



Testimony

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FOREST SERVICE

Indirect Expenditures Charged to Five Funds

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Mr. Chairman and Members of the Committee:

We appreciate the opportunity to be here today to provide data on indirect support activities associated with five Forest Service funds. Essentially, the expenditures for these activities are ones that cannot be identified with a single project activity. Our statement today, which is drawn from our May 1998 report,¹ summarizes what the Forest Service's records identify as indirect expenditures charged to each of the funds and what our concerns are with the reliability of the Forest Service's data. Our more detailed analysis of the trends and fluctuations in indirect expenditures over the past 5 years will be delivered to you in late July, when we complete our analysis of the Forest Service's expenditures at several regional offices and at the Washington Office.

Our summary today covers expenditure data on five funds that provide more than \$400 million annually to support widely diversified work by the Forest Service, including brush disposal (the Brush Disposal Fund), road and trail reconstruction and maintenance (the Cooperative Work—Other Fund), reforestation (the Reforestation Trust Fund and the Cooperative Work—Knutson-Vandenberg Fund, commonly called the K-V Fund), and the preparation and administration of salvage timber sales (the Salvage Sale Fund)—all of which are described in appendix I.

In summary:

- The Forest Service's records show that indirect expenditures for the five funds appear to have increased significantly between 1993 and 1997, while total expenditures for these funds increased by a minor amount. As a result, indirect expenditures as a percentage of total expenditures increased from 16 percent to 27 percent between 1993 and 1997. However, the relationship between indirect expenditures and total expenditures varied greatly from fund to fund and from region to region.
- The data used in this testimony rely totally on the Forest Service's documents, and that reliance raises some serious concerns for us. While we are still in the process of analyzing the data, we have identified several limitations in the data that may affect the extent to which overall conclusions may be drawn. For example, although the Forest Service provides general guidance on what should be considered indirect expenditures, regions have flexibility in how to apply this guidance and therefore may differ in what they have decided to include. Moreover, in 1994, the Forest Service added a category of indirect support activities, so 1993 data may not be comparable to later years'. We expect that our ongoing work will provide some insight about whether or not the changes

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

in expenditures reflect programmatic changes or simply result from unreliable financial systems.

Before I elaborate on these points, Mr. Chairman, allow me to present some background on indirect expenditures.

Background

Each of the five funds we reviewed has a specific account that is used for indirect expenditures. This account, called “Indirect Support Activities,” is defined in the Forest Service Handbook as being for “those costs that cannot be readily identified specifically with a single project activity in a feasible manner.” For example, forest supervisors involved with overall forest management would charge their time to indirect support activities, whereas staff preparing a timber sale would charge their time to that specific project. The Forest Service’s guidance calls for including the following three categories of work under indirect support activities:

- Line management. This category is for costs related to line officers and their identified support staff. Line officers include district rangers, forest supervisors, regional foresters, and specifically named Washington Office positions. Costs that can be assigned include salary, travel, training, vehicle use, and secretarial support costs.
- Program support. This category is for costs to coordinate, manage, and execute a program, business activities, community involvement, and common service activities (defined below). It includes the salary, travel, training, and vehicle use of employees involved with the coordination and management of program support.
- Common services. This category is for the nonpersonnel costs associated with providing space and a working environment for employees. It includes such costs as those for rent, utilities, communications, radio, office and computer equipment, mail and postage, office supplies, and forms.

The Indirect Expenditures for Five Forest Service Funds

According to the Forest Service’s data, indirect expenditures for the Brush Disposal Fund, Cooperative Work—Other Fund, Cooperative Work—K-V Fund, Reforestation Trust Fund, and Salvage Sale Fund increased between 1993 and 1997, but the increase varied considerably among the funds. Region by region, there were wide variations in the relationships between indirect and total expenditures; and within regions, there was similar inconsistency among the funds.

**Indirect Expenditures
Increased Each Year**

As table 1 shows, indirect expenditures increased each year from 1993 to 1997, regardless of whether total expenditures increased (as they did in fiscal years 1994 and 1996) or decreased (as they did in fiscal years 1995 and 1997). For example, although total expenditures for the five funds fell from \$465.4 million in fiscal year 1996 to \$437.2 million in fiscal year 1997, indirect expenditures rose from \$114.1 million to \$118.7 million.

