

June 1996

FOREST SERVICE'S REFORESTATION FUNDING

Financial Sources, Uses, and Condition of the Knutson-Vandenberg Fund





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

**Resources, Community, and
Economic Development Division**

B-271089

June 21, 1996

The Honorable Dale Bumpers
United States Senate

Dear Senator Bumpers:

In response to your request, we are reporting on the sources, uses, and condition of the Forest Service's Knutson-Vandenberg Trust Fund. We are making recommendations to the Secretary of Agriculture that are designed to improve the controls necessary to more fully comply with the enabling legislation and to inform the Congress of the limitations on the Forest Service's ability to carry out all planned projects as a result of transfers from the Knutson-Vandenberg fund for emergency firefighting.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days after the date of this letter. At that time, we will send copies of this report to the appropriate congressional committees; the Secretary of Agriculture and the Department of Agriculture's Chief Financial Officer; the Secretary of the Interior; the Chief of the Forest Service; the Director, Bureau of Land Management; and the Director, Office of Management and Budget. We will also make copies available to others upon request.

Please call me on (202) 512-3841 if you or your staff have any questions on this report. Major contributors to this report are listed in appendix V.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Victor S. Rezendes'.

Victor S. Rezendes
Director, Energy, Resources,
and Science Issues

Executive Summary

Purpose

Reforestation—the planting and care of young trees—contributes to the long-term viability of millions of acres of national forests. As part of its management activities, the Forest Service, within the U.S. Department of Agriculture, is responsible for reforesting the areas harvested for timber or destroyed by natural causes. The Forest Service, which is charged with managing 191 million acres that include forestlands, rangelands, and grasslands, obligated about \$163 million for reforestation activities during fiscal year 1994.

Concerned about the Forest Service's management of reforestation funds, the former Chairman, Subcommittee on Public Lands, National Parks and Forests, Senate Committee on Energy and Natural Resources, asked GAO to review the Forest Service's largest reforestation fund, the Knutson-Vandenberg Trust Fund. GAO has addressed this issue in two reports. The first report described the process by which the Forest Service plans and accomplishes projects funded by the Knutson-Vandenberg Trust Fund.¹ For this, the second report, GAO's objectives were to (1) examine how the Forest Service obtains and uses reforestation funds and (2) assess the Knutson-Vandenberg Trust Fund's ability to fund all currently planned projects.

Background

To fulfill its reforestation responsibilities, the Forest Service uses both congressionally funded appropriations and moneys from trust funds, the largest being the Knutson-Vandenberg Trust Fund. The Knutson-Vandenberg Act of 1930 (16 U.S.C. 576-576b) established a special trust fund to collect a portion of timber sale receipts to pay for reforesting the area from which the timber was cut. The act was amended in 1976 to allow the Forest Service to use these funds for other activities, such as creating wildlife habitat or improving recreation facilities on the sale-area lands. The Knutson-Vandenberg Act, however, prohibits spending more trust funds for reforestation and other related activities on a sale area than had been collected from that sale area.

Reforestation is needed where timber harvests or natural disasters have depleted the existing timber stands. The reforestation projects eligible for Knutson-Vandenberg funding include such activities as growing trees for planting, planting trees, sowing seeds, removing weeds and other competing vegetation, and preventing animals from damaging new trees.

¹Forest Service: Management of Reforestation Program Has Improved, but Problems Continue (GAO/RCED-94-257, Sept. 15, 1994).

On average, during fiscal years 1990 through 1994, the Forest Service reforested about 472,000 acres annually.

The Forest Service's oversight and management of the Knutson-Vandenberg Trust Fund and the reforestation program is decentralized. Forest Service headquarters and nine regional offices establish policy and provide technical direction to the 155 forest offices. The forest offices, in turn, provide general oversight to 632 district offices and help the districts plan Knutson-Vandenberg projects. The district ranger is ultimately responsible for overseeing the planning and implementing of Knutson-Vandenberg projects.

Results in Brief

The Forest Service receives reforestation funds through trust funds and annual appropriations. Over 70 percent of the total funding is provided by the Knutson-Vandenberg Trust Fund, and the remaining funds come from the Reforestation Trust Fund and from appropriations. In fiscal year 1994, the Forest Service obligated about \$163 million to reforest 441,000 acres through the planting, seeding, or natural regeneration of timber sale areas.

