

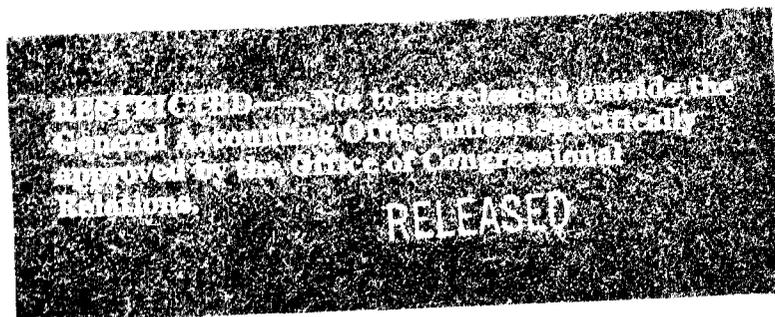
GAO

Report to the Subcommittee on Interior
and Related Agencies, Committee on
Appropriations, House of Representatives

April 1989

FOREST SERVICE

Status of the All- Resource Cost Reporting Project



**Accounting and Financial
Management Division**

B-235065

April 14, 1989

The Honorable Sidney R. Yates
Chairman,
The Honorable Ralph Regula
Ranking Minority Member,
Subcommittee on Interior
and Related Agencies
Committee on Appropriations
House of Representatives

In its report on the Department of the Interior and related agencies' appropriations bill for fiscal year 1989 (House Report 100-713), the House Committee on Appropriations directed us to assist the Forest Service in addressing cost accounting issues. Your August 31, 1988, letter further directed us to work with the Forest Service to develop an outline of a system for reporting the cost of the National Forest System's operations. You asked us to report on the progress of the project prior to your Subcommittee's hearings on the Forest Service's fiscal year 1990 appropriations. This report discusses the project's status and provides information on the type of financial information to be reported. In a future report, we will outline the proposed system's basic design.

Results in Brief

According to the project work plan, the Forest Service's schedule for developing the all-resource cost reporting system is to (1) complete an outline of the system design by September 30, 1989, (2) at that time, initiate testing of the system presented in the outline, and (3) decide whether to fully implement the system after reviewing the preliminary results of testing in fiscal year 1990. The system's outline is expected to identify the content of the basic types of financial reports to be produced by the system, provide reporting formats, and determine sources for the data to be included in the reports.

The project team has proposed the basic information the reports should contain and is working toward completing other aspects of the all-resource cost reporting system's design outline. As with any effort of this nature, further analyses and decisions will be made and other issues resolved. To date, the project is on schedule, and a completed outline should be ready for testing as planned. We believe that the concepts being developed for the cost reporting aspects of the system will provide valuable information to the Service and to the Congress on the cost of managing the National Forest System.

Background

In 1985, we reported on financial management reforms needed to improve federal financial systems and reporting (Managing the Cost of Government: Building an Effective Financial Management Structure, GAO/AFMD-85-35 and 35A, February 1985). In discussing these views with many agencies since then, we have found the Forest Service especially receptive to trying concepts and ideas that will provide its managers with more useful financial information. Also, over the past several years, your Subcommittee has been instrumental in encouraging the Service to work toward better reporting on the costs and benefits of selling timber and, more recently, on the costs of all of the Service's National Forest System programs.

In September 1988, the Forest Service's Chief approved a project work plan to develop a reporting system to provide cost information on the Service's National Forest System programs. Reporting the cost of these programs is to be one part of a broader information reporting system. It will also include information on socioeconomic aspects of program operations.¹ The initial project plan states that the new all-resource cost reporting system will

“... report outputs and activities on the National Forests, with associated financial, economic, and social information. An integrated report of Forest management information will include measures of outputs and activities to aid in monitoring Forest Plan implementation.”

Besides timber management, the Service's National Forest System includes the following programs: (1) range, (2) minerals, (3) outdoor recreation, (4) wildlife and fish, (5) watershed, and (6) protection and stewardship. These programs are carried out through various activities related to forest operations. For example, the activity of administering grazing permits is performed as part of the range program.

Objectives, Scope, and Methodology

The objectives of this report are to (1) describe the type of financial information to be reported by the system and (2) present the Forest Service's progress in outlining a system to report on the cost of operating all programs of the National Forest System.

¹ Although the Forest Service's plans in this area are tentative, it is considering reports which may potentially show socioeconomic information, such as (1) the effect of its programs on employment and income in communities located near national forests and (2) the long-term economic effect of Forest Service programs.

The team carrying out this system development project is made up of members from different program areas within the Service and GAO, assisted as necessary by staff from various national forests. We primarily advised and assisted the Service in developing the financial requirements for the proposed reporting system. Because the socioeconomic information planned to be included in the system is not directly related to the Service's financial operations, our involvement with this aspect of the proposed system was limited to obtaining a general understanding of the Service's plans in this area.