Table 1: Summary of Expenditures by the Forest Service's Regions and Washington Office, Fiscal Years 1993-97

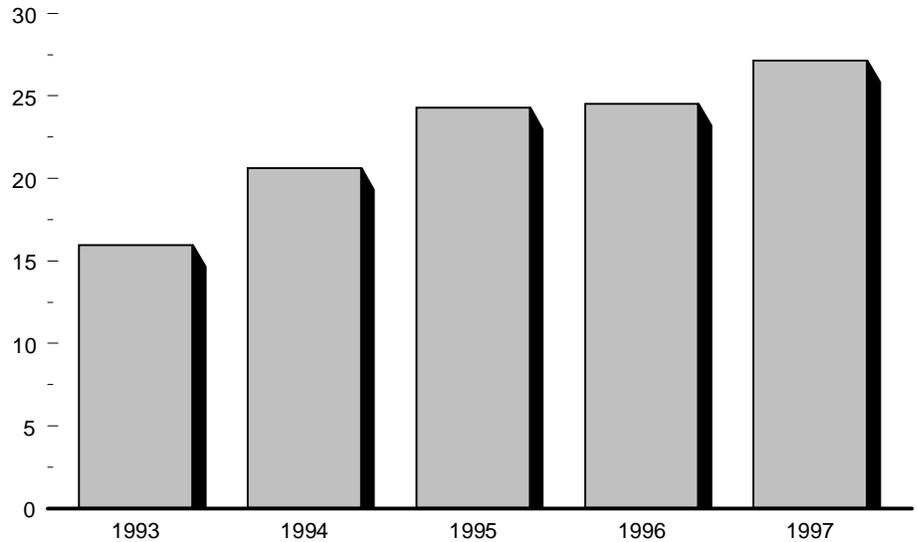
	1993	1994	1995	1996	1997
Total expenditures	\$413,513,300	\$446,445,606	\$432,116,416	\$465,354,482	\$437,189,232
Indirect expenditures	65,966,285	92,041,439	104,973,072	114,058,025	118,744,103
Percent of indirect to total expenditures	15.95%	20.62%	24.29%	24.51%	27.16%

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.

Figure 1 gives a snapshot of the rather steady and continuous increase in indirect expenditures relative to total expenditures over the 5-year period. While the rate of growth paused in 1996, when total expenditures increased by more than \$30 million, it resumed in 1997, when total expenditures fell.

Figure 1: Indirect Expenditures as a Percentage of Total Expenditures by Five Forest Service Funds, Fiscal Years 1993-97

Percent of expenditures



Growth in Indirect Expenditures Inconsistent Among Funds

When the funds are considered individually rather than together, the growth in indirect expenditures varies dramatically. As table 2 shows, some indirect expenditures for individual funds grew by significant amounts, and others grew by minor amounts. Only two funds, Brush Disposal and K-V, had a similar pattern that held both for total expenditures and indirect expenditures. For these two funds, total expenditures decreased, indirect expenditures increased, and indirect expenditures as a percentage of total expenditures increased by more than 50 percent. The three other funds each followed a different pattern. For example, the Cooperative Work—Other Fund experienced a large increase in total expenditures, a very small increase in indirect expenditures, and a reduction in the indirect expenditure rate from about 13 percent to 9 percent.