Although the Knutson-Vandenberg Trust Fund had a reported unobligated balance of about \$338 million as of September 30, 1995, sufficient funds will not be available to pay for all of the planned projects; their cost is currently estimated at \$942 million. A shortfall in the projects' funding has occurred because during the 1990s the Forest Service transferred \$420 million from the fund for emergency firefighting. However, until March 1996, the Department of Agriculture had not submitted a request to the Office of Management and Budget for supplemental appropriations to restore these funds, and the Forest Service continues to operate the program as if the transfers had not occurred. In addition, the Forest Service lacks reliable financial management information and effective controls to ensure compliance with the Knutson-Vandenberg Act's prohibition against expending more trust funds on an individual sale area than had been collected from that sale area. Specifically, the Forest Service's two main accounting systems that track Knutson-Vandenberg funds are not able to provide sale-specific information on expenditures.

Principal Findings

Reforestation Sources and Uses

In fiscal year 1994, the latest year for which complete data were available during GAO's review, the Forest Service received about \$911 million in timber sale receipts and deposited about \$215 million of this amount into the Knutson-Vandenberg Trust Fund. During fiscal year 1994, the Forest Service obligated over \$163 million for reforestation activities,² including \$110 million from the Knutson-Vandenberg fund and \$53 million from appropriations and the Reforestation Trust Fund. These appropriated funds were used to reforest areas where timber had been destroyed by natural causes—such as fire or insect infestation—and where no trust fund moneys had been collected. In addition to the direct reforestation obligations, the Knutson-Vandenberg Trust Fund and the annual appropriations pay for the program's support costs—such as rent and utilities—at all organizational levels. Of the total of \$163 million obligated for reforestation activities during fiscal year 1994, the agency's headquarters and its nine regional offices used about \$10 million, or 6 percent, for the program's support activities. The forest and district offices used the remaining \$153 million for reforestation on 441,000 acres of federal forestlands.

Ability of the Knutson-Vandenberg Trust Fund to Fund Planned Projects

Sufficient funds are not currently available for all of the planned Knutson-Vandenberg projects because of transfers that have been made for emergency firefighting since fiscal year 1990. About \$420 million—more than the fund's current reported unobligated balance of \$338 million—has been transferred in accordance with 16 U.S.C. 556d, and there is no legal obligation for the money to be restored to the fund. Previously, when such transfers were made, the Department of Agriculture requested and received supplemental appropriations, generally within 2 years of the original transfer. While the Forest Service acknowledges that not restoring this amount will be potentially disruptive to the Knutson-Vandenberg program, the forest and district offices continue to operate and plan for future reforestation projects as if the transfers had not occurred. According to headquarters program officials, each forest and district would need to severely curtail its reforestation-related activities—such as improvements to timber stands or other renewable resource projects—if the \$420 million is not restored. Despite this situation, the Department of Agriculture did not submit a request to the

²The total Knutson-Vandenberg obligations for fiscal year 1994, including funds not specifically for reforestation activities, were \$232 million.

Office of Management and Budget for a supplemental appropriation until March 1996, nor has the Forest Service informed the Congress of the impact the funding shortfall would have on reforestation activities or developed a plan or strategy for reallocating the remaining funds to the highest-priority projects. The Office of Management and Budget has not yet acted on the Department's request.

Furthermore, the Forest Service cannot ensure compliance with the Knutson-Vandenberg Act's requirement that the expenditures in any sale area not exceed the amounts collected in that sale area. The Forest Service's systems lack reliable financial management information and effective controls at the individual sale area to ensure that trust fund expenditures do not exceed collections. For the most part, the Forest Service's current information systems do not have the capability to produce sale-by-sale information on obligations and expenditures, and agency officials believe it would be difficult and costly to develop this capability.

Recommendations

To provide the Congress with the information it needs to consider any future requests for appropriations to restore previously transferred funds, GAO recommends that the Secretary of Agriculture report to the Congress on the financial status of the Knutson-Vandenberg fund and the number and types of Knutson-Vandenberg projects that will not be completed if the funds transferred to the Emergency Forest Service Firefighting Fund are not restored.