The joint project team collected data on programs managed by and cost information needed at the following four national forests:

- Carson National Forest, New Mexico;
- Clearwater National Forest, Idaho;
- White Mountain National Forest, New Hampshire; and
- Humboldt National Forest, Nevada.

These forests were chosen because they represent a range of different resource programs, and they volunteered to be test sites for developing the cost reporting system. The information gained during visits to these forests provided a broad spectrum of views regarding the financial information needed to manage Service programs.

At each forest, the project team developed and reviewed report formats for various activities to be included in the all-resource cost reporting system. In addition, we gathered information for detailed case illustrations of how certain resource programs, such as providing outdoor recreation, are being managed under current Forest Service policies. At each forest visited, we concentrated on a different resource area.

The project team held discussions with Forest Service headquarters program managers and accounting staff. The team also discussed the project with staffs of various congressional committees which have an interest in Forest Service issues. Two project conferences which brought together representatives from many forests and regions throughout the country, as well as from headquarters, were held in Springfield, Virginia, and in Denver, Colorado. Our work was conducted between September 1988 and February 1989.

Expanded Financial Information to Manage National Forests

In April 1987, we developed an outline of a cost accounting system design for the Forest Service's timber program.² Through the all-resource cost reporting system, the concept of providing responsibility reporting,³ which is an important element of the timber program system, is now being extended to other National Forest System programs. The all-resource cost reporting system is expected to provide integrated, consistent, complete, accurate, and verifiable cost information for purposes such as the following:

- monitoring and evaluating forest plan implementation,
- improving cost efficiency and effectiveness in resource management, and
- formulating reliable program budget proposals.

The all-resource cost reporting system will allow the Service to report the results of its efforts in managing National Forest System programs in two ways. First, funds used to run these programs will be reported much as they are now, as this information is necessary in controlling appropriations. Second, for the first time, reporting will present the cost of goods and services used in providing services or earning revenue during particular time periods, regardless of when the goods and services were paid for. This concept will also allow the eventual reporting of costs incurred in relation to outputs produced by National Forest System programs. The following sections outline these reporting concepts.

Additional Financial Information Will Be Available

The Congress provided direction to National Forest System programs through the Multiple-Use Sustained-Yield Act of 1960. This act assists in defining the National Forest System programs which are to be provided by the Service. However, the data needed to accurately report the total cost of these programs have not been available.

Accounting by government agencies generally does not focus on the total cost of providing goods or services. Rather, it is concerned with showing that all of the funds provided to an agency by the Congress are spent in the manner in which they were intended—for example, purchasing supplies or paying salaries. This is the approach historically used by the Forest Service in accounting for and managing its operations. Such

²Timber Program: A Cost Accounting System Design for Timber Sales in National Forests (GAO/AFMD-87-33, April 21, 1987).

³Responsibility reporting refers to providing reports on the cost of operations to managers who are responsible for carrying out those operations.

appropriation reporting is necessary to control the annual outflow of funds. Thus, the Forest Service will continue to have this type of information available.

However, forests are managed for the long-term. This means that funds are spent annually which benefit both current and future operations. Within a program such as recreation, for example, funds are spent each year to perform operations such as clearing brush piles that accumulate over the winter, performing trash removal, and maintaining a campground's roads. In addition to such recurring expenses, funds may be spent on capital expenditures, such as the installation of showers, toilets, or a water system.⁴

The all-resource cost reporting system will be able to relate costs to the periods in which they are used to provide services or earn revenue. For example, assume that the White Mountain National Forest budgeted and spent \$500,000 in fiscal year 1988 to replace a water system in the Wild River campground. This water system is expected to have a useful life of 10 years. From an appropriations standpoint, and in accounting for available funds, all \$500,000 would be shown as a 1988 expenditure. Under the Forest Service's present budgetary financial reporting system, this amount would be reported as part of the total cost of the recreation program for 1988. This type of data enables the Service to control the expenditure of its financial resources.

However, in measuring the cost of operations, it would not be meaningful to relate all of this expenditure to the revenue received or services provided by the Wild River campground during 1988. Although the purchase of the water system in our example occurred in 1988, its useful life extends into future years. Therefore, its cost should be allocated—as depreciation—to the years in which it will be used so that program costs in the year of purchase will not be distorted. Thus, only part of the cost (for example, one-tenth or \$50,000) should be charged as depreciation against program costs for fiscal year 1988. The remaining cost (\$450,000) should be carried forward and proportionately charged as depreciation during the future 9 years of operation.