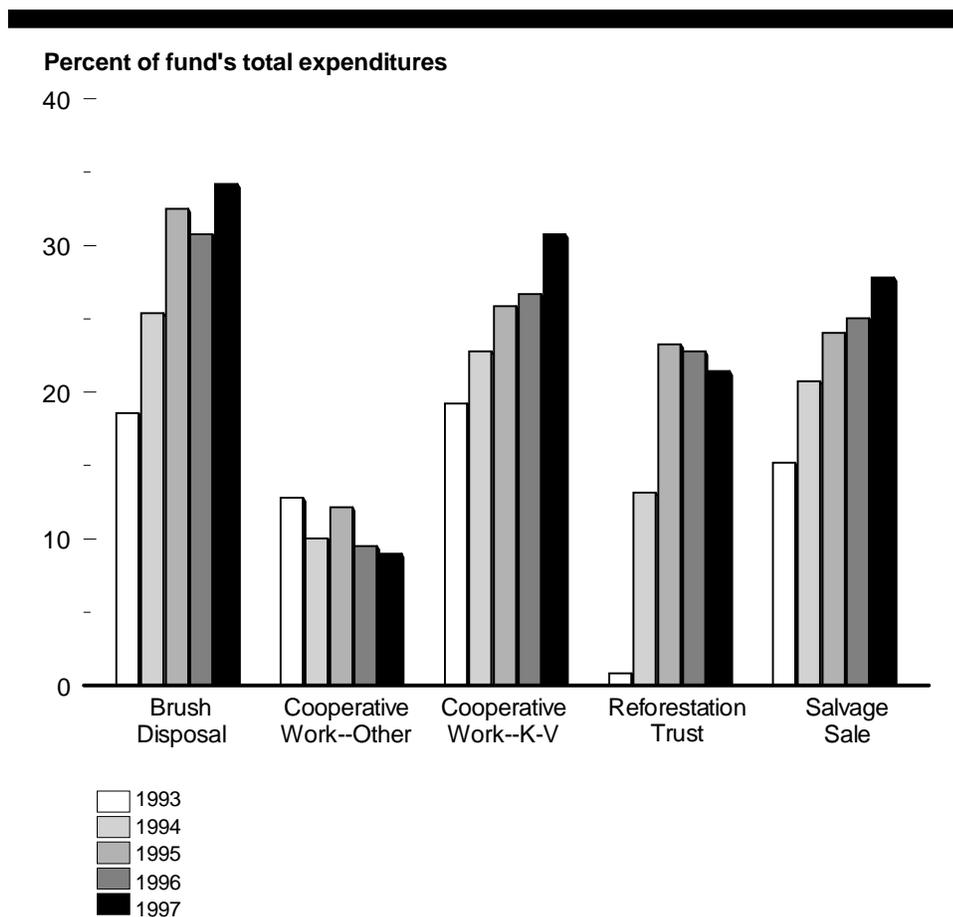
**Mr. Chairman and Members of the
Committee:**

Table 2: Summary of Expenditures for Funds Examined

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%

Figure 2 demonstrates the changing relationship between indirect expenditures and total expenditures for each fund during the 5-year period. While increases in indirect expenditure rates were relatively consistent for three of the funds—Brush Disposal, K-V, and Salvage Sale—the two remaining funds had different patterns. In the Reforestation Trust Fund, indirect expenditure rates increased sharply through fiscal year 1995 and then fell slowly, and in the Cooperative Work—Other Fund, indirect expenditure rates generally declined throughout the period.

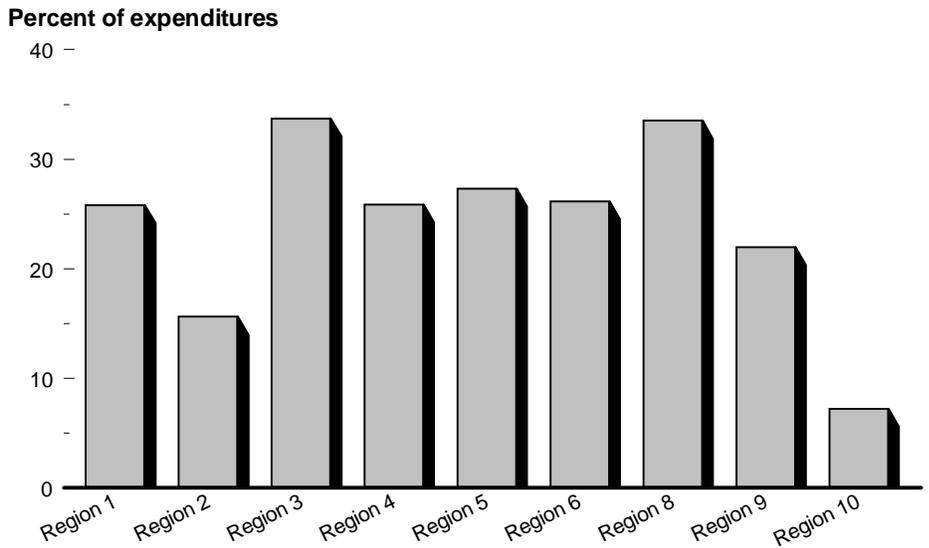
figure 2: Indirect Expenditures as a Percentage of Each Fund's Total Expenditures, Fiscal Years 1993-97



Wide Variations Occurred Between Regions and Among Funds Within Regions

Indirect expenditures were not consistent among the Forest Service regions for any of the five funds. For example, for the Salvage Sale Fund for 1997 (as shown in figure 3), while several regions had indirect expenditure rates close to the nationwide average of 27.8 percent, Regions 2 (Rocky Mountain) and 10 (Alaska) had much lower rates, and Regions 3 (Southwestern) and 8 (Southern) had much higher rates.