Additionally, to help ensure that the most critical planned projects can be completed within the limits of the existing fund balance, GAO recommends that the Secretary of Agriculture direct the Chief of the Forest Service to take the following steps:

- In the event that the administration decides not to forward to the Congress the Department's request for the restoration of the funds transferred for firefighting or the Congress decides not to restore these funds during its consideration of the fiscal year 1997 budget, revise, by the end of fiscal year 1997, the list of planned Knutson-Vandenberg projects to take into account the actual balance in the Knutson-Vandenberg fund.
- Perform, in consultation with the Chief Financial Officer, an analysis of the alternatives (including the costs and benefits of each alternative) to obtain the financial data necessary to ensure that the expenditures from the Knutson-Vandenberg Trust Fund in one sale area would be limited to

the amounts collected from that area, as required by the Knutson-Vandenberg Act.

GAO is also making an additional recommendation to ensure better control over the expenditures for program support.

Agency Comments

GAO provided a draft of this report to the Department of Agriculture and the Forest Service for comment. Overall, the agencies disagreed with three of GAO's four recommendations. The Department and the Forest Service agreed that a standardized methodology for assessing and withholding program support costs should be used. However, the agencies believe that the Congress already is aware of the status of the Knutson-Vandenberg fund and of the implications of transferring funds for emergency firefighting. As a result, the agencies believe that providing such information to the Congress is unnecessary. In addition, the agencies continue to believe that the Congress will restore the entire amount of funds transferred. As a result, the agencies believe that revising the list of projects would be an unnecessary use of their resources. Finally, the agencies disagree that the Forest Service's financial information and controls are insufficient to ensure that expenditures in a sale area do not exceed the collections from that area, as required by the law; therefore, they do not believe that it is necessary for the Forest Service to perform an analysis of the alternatives to obtain the necessary financial data as recommended.

GAO disagrees with the Department and the Forest Service. GAO continues to recommend that the Congress should be provided detailed information upon which informed decisions can be made as to whether, when, and to what extent transferred funds should be restored. Because some of these funds were transferred as long ago as 1990, GAO believes that the probability of their being restored is questionable. If such funds are not restored, GAO believes that it is inappropriate for the Forest Service to continue to plan for and complete all projects—both higher- and lower-priority projects—as if the entire \$420 million were still available for expenditure. However, in light of the Department's recent action to seek the restoration of the transferred funds, GAO has modified its recommendation to provide the administration and the Congress an opportunity to decide whether to restore any or all of the funds before the Forest Service would need to revise its list of planned projects. Finally, GAO disagrees that the Forest Service's current information systems and controls provide assurance that the expenditures in one sale area do not

exceed the collections from that sale area as required by law, because the current systems are not capable of tracking expenditures on a sale-by-sale basis. GAO therefore continues to recommend that alternatives must be explored to develop this critical information. Because of the far-reaching consequences of GAO's recommendations and the Department's and Forest Service's reluctance to accept them, GAO has provided a detailed evaluation of the agencies' comments in chapter 4. The full text of the Department of Agriculture's comments is reproduced as appendix III, while the Forest Service's comments are included as appendix IV.

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Abbreviations

BLM	Bureau of Land Management
GAO	General Accounting Office
K-V	Knutson-Vandenberg
O&C	Oregon and California lands
SAI	sale area improvement

Introduction

Of the over 200 million acres of federal forests, over 57 million acres are suitable for timber production. When timber is harvested, the cut areas must be reforested to maintain the vitality and viability of the forests. Most of the nation's timberlands and the reforestation activities on those lands are managed by two federal agencies: the Forest Service, within the Department of Agriculture, and the Bureau of Land Management, within the Department of the Interior. Comparatively, however, the Forest Service's timber management and reforestation programs are about six times larger than the Bureau of Land Management's programs.³

Reforestation Is Necessary Where Trees Have Been Harvested or Destroyed

Reforestation is needed where trees have been either commercially harvested or destroyed by natural causes, such as fire or disease. In some parts of the country, new trees will naturally grow on the harvested or destroyed areas; however, artificial techniques accelerate this process. Furthermore, these techniques allow forest managers to decide what types of trees should be planted in an area, thereby contributing to better forest management.

Natural regeneration is commonly achieved by first clearing unwanted vegetation and surface debris, which allows seeds from seed trees left on the site or neighboring trees to germinate and grow. More commonly, regeneration is achieved artificially by seeding or planting seedlings grown in forest tree nurseries and transplanting them to the site when conditions are favorable for them to grow. Generally, this method includes (1) removing surface debris and unwanted vegetation (sometimes coupled with tilling the soil); (2) planting seedlings and protecting them from animals and harsh environmental conditions; and (3) removing unwanted plants that compete with the seedlings for nutrients, sunlight, and water. Good seedling survival is dependent on this sequence of activities.