The all-resource cost reporting system will provide this kind of financial information. The Service will, therefore, have accurate cost information

⁴GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2, states that capital expenditures are those made to acquire property, plant, and equipment (including land, structures, and facilities) and related improvements that have a service life greater than 2 years and cost more than \$5,000.

available to judge the financial returns of its programs and to evaluate whether its services are being provided efficiently. This additional financial information will be included in reports prepared for National Forest System programs and their activities. Reports at the forest, regional, and national levels will be presented on the same basis.

Reporting Costs in Relation to Output

The Forest Service measures its performance in many areas by units of output or activities completed. Outputs are reported in terms of the number and types of goods and services provided. For example, units of output might be expressed as miles of trails maintained, acres of range vegetation managed, miles of roads maintained, or acres of wilderness managed.

In addition to reporting costs by programs, program activities, and organizational levels, the all-resource cost reporting system would eventually enable cost information to be related to output. To illustrate, a report could be produced showing that a particular forest's cost to maintain 100 miles of trails during a certain period was \$100,000. Thus, not only would the cost of operations be known, but the cost of providing various outputs could also be disclosed. We believe that financial information of this nature would be useful to Service managers in determining whether they are operating efficiently and, possibly, meeting predetermined targets.

Further, the Forest Service proposed to the Subcommittee in 1987 that the Congress consider evaluating the Service's budget performance through output targets rather than solely through spending targets. The overall merits of this, as well as other changes to its budget procedures proposed by the Service, were discussed in our report to the Subcommittee in March 1988.⁵ Financial information from the all-resource cost reporting system could provide an opportunity for the Service to use output targets that may be established as part of its budgetary process in the future.

⁵Forest Service: Evaluation of "End-Results" Budgeting Test (GAO/AFMD-88-45, March 31, 1988).

Progress Made in Developing the All-Resource Cost Reporting System

The Forest Service has made progress in outlining the all-resource cost reporting system since September 1988. To enable it to effectively proceed to testing and implementing the proposed reporting system, the Service will continue its development efforts, make procedural changes, and educate its managers.

Overview of the Project Team's Approach and Activities

According to the Forest Service's schedule for the all-resource cost reporting system project, an outline of the system will be completed by the end of September 1989. At that time, the Service will begin a test of the system. Finally, a decision on whether to fully implement the cost reporting system will be made after reviewing the preliminary results of testing in fiscal year 1990.

In outlining the system's design, the project team will determine the basic kinds of financial information which the Forest Service needs to manage its operations. In addition, the team will develop specific report formats to be produced by the system and will identify sources for obtaining the data which are to be included in the reports.

The project team has collected comprehensive data on program management, cost data sources, and potential reporting formats. It also has discussed the data with Forest Service managers during on-site work at the forest and headquarters levels. The project team now plans to further analyze this information and use it as a basis for deciding on additional development activities and refining reporting formats.

In determining the information needed to manage operations, the team's early efforts included ensuring that the perspectives of those responsible for managing various resource areas throughout the Service were considered. Information on the project was distributed throughout the Service, and several forests volunteered to assist in the effort. The design team visited the four forests previously identified and scheduled visits at two additional forests.

Overall, the project is on schedule. The project team has outlined the basic types of financial information to be included in the all-resource cost reporting system. Four types of financial reports, which are described in appendix I, have been proposed. These reports would disclose, at least annually, significant financial information regarding operations of the Service's National Forest System. The project team is working toward having the all-resource cost reporting system ready to

test at one forest in each of the Service's 9 regions beginning October 1, 1989.

Implementation Will Require Procedural Changes

Developing and implementing the all-resource cost reporting system will require changes in the Forest Service's procedures. Among the potential procedural changes which the Service will work on are the following.

- Descriptions of the work being accomplished in managing forests must be consistent in all planning, budgeting, and environmental documents. In addition, the structure of codes to be used to identify costs with reporting categories will be defined and uniformly applied in order for data to be accurately reported and aggregated.
- Cost objectives and key management program indicators will be defined and refined. In addition, such items as appropriate handling of regional and headquarters office costs will be determined.
- Issues involving capitalization of assets, such as whether to increase the dollar-value and useful-life threshold used for capitalizing assets, will be addressed. The Service currently capitalizes all expenditures for capital assets which cost over \$1,000 and have a useful life of more than 1 year. Agencies are permitted to establish a capitalization threshold at a higher level. Title 2 provides that agencies must capitalize expenditures for capital assets which cost over \$5,000 and have a useful life greater than 2 years.

A New System and Better Information—Managing the Change

Projects to improve financial systems and reporting, such as the all-resource cost reporting system, often bring change to existing methods of operation. Effectively managing such change is always a challenge. Because of this, educating those who will use the reporting system and its information will play an important role in the ultimate success of the project.

Managing the cost of operations with the benefit of information in addition to the total amount of funds expended during the past year will be a change for Service managers. Additionally, these managers have historically been judged based on spending their allotted funds and accomplishing assigned resource targets rather than on the results achieved in relation to the total cost of operation in providing a particular good or service.