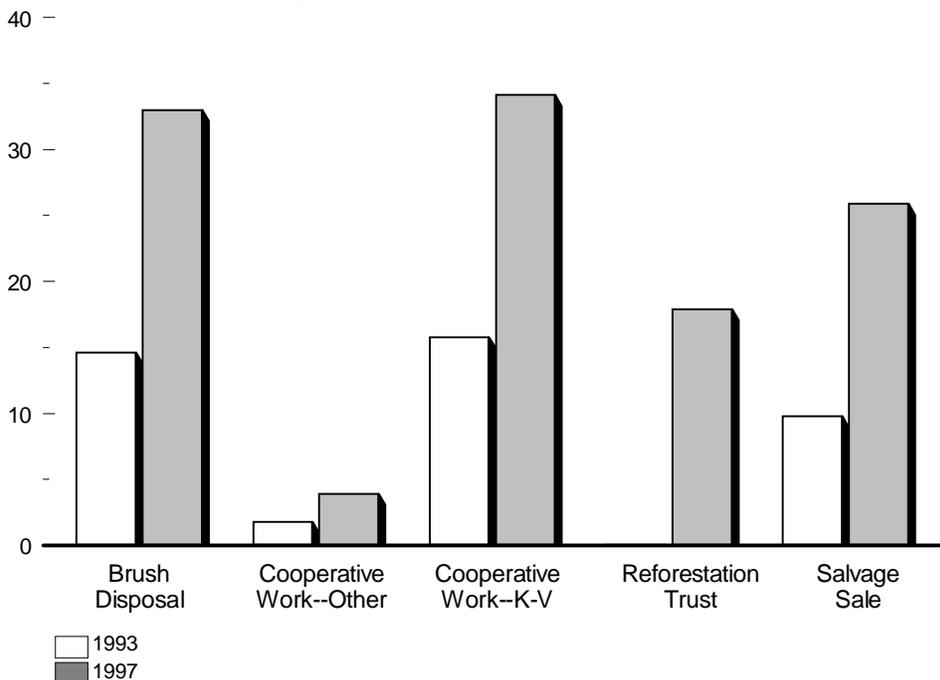
Figure 3: Salvage Sale Fund's Indirect Expenditures as a Percentage of Total Expenditures, Fiscal Year 1997



Even within the same region, there was often wide variation in the indirect expenditure rates. For example, figure 4 shows the indirect expenditure rates for each of the five funds in Region 4 (Intermountain) for fiscal years 1993 and 1997. While all the percentages increased, they did not begin at similar levels, achieve similar levels, or grow at similar rates.

Figure 4: Indirect Expenditures as a Percentage of Each Fund's Total Expenditures in Region 4, Fiscal Years 1993 and 1997

Percent of fund's total expenditures



Concerns About the Reliability of the Forest Service's Data

While we are still in the process of analyzing the data, at this point in our analysis we have identified several limitations that may affect the extent to which overall conclusions can be drawn:

- Although the Forest Service's Washington headquarters provides general guidance on what should be considered indirect expenditures, regions have flexibility in deciding how this guidance should be applied in their situation. Regions may differ in what they have decided to include as indirect expenditures. Such region-to-region differences affect both the aggregated data and the comparability of data from location to location.
- Year-to-year comparisons may also be affected somewhat because the Forest Service said it changed the coding requirements for indirect expenditures between fiscal years 1993 and 1994 and added the category of common services to the types of activities that could be included. As a result, 1993 data may not be comparable to later years'. We expect that our ongoing work will provide some insight as to the comparability of 1993 data with that of later years.

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- According to Forest Service officials, some of the increases in indirect expenditures probably resulted from changes made to correct prior inaccuracies, inconsistencies, or inequities that occurred when charging indirect expenditures to the funds.

As we have reported previously, we continue to have concerns about the reliability of the Forest Service's financial information in general.² Some areas of questionable reliability include real property valuation and revenue accounting, though these areas may not affect the data used in this report. We expect that our ongoing work will provide some insight about whether some of the major year-to-year changes in expenditure patterns within individual funds reflect programmatic changes or simply result from unreliable financial systems.

This concludes our prepared statement, Mr. Chairman. We would be happy to respond to any questions you or other Members of the Committee may have.

²We recently reported on these concerns in Forest Service: Status of Progress Toward Financial Accountability (GAO/AIMD-98-84, Feb. 27, 1998).

Descriptions of the Five Funds Examined

Brush Disposal Fund

This is a permanent appropriation that uses deposits from timber purchasers to dispose of brush and other debris resulting from timber harvests. 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

This is 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

This is 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

This is 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

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

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