Establishing a stand of trees takes years, yet it is only part of the long-term life of the stand. Generally, a new stand is considered to be viable when the seedlings are big enough to grow without protection—usually within 5 to 15 years. After the trees are viable, some timber stand improvement work—such as removing individual trees so that the remaining trees will grow faster and fertilizing the soil to increase the stand's resistance to insects and disease—may be necessary to enhance the growth of the trees. Although a stand is established within 5 to 15 years of planting, the

³This report focuses on the Forest Service's reforestation program. We have included an overview of the Bureau of Land Management's program as appendix I. The Bureau manages 8 of the 57 million acres of suitable timberlands (that is, land suitable for timber production).

harvesting of commercial products generally does not occur for 30 to 100 years.

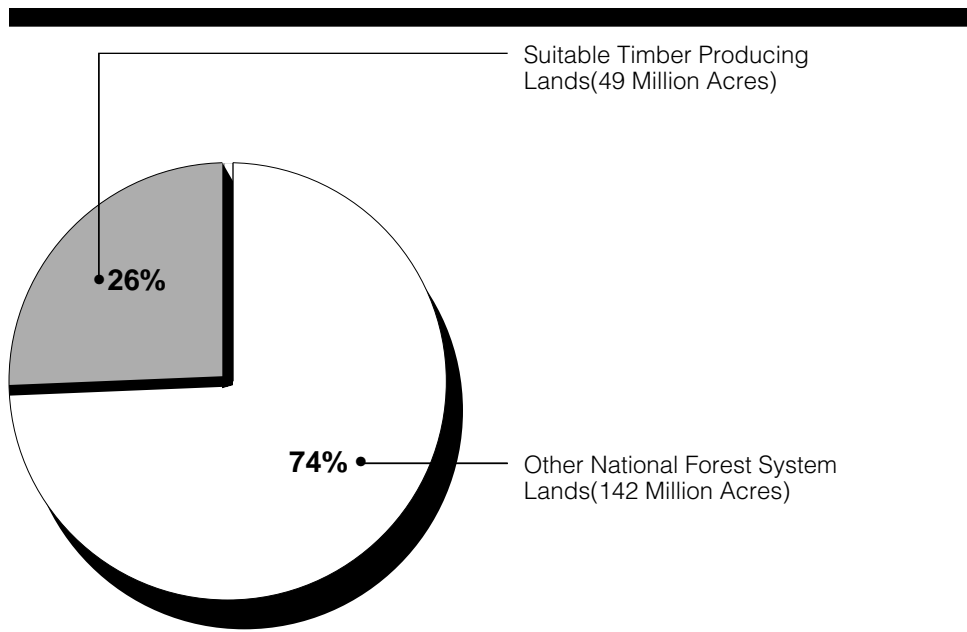
Forest Service Has Reforestation Responsibilities

Because of the critical role it plays in sustaining the nation's forest resources, reforestation has long been a focus of the legislation governing federal land management activities. Beginning with the Organic Administration Act of 1897 (16 U.S.C. 473-478), the Forest Service has been authorized to furnish a continuous supply of timber for the public's use. Half a century later, the Anderson-Mansfield Reforestation and Revegetation Act of 1949 (16 U.S.C. 581j-k) provided for the continuing reforestation of national forest lands. Under the Multiple-Use Sustained Yield Act of 1960 (16 U.S.C. 528-531), the Congress directed the Secretary of Agriculture to manage forest lands for multiple purposes and for the sustained yield of natural resource products, such as timber. Finally, the Forest and Rangeland Renewable Resources Planning Act of 1974 (16 U.S.C. 1601(d)(1)), as amended by the National Forest Management Act of 1976, provided:

"It is the policy of the Congress that all forested lands in the National Forest System be maintained in appropriate forest cover with species of trees, degree of stocking, rate of growth, and conditions of stand designed to secure the maximum benefits of multiple use sustained yield management"

As a result, the Forest Service manages 191 million acres that include forestlands, rangelands, and grasslands. Of this total, about 49 million acres are considered suitable timberland. Figure 1.1 shows the Forest Service's suitable timberland as a percentage of total acres managed.

Figure 1.1: Percentage of Total Forest System Lands Suitable for Timber Harvest



Note: The National Forest System includes grasslands, wilderness areas, research lands, and forest lands that will not support tree production for timber harvests.

Source: GAO's presentation of the Forest Service's data.

Organizationally, the Forest Service is decentralized, and its oversight and management of its reforestation program occurs at four different levels. Its headquarters (Washington Office) and nine regional offices establish policy and provide technical direction to the 155 forest offices on various aspects of the reforestation program. The forest offices, in turn, provide general oversight to 632 district offices. The district offices plan and manage the work needed to accomplish reforestation.⁴

⁴The Forest Service, in an effort to address the effects of recent downsizing and to achieve cost efficiencies, has begun performing many functions previously performed at the district level at some forest levels or on a shared, or "zoned," basis. For ease of presentation, however, we will continue to use the term "district office" to reflect the traditional means of accomplishing the work.

Reforestation Is Funded in Various Ways

The Forest Service receives reforestation funds through trust funds and annual appropriations. Over 70 percent of the total funding is provided by the Knutson-Vandenberg (K-V) Trust Fund, and the remaining funds come from the Reforestation Trust Fund and from appropriations.

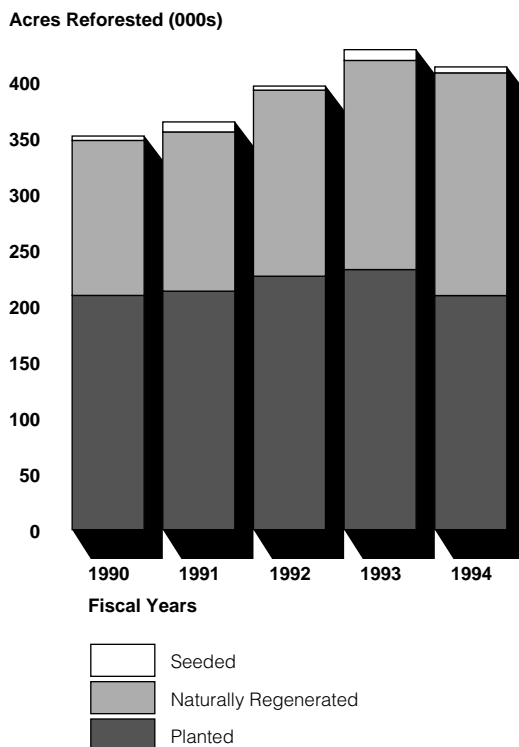
The Knutson-Vandenberg Act of 1930 (16 U.S.C. 576-576b) provided that funds be collected from timber sales and used to reforest those harvested lands. These K-V funds thus provide the Forest Service with a constant source of funding for reforestation. Additionally, the Reforestation Trust Fund, established in 1980, is another, smaller source of reforestation funding. This fund was originally meant to eliminate the backlog of reforestation and timber stand improvement work identified by the Forest Service. When the backlog was eliminated, however, the Congress extended the fund indefinitely to provide money for general reforestation and for activities to improve timber stands. Finally, in areas destroyed by natural causes, for which K-V funds have not been collected, reforestation is funded through appropriations.

While it is a large source of reforestation funding, the K-V Trust Fund can also fund other, nonreforestation work, according to the 1976 amendment to the K-V Act. Through the National Forest Management Act of 1976, the Congress expanded the approved use of K-V funds to include the protection and improvement of nontimber resources such as fish, wildlife habitat, and outdoor recreation. The K-V Act, however, prohibits spending more trust fund moneys on reforestation and related activities on a sale area than had been collected for that sale area.

In fiscal year 1994, timber purchasers harvested 4.8 billion board feet of timber. In that same year, the Forest Service used about \$163 million to reforest 441,070 acres. From fiscal year 1990 to fiscal year 1994, the Forest Service certified⁵ as reforested about 2 million acres through planting, seeding, and natural regeneration, as shown on figure 1.2.

⁵National forest lands are certified as successfully reforested when seedlings can compete with adjacent vegetation for moisture, nutrients, and sunlight.

Figure 1.2: Acres Certified as Reforested by Reforestation Type, Fiscal Years 1990-94



Source: GAO's presentation of the Forest Service's data.

Objectives, Scope, and Methodology

Concerned about the Forest Service's management of reforestation funds, the former Chairman, Subcommittee on Public Lands, National Parks and Forests, Senate Committee on Energy and Natural Resources, asked us to review the Forest Service's largest source of reforestation funding, the Knutson-Vandenberg Trust Fund. We have addressed this in two reports. The first report described the process by which the Forest Service plans and accomplishes projects funded by the trust fund.⁶ This second report addresses the sources, uses, and condition of the K-V fund.

Both the Forest Service and the Bureau of Land Management obtain and use reforestation funds. As agreed with your office, we limited our review to the Forest Service because it manages the bulk of the nation's federal timberlands and its reforestation activities are financed primarily by trust

⁶Forest Service: Management of Reforestation Program Has Improved, but Problems Continue (GAO/RCED-94-257, Sept. 15, 1994).

funds. Accordingly, we (1) obtained information on how the Forest Service obtains and uses funds from its reforestation accounts and (2) assessed the K-V Trust Fund's ability to fund all currently planned projects.

Primarily, we conducted our work at the Forest Service's Washington Office and at units within four Forest Service regions. We selected the regions to obtain a range of total regional reforestation needs—from the region with the highest number of acres to be reforested to a region with a moderate number of acres to be reforested—as reported in fiscal year 1993 (the most recent year for which such data were available). For example, the Pacific Northwest Region had the greatest reforestation needs at 260,136 acres, and the Rocky Mountain Region, Intermountain Region, and Southern Region had moderate amounts of reforestation needs at 103,328 acres, 93,112 acres, and 77,966 acres, respectively. In total, the four regions we visited had reforestation needs of 534,542 acres—almost 55 percent of the Forest Service's total needs. We also chose the regions for geographic coverage; we selected regions from both the East and the West coasts and from the northern and southern portions of the nation.

Within each of the four regions, we visited one forest and one ranger district. We selected the forests on the basis of three criteria. First, we selected forests that use an automated tracking system for K-V-funded reforestation projects so that we could assess whether the tracking systems facilitated the management of the program. Second, we chose forests with reforestation needs that were large in comparison to other forests within their respective regions so that we would be covering a large program within a region. For example, both the Black Hills National Forest and the Winema National Forest had the greatest reforestation needs of the forests within the Rocky Mountain Region and the Pacific Northwest Region, respectively. The four forests' reforestation needs ranged from 54,074 acres (Black Hills National Forest) to 7,399 acres (Ouachita National Forest). Finally, we chose the forests because they represented a wide range of projected K-V fund balances in fiscal year 1993 so that we could evaluate how the forests addressed different fund situations. The balances ranged from a projected fund surplus of over \$2.8 million in the Winema National Forest to a projected fund deficit of over \$1.1 million in the Ouachita National Forest. One of the selected forests, the Targhee National Forest, had a projected fund balance of zero.

Within each of the four forests we visited, we selected one district to review. We selected districts that (1) had staff who were involved in formulating the 1994 reforestation budget, which generally occurred in 1992; (2) had obtained K-V funding for reforestation planting projects in fiscal year 1994; and (3) were geographically close to the forest office. Table 1.1 shows the units visited and their locations.

Table 1.1: Forest Service Locations Visited

Region/forest/ranger district visited	Office location
Intermountain Region	Ogden, Utah
Targhee National Forest	St. Anthony, Idaho
Island Park Ranger District	Island Park, Idaho
Pacific Northwest Region	Portland, Oregon
Winema National Forest	Klamath Falls, Oregon
Chemult Ranger District	Chemult, Oregon
Rocky Mountain Region	Lakewood, Colorado
Black Hills National Forest	Custer, South Dakota
Custer Ranger District	Custer, South Dakota
Southern Region	Atlanta, Georgia
Ouachita National Forest	Hot Springs, Arkansas
Oden Ranger District	Oden, Arkansas

To determine how the Forest Service obtains and uses reforestation funds, we interviewed officials familiar with the reforestation program, the budget process, and the K-V automated tracking systems at all levels of the Forest Service’s organization—the Washington Office and the regional, forest, and ranger district offices. We reviewed (1) documents concerning the development and allocation of the reforestation budget, (2) the plans that detail how the reforestation funds will be spent, and (3) documents describing the amount of reforestation accomplished with the funds. We reviewed laws and regulations, as well as memorandums from the Department of Agriculture’s General Counsel, pertinent to reforestation funding and activities. We also reviewed the policies and procedures guiding (1) budget development, (2) accounting for program expenses, and (3) the K-V program.

We limited the scope of our work to fiscal year 1994, as this was the budget year most recently completed at the time of our evaluation. However, we obtained information from the Forest Service on the unobligated balance of the K-V fund and firefighting transfers as of September 30, 1995. At each district office, we reviewed projects involved

with the planting of seedlings funded with K-V funds to identify controls over the K-V funds collected for those projects. At the four offices, we reviewed a total of 17 projects; these were all of the districts' K-V planting projects scheduled for 1994.