Building support for the advantages of the all-resource cost reporting system has been an ongoing objective of the project. This will be especially important in the months ahead. This period provides the Service an excellent opportunity to encourage its managers to effectively use the new financial information when it becomes available to them.

Conclusions

The Forest Service, working cooperatively with GAO, is progressing in its design of the all-resource cost reporting system. Design team efforts will now concentrate on refining the reporting system's concepts and reporting formats. System testing is expected to begin after completion of the cost reporting system outline—targeted for September 30, 1989. To date, the project is on schedule, and the outline should be completed as planned. A decision on full-scale implementation will be made after reviewing the preliminary results of testing in fiscal year 1990. This developmental approach and timetable is reasonable and should continue as planned.

The period until an implementation decision is made will be used for technical and educational work which will contribute directly to understanding the information needs of Service managers. Managers will, therefore, have a better understanding of the role of cost information and how it can benefit them in carrying out their management responsibilities.

This work builds upon steps taken by the Service to improve its timber cost reporting and to propose budgeting procedure changes. Collectively, these efforts have the potential to provide an improved, consistent, and credible basis for planning, programming, and accounting for National Forest System programs.

We received oral comments from Forest Service officials on the contents of this report. We have incorporated their comments where appropriate.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies to interested congressional committees and other interested parties. Copies will also be made available to others upon request.

This report was prepared under the direction of Jeffrey C. Steinhoff, Director, Financial Management Systems Issues. Major contributors are listed in appendix II.

A handwritten signature in cursive script, appearing to read "Brian P. Crowley".

Frederick D. Wolf
Assistant Comptroller General

Proposed Financial Information for the All-Resource Cost Reporting System

The Forest Service presently proposes that the financial portion of the all-resource cost reporting system present the following four types of financial reports:

- statement of cash flow,
- statement of operations summary,
- cost of resource program operations by activities, and
- capital asset and improvement summary.

Information encompassing all of the Forest Service's National Forest System operations will be prepared and provided to the Congress. Supporting reports will also be prepared at the regional and forest levels.

The proposed types of reports are explained further in the following sections.

Statement of Cash Flow

A standardized statement of cash flow will disclose the source of the Forest Service's funds. It will include funds received and otherwise made available from appropriations, revenues, interest and penalties, and reimbursements, as well as funds contributed from the states and private organizations.

This statement will also show funds spent on Forest Service programs. Expenditures such as those for operations, maintenance, capital investments, and administrative costs will be shown, as well as payments to the states and revenue returned to the Treasury.

Statement of Operations Summary

A statement of operations summary will present revenue and expense information on the Forest Service's resource management programs. These include the range; wildlife and fish; soil, air, and water; minerals; recreation; and timber resource management programs. Revenues and expenses associated with Forest Service protection and stewardship programs will be highlighted.

In contrast to the statement of cash flow, the statement of operations summary will portray revenues and expenses on an accrual accounting basis. Expense information in this statement will include (1) annual operation and maintenance costs, (2) the current year's and prior years' portion of capital investment or improvement costs which support current year activities, (3) administrative costs, and (4) payments to the states.

Cost of Resource Program Operations by Activities

A report on the cost of resource program operations by activities will be prepared for each resource management program. This detail of the statement of operations summary report will provide a clearer picture of total resource program expenses on a nationwide basis. In contrast to the statement of operations summary report, this report will provide expense data for activities within a resource management program.

Capital Asset and Improvement Summary

Because the costs of certain assets and improvements support program operations over a number of years, a portion of these costs will be recorded as an expense each year over the useful life of the asset or improvement. A capital asset and improvement summary report will be prepared and used to reconcile Forest Service capital asset and improvement expenditures with the amount of asset and improvement depreciation expense recognized for the current year in operating statement reports.

The capital asset and improvement summary will provide a balance, as of the beginning of the year, of asset and improvement costs incurred in prior years. The cost of assets or improvements purchased or constructed in the current year will be added to this balance, and the cost of assets or improvements which have reached the end of their useful lives will be subtracted from the balance.

This will provide the ending balance of assets and improvements for the year, which will provide a basis for charging depreciation expenses for the year. This expense will also be included in the statement of operations summary and the cost of resource program operations by activities report.

Major Contributors to This Report

Accounting and Financial Management Division, Washington, D.C.

Jeffrey C. Steinhoff, Director, Financial Management Systems Issues,
(202) 275-9454
Robert A. Pewanick, Senior Assistant Director
Edward P. Darragh, Assignment Manager
Thomas A. Sharratt, Accountant

Seattle Regional Office

Rodney E. Espe, Evaluator-in-Charge
Linda S. Bade-Percival, Site Supervisor

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