 1994. After the Washington Office's request, national indirect expenditures for this fund jumped to 13 percent of its total expenditures in fiscal year 1994. However, a Washington Office official stated that the Office inadvertently excluded this fund from its own general administration assessments until fiscal year 1996. Again, we cannot determine the extent to which the increase reflects a cost increase or simply the assessment of the fund for general administration costs.

Inconsistent Application of Policies by Forest Service Offices

Even when provided with direction from the Washington Office, individual offices will often determine how, when, and whether to implement various aspects of the current accounting system for recording indirect expenditures. This independence adversely impacted the Forest Service's ability to provide us with the specific amounts associated with the reasons given for cost increases. For example, although instructed to start assessing the Reforestation Trust Fund for general administration costs starting in fiscal year 1994, the Rocky Mountain and Southwestern regions did not start doing so until fiscal year 1995. Such choices produce inconsistencies that affect the comparability of data and the ability to isolate specific reasons for expenditure increases. To similar effect, individual offices make many of the decisions regarding how to assess and allocate indirect costs to the funds and whether to classify certain costs as direct or indirect, as these examples show:

- The Pacific Southwestern Region lets its forests decide how to allocate unemployment costs, according to an official there. Some forests consider these costs direct, and others consider them indirect. As a result, the expenditures reported by the region contain amounts that are classified differently from forest to forest.
- In the Rocky Mountain Region, almost no indirect expenditures are charged to the Cooperative Work—Other Fund because, according to a regional official, some managers are reluctant to burden the fund's contributors—such as commercial users of forest roads—with indirect costs. The regional supplement to the Forest Service Manual supports this decision by saying that "Contributors do not need to be assessed for overhead charges if the contributors are unwilling to accept them."
- Since fiscal year 1995, the Rocky Mountain Region has classified rent charged to the Brush Disposal Fund entirely as an indirect cost, whereas

the Southwestern Region has classified rent charged to the same fund both as a direct and an indirect cost.

- In the Pacific Southwest Region, an official stated that expenses for timber resource clerks in some forests are classified as a direct cost to the funds but in other forests are classified as an indirect cost.
- At the Washington Office, officials told us that the majority of the increase in the indirect expenditures to the Salvage Sale Fund in fiscal years 1996 and 1997 occurred to charge the correct amount and to compensate for what were determined to be underassessments for general administration during fiscal years 1993-95.

Impact of All Factors Cannot Be Quantified

Although the Forest Service can trace some of the increases in indirect costs to the four major factors discussed above, changing definitions and inconsistent implementation of policies hamper the agency's efforts to explain all the increases. For example, in the Pacific Southwest Region, four indirect expenditure categories in the Salvage Sale Fund increased $2.5 million from fiscal year 1995 to 1996. Financial records show that indirect automated data processing (ADP) expenditures rose $221,000; rent by $103,000; salaries by $251,000; and materials, supplies, and other services by $1.9 million. While the increase in ADP expenditures might be explained by the additional expenditures associated with the modernization of the computer system, regional officials cannot specifically isolate the amount that rent or salaries rose because of factors such as the salvage sale rider from increases that may have resulted from policy changes.

The explanation of why the region had such a sharp increase in materials, supplies, and other services illustrates another reason why indirect cost increases are so difficult to isolate. Agency officials explained that this increase occurred because it was the Salvage Sale Fund's turn to pay for the "pooled" general administration assessment for the Forest Service's contract with the National Finance Center. Forest Service regions often "pool" the assessment to simplify budgeting procedures. For example, instead of assessing each fund individually for its share of costs from the National Finance Center, each fund places its allotted share for general administration into a pool, with the entire cost then being shown as charged against one fund instead of five. In this case, it was the Salvage Sale Fund's year to bear the pooled amount for the National Finance Center. While pooling may simplify budgeting procedures, it has hindered efforts to isolate and explain individual cost increases.

Actions Taken to Control Costs

Overall, the Forest Service reduced its permanent staff by 14 percent during the 5-year period of our review, and individual offices implemented additional measures designed to reduce costs. Most of these efforts have been aimed at reducing costs generally and have not been targeted specifically at indirect expenditures. The congressional appropriations committees also reduced the budget line item for general administration during the period, but one way the Forest Service responded to the decrease was by reclassifying some general administration activities as benefiting function activities.