We used the Forest Service's fiscal year 1994 data on obligations and expenditures, data from the K-V Trust Fund, reforestation appropriations, and the Reforestation Trust Fund to calculate the reforestation obligations for the Washington Office and for the nine regional offices. The Forest Service accounts for reforestation and program support obligations separately, and therefore we estimated program support obligations for the reforestation program. Specifically, for the K-V fund and the Reforestation Trust Fund, we included a share of the program support obligations equal to the percentage of reforestation funds obligated from the trust funds. We prepared similar estimates of obligation information from the four forests that we visited. In conducting our analysis, we did not independently verify or test the reliability of the data provided by the Forest Service. However, the Forest Service's financial statement audit reports for fiscal year 1994 revealed significant internal control weaknesses in various accounting subsystems that resulted in unreliable accounting data, including timber-related data. Furthermore, due to fiscal year 1994 firefighting priorities, the Forest Service was unable to enter all obligations data in the accounting system. As a result, the accounting data for fiscal year 1994 are incomplete and reforestation obligations may be understated.

To assess the Forest Service's ability to complete all planned K-V projects, we reviewed the financial management controls used during planning, budget execution, and program implementation and identified the conditions that potentially affect the Forest Service's ability to complete all planned projects. We spoke to Forest Service and Department officials knowledgeable of the reforestation program and financial activity.

As for our Bureau of Land Management work, we limited our review to the lands covered by the Oregon and California Act of 1937 because they are the forest lands with the greatest amounts of timber harvested and, subsequently, the greatest reforestation needs. We interviewed officials familiar with the Bureau of Land Management's reforestation program and the budget process, reviewed documents on the development and allocation of the reforestation budget and the operating plans detailing how reforestation funds would be spent, and reviewed the policies and procedures guiding budget development. We provided the Bureau of Land

Chapter 1
Introduction

Management with a draft of appendix I for review, and they agreed with the accuracy of the information presented.

We conducted our review from August 1994 through March 1996 in accordance with generally accepted government auditing standards.

How the Forest Service Obtains and Uses Reforestation Funds

The Forest Service derives the bulk of its reforestation funding from timber sales receipts; the remainder of its funding comes from annual appropriations and the Reforestation Trust Fund. Annually, an average of more than \$200 million in timber sales receipts is deposited in the K-V Trust Fund and used to reforest the harvested lands and for other reforestation-related projects.⁷ In addition to direct reforestation expenditures, both of the trust funds and the annual appropriations pay for the costs of supporting the program at all organizational levels. During fiscal year 1994, we estimated that the Forest Service obligated over \$163 million for reforestation activities,⁸ including \$110 million from the K-V fund and \$53 million from appropriations and the Reforestation Trust Fund. Of the \$163 million, the program's support obligations for the Washington and regional offices totaled about \$10 million, or 6 percent.

Timber Sale Receipts Provide Primary Source of Reforestation Funding

During a timber harvest, which may take 1 to 5 years or longer, the Forest Service designates a portion of the timber receipts for the K-V fund; the designated portion is based in part on the estimated costs of reforesting the sale areas. When collected, these funds are deposited in the K-V fund and held in the U.S. Treasury. The process of estimating reforestation needs and associated costs begins at least 2 years before the actual work is funded and accomplished, and since changes to reforestation activities can occur over that period, the reforestation plans and cost estimates may be revised.

The Forest Service informs the Congress in its annual budget request how much it plans to spend from the K-V fund in that fiscal year. The amount is based on the extent of reforestation, improvements to timber stands, and other work on renewable resources for the sale areas anticipated for that year. The Congress has, on occasion, passed legislation establishing a ceiling on the amount the Forest Service may spend.

K-V Funds Are Collected for Reforestation Projects

The amount retained from each timber sale is based, in part, on the reforestation work needed in the sale area.⁹ To determine the amount of

⁷For the remainder of this chapter, when we discuss K-V funds and projects, we refer only to reforestation projects, not to nontimber activities.

⁸Total K-V obligations for fiscal year 1994 were \$232 million.

⁹For sales of healthy living trees, the minimum sale price must cover the cost to complete the K-V reforestation projects needed in that area. For salvage sales (sales of dead or dying trees), however, the collection of K