Actions Initiated by the Forest Service

The regions actively participated in the Forest Service's national downsizing effort. In the four regions we reviewed, the downsizing resulted in staff reductions ranging from 8 to 23 percent. However, during the 5-year period, indirect salary expenditures charged to the five funds dropped appreciably only in the Rocky Mountain Region. They decreased slightly in the Pacific Southwest and Pacific Northwest regions and rose slightly in the Southwestern Region. The Washington Office also saw an increase. Because of the combined effect of the other factors already discussed, we cannot isolate the extent of the impact that downsizing had on indirect expenditures charged to these funds.

Regions and forests also pursued other measures designed to reduce both direct and indirect costs. These included closing offices, consolidating offices, and centralizing administrative functions.

Office Closures

During our 5-year review period, a total of five district offices were closed in the four regions we visited. Estimates of cumulative savings from these five closures totaled about $1.6 million, but the savings were not identified as direct or indirect costs. Regional officials stated that closing offices is a very effective way to reduce costs, but they consider it a time-consuming and complicated process. A Washington Office official noted that for fiscal years 1996 and 1997, provisions in the appropriations law prohibited the agency from closing offices without specific congressional approval.[6] He also stated that even before being submitted to the Congress for approval, the proposed closures must first be approved by the Washington Office. The whole approval process can take 2 years or more to complete.

Office Consolidations and Centralization of Functions

Compared with office closures, office consolidations and the centralization of certain administrative functions were more commonly

[6]The prohibition against closing offices was not included in the 1998 appropriations law, and an official in one of the four regions we reviewed said that the region is following through with a previously studied closure.

used in an effort to reduce total costs. While the Washington Office must approve office consolidations, the process is less complicated than the one for closures. In fiscal year 1998, the Washington Office has approved 15 ranger district consolidations involving 31 district offices in the regions we reviewed. During our 5-year review period, examples of specific consolidations and efforts to centralize administrative functions included these:

- For the Black Hills National Forest, we were told that three district ranger positions were eliminated when six districts were consolidated. The remaining three district rangers oversee the six offices.
- According to a regional official, in fiscal year 1996 the Southwestern Region received approval to consolidate two districts in one forest. Both offices would remain open, and they would share a district ranger.
- According to a Rocky Mountain Regional official, in fiscal year 1996 the region organized its forests into three administrative zones. By combining 16 units into three zones and thereby centralizing such administrative processing functions as contracting and procurement, the region was able to reduce administrative costs.
- According to a regional official, in fiscal year 1994 the Pacific Southwest Region instituted its “Excellence in Administrative Organization” project in an effort to control indirect costs. The region was divided into five provinces, and certain types of administrative operations, such as accounting, budgeting, and contracting, were centralized.
- In the Southwestern Region, as a result of consolidation, we were told that three forests share a contracting officer and personnel staff. Also, the region no longer has its own aircraft safety officer; it now shares one with the Rocky Mountain Region.

Actions Taken by the Congress

The Senate and House appropriations committees, in their committee and conference reports, recommended a specified amount each year for the general administration budget line item within the National Forest System appropriation. This budget line item applies only for general administration activities associated with appropriations and cannot be used to fund general administration activities applicable to the trust and permanent funds.

Between fiscal year 1993 and fiscal year 1997, the committees reduced the recommended amount for general administration costs by about 14 percent. However, this reduction did not result in a corresponding decrease in indirect costs.[7] One way that the Forest Service has been able to comply with the reduction was by reclassifying costs previously considered general administration costs to other indirect cost categories. In doing so, the agency also implemented recommendations made by the National Forest System General Administration Task Force in a 1992 report that was provided to the appropriations committees, and the Forest Service described the reclassifications in the explanatory notes of its budget. Reclassifications included these:

- In fiscal year 1993, for each forest supervisor's office, the expenses for the forest supervisor, deputies, and their secretarial support were classified as general administration costs. By 1995, only the costs for the forest supervisor and one secretary could be charged as general administration. The other positions were reclassified and are now charged to other indirect cost categories.
- In fiscal year 1993, up to five district ranger positions were included in general administration. In fiscal year 1997, all such district support could not be included in general administration and was reclassified.

The general administration budget line item cannot be used to fund general administration activities in the permanent and trust funds; therefore, the Forest Service has developed a method of assessing the funds for such charges. The method used results in a percentage reflecting the portion of the budget that general administration represents. If the general administration budget line item is 12 percent of the total budget to which it applies, then the Forest Service limits the general administration costs that may be assessed to the funds to 12 percent of each fund's annual program level. Amounts that can be charged for other indirect cost categories are limited by budget constraints. We were told by agency officials that, in practice, many forests have chosen not to separately identify general administration costs from other indirect costs charged to the funds. Agency officials stated that forest officials found the distinction confusing and unnecessary because all the costs charged to a fund are paid for by that fund.

Actions Essential in Controlling Indirect Costs

In an effort to reduce overall costs, the Forest Service has closed and consolidated offices, downsized, and centralized certain administrative functions. However, these measures were not enough to keep indirect expenditures from almost doubling in 5 years. Because individual offices

[7] We discussed how this action did not result in reduced indirect costs in Forest Service: Effect of H.R. 4149 on Indirect Expenditures Charged to Four Funds (GAO/T-RCED-98-251, July 28, 1998).

will often decide how to account for indirect costs, the accounting system will not yield the data necessary to measure the savings in indirect costs resulting from these actions. This condition is made worse by definitional and other shifts that allow costs simply to be reclassified. Only after consistent and reliable indirect cost data are produced can trends and comparisons be studied and informed decisions made. An essential first step for the Forest Service in controlling indirect costs is to know clearly what these costs are from year to year and office to office.

A starting point for this effort involves establishing clear definitions for indirect costs and applying them consistently over time. In this regard, the Forest Service can be helped by a recent addition to the federal financial accounting standards. In July 1995, the Financial Accounting Standards Advisory Board, the group that recommends accounting principles for the federal government, released Statement of Federal Financial Accounting Standard (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government. Effective for federal agencies starting with fiscal year 1998, this standard is "aimed at providing reliable and timely information on the full cost of federal programs, their activities, and outputs."

Although the Forest Service was required to use the principles set forth in SFFAS No. 4 on October 1, 1997, we were told by a Washington Office official that the agency currently has a team discussing the possibility of applying the principles to its existing accounting system. Properly implementing this standard will go a long way towards providing cost data upon which informed decisions about reducing costs can be based. Of necessity, this endeavor will mean some changes in the way the Forest Service classifies costs as direct or indirect, as the following examples show.

Unemployment and Disability Costs. About 59 percent of the total unemployment and disability costs charged to the five funds we reviewed were indirect, totaling more than $16 million over the 5 years. If an employee normally charges his or her time directly, then we believe that SFFAS No. 4 requires that associated unemployment or disability costs should also be charged directly. Because 76 percent of all salary costs charged to the funds during the past 5 years were classified as direct, proper implementation of SFFAS No. 4 should result in a substantial lowering of the unemployment and disability costs classified as indirect.

ADP Costs. In the regions we reviewed, 71 percent of the ADP costs charged to the five funds were classified as indirect—a total of almost $10 million in 5 years. Again, under SFFAS No. 4, we believe such costs would be classified as direct to the degree that the employees associated with the ADP costs normally charge their time that way. As with the assignment of unemployment and disability costs, we would expect ADP costs to mirror those of salaries and to be classified as direct whenever people to whom they are assigned charge their time directly. Classifying these types of costs as indirect overstates indirect costs overall and understates direct costs.

Just as important as clarifying how costs should be classified, however, is ensuring that Forest Service offices apply these classifications consistently. If individual offices continue to vary in their decisions about how, when, and whether to implement accounting policies and definitions, the data produced will continue to have limited validity, and the Forest Service will have little reliable information upon which to judge whether indirect costs are truly rising or falling, let alone why. Because centralization represents such a change in the Forest Service's approach of giving great latitude to local offices, oversight by Forest Service headquarters and regional officials will be crucial to this effort.

Conclusions

Over the 5-year period we reviewed, the Forest Service took many actions to reduce costs, but indirect expenditures charged to the five funds reviewed increased nonetheless. Thus far, congressional attempts to affect indirect costs (through appropriations committees' reducing the budget line item recommended for general administration) also appear to provide little assurance that such costs will actually be reduced. Instead, such costs have often been redefined into other indirect cost categories. However, incorporating the principles set forth in the Statement of Federal Financial Accounting Standard No. 4 would go a long way towards producing cost data that are consistent and reliable. But even the best guidance will not produce consistent and reliable data if it is not uniformly implemented by all offices. Solving these accounting system problems is an essential first step in controlling indirect expenditures. Once these problems are solved and indirect costs from year to year and office to office are clearly known, there is the opportunity for informed decisions about indirect costs and how to reduce them. At that point, approaches could include requiring the Forest Service to reduce indirect costs by a set amount and to report on what it has done or plans to do to achieve that reduction.

Recommendations

To ensure that consistent and reliable cost data are available upon which to base management decisions and monitor trends, we recommend that the Secretary of Agriculture direct the Chief of the Forest Service to take the following actions:

- Incorporate the Statement of Federal Financial Accounting Standards No. 4 into the Forest Service's cost accounting system.
- Ensure that all offices consistently implement guidance with respect to accounting for indirect costs and hold the offices accountable by following up to make sure that the standards are being consistently used.

Agency Comments

We provided a draft of this report to the Forest Service for review and comment. The Forest Service's letter commenting on the report (see app. IV) states that the agency concurs with our recommendations and that it is committed to developing definitions of indirect costs to be applied on a national basis.

As we arranged with your offices, unless you publicly announce its contents earlier, we plan no further distributions of this report until 30 days from the date of this letter. At that time, we will send copies to the Secretary of Agriculture, the Chief of the Forest Service, and other interested parties. We will also make copies available to others upon request.

Major contributors to this report are listed in appendix V. If you or your staff have any questions or wish to discuss this material further, please call me at (206) 287-4810.

James K. Meissner

James K. Meissner
Associate Director, Energy,
Resources, and Science Issues

List of Requesters

The Honorable Slade Gorton
Chairman, Subcommittee on Interior
and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Larry E. Craig
Chairman, Subcommittee on Forests
and Public Land Management
Committee on Energy and Natural Resources
United States Senate

The Honorable Robert F. Smith
Chairman, Committee on Agriculture
House of Representatives

Contents

Abbreviations

ADP	automated data processing
GAO	General Accounting Office
K-V	Knutson-Vandenberg
SFFAS	Statement of Federal Financial Accounting Standard

Descriptions of the Five Funds Examined

Brush Disposal Fund

A permanent appropriation that uses deposits from timber purchasers to dispose of brush and other debris resulting from timber harvesting. It was authorized by the Act of August 11, 1916, ch. 313, 39 Stat. 446, as amended. (16 U.S.C. 490)

Cooperative Work—Other Fund

A trust fund that uses deposits from “cooperators”—commercial users of the forest road system—for the construction, reconstruction, and maintenance of roads, trails, and other improvements. It was authorized beginning with the Act of June 30, 1914, ch. 131, 38 Stat. 415, as amended. (16 U.S.C. 498)

Cooperative Work—Knutson-Vandenberg Fund

A trust fund that uses deposits made by timber purchasers to reforest timber sale areas. In addition to planting, these deposits may also be used for eliminating unwanted vegetation on lands cut over by the purchasers and for protecting and improving the future productivity of the renewable resources on forest land in the sale areas, including sale area improvement operations, maintenance, construction, reforestation, and wildlife habitat management. The fund was authorized by the Act of June 9, 1930, ch. 416, 46 Stat. 527, as amended. (16 U.S.C. 576-576b)

Reforestation Trust Fund

A trust fund that uses tariffs on imports of solid wood products to prevent a backlog in reforestation and timber stand improvement work. It was authorized by sec. 303 of the Recreational Boating Safety and Facilities Improvement Act of 1980, Pub.L. 96-451, 94 Stat. 1983, as amended. (16 U.S.C. 1606a)

Salvage Sale Fund

A permanent appropriation that uses receipts generated by the sale of salvage timber to prepare and administer future salvage sales. It was authorized by section 14(h) of the National Forest Management Act of 1976, Pub.L. 94-588, 90 Stat. 2949. (16 U.S.C. 472a (h))

Objectives, Scope, and Methodology

Given the heightened interest in the financial status and spending habits of the Forest Service, you asked us to provide data on indirect expenditures charged to five Forest Service funds. We agreed to provide this information in two phases. In phase one, we provided information on the amount of indirect expenditures charged to these five funds between fiscal years 1993 and 1997. This second phase has the three objectives of identifying (1) the reasons why indirect costs rose, (2) actions taken by the Forest Service and others to control these expenditures, and (3) other actions that may help the Forest Service control such expenditures in the future.

As agreed, we concentrated our detailed review on four regions and the Washington Office. Because the five funds are mainly timber-related, we chose the Pacific Southwest and Pacific Northwest regions because they have large timber programs. We chose the Rocky Mountain Region because it had lower indirect expenditures than any other region. We selected the Southwestern Region because it is similar in size to the Rocky Mountain Region yet had much higher indirect costs. We selected the Washington Office because its indirect costs fluctuated widely and increased significantly in some funds. Table II.1 provides each region's location and the geographic area it covers.

Table II.1: Location and Area Administered by the Regions Reviewed

Region	Location	Area administered
Rocky Mountain	Lakewood,Colorado	Colorado, Kansas, Nebraska, South Dakota, Eastern Wyoming
Southwestern	Albuquerque, New Mexico	Arizona, New Mexico
Pacific Southwest	San Francisco, California	California, Hawaii, Guam, Trust Territories of the Pacific Islands
Pacific Northwest	Portland, Oregon	Oregon, Washington

To obtain information on why indirect costs increased and what had been done to control them, we interviewed knowledgeable officials at each location visited. In addition, we reviewed pertinent files, financial records, studies, reports and manuals and asked follow-up questions as dictated by the document reviews.

After gathering information on what had caused costs to rise and fluctuate, we reviewed various financial standards, laws, legislation, studies, and manuals to determine how the costs might be controlled in the future. We also interviewed Forest Service officials to obtain their suggestions.

Because of an ongoing lawsuit involving indirect expenditures charged to the Cooperative Work—Knutson-Vandenberg Fund, you agreed that we should not include this fund in our analysis of why indirect expenditures increased.

We conducted our review from May through August 1998 in accordance with generally accepted government auditing standards.

General Summary of Expenditures, All Offices Combined

Fund	1993	1994	1995	1996	1997
Brush Disposal Fund					
Total expenditures	$39,155,531	$32,682,801	$28,516,095	$24,779,148	$21,792,477
Indirect expenditures	7,276,062	8,296,252	9,269,824	7,628,872	7,451,007
Percent of indirect to total expenditures	18.58%	25.38%	32.51%	30.79%	34.19%
Cooperative Work—Other Fund					
Total expenditures	$25,366,234	$34,089,814	$36,828,275	$38,449,576	$37,959,632
Indirect expenditures	3,248,775	3,424,970	4,471,326	3,659,738	3,409,289
Percent of indirect to total expenditures	12.81%	10.05%	12.14%	9.52%	8.98%
Cooperative Work—K-V Fund					
Total expenditures	$172,845,447	$195,157,437	$182,381,980	$167,816,598	$166,324,646
Indirect expenditures	33,259,078	44,491,025	47,129,820	44,804,956	51,169,263
Percent of indirect to total expenditures	19.24%	22.80%	25.84%	26.70%	30.76%
Reforestation Trust Fund					
Total expenditures	$31,868,201	$32,188,968	$26,971,033	30,590,737	$30,977,214
Indirect expenditures	260,642	4,230,938	6,271,400	6,974,873	6,635,364
Percent of indirect to total expenditures	0.82%	13.14%	23.25%	22.80%	21.42%
Salvage Sale Fund					
Total expenditures	$144,277,887	$152,326,586	$157,419,033	$203,718,423	$180,135,263
Indirect expenditures	21,921,728	31,598,254	37,830,702	50,989,586	50,079,180
Percent of indirect to total expenditures	15.19%	20.74%	24.03%	25.03%	27.80%

Note: In addition to the regions and the Washington Office, other offices such as the Forest Experiment Stations also charge the five funds for indirect expenditures. Because these amounts are relatively minor, we chose not to include them in the compilation of expenditures.

Comments From the Forest Service

United States Department of Agriculture
Forest Service
Washington Office
14th & Independence SW
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Washington, DC 20090-6090

File Code: 1420

Date: AUG 21 1998

Mr. James K. Meissner
Associate Director
Energy, Resources and Science Issues
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Meissner:

We appreciated the opportunity to meet with you on August 20 and comment on the draft report entitled "Forest Service: Better Procedures and Oversight Needed to Address Indirect Expenditure Increases". As stated during the meeting, we concur with the recommendations. We also concur with your offer to work with us on finalizing a definition for indirect costs for national application. We would appreciate you providing us with the name of the person(s) we will be working with.

We also appreciated the efforts you and your staff made to listen and understand our explanations and concerns.

Sincerely,

Ronald E. Stewart

RONALD E. STEWART
Deputy Chief
Programs and Legislation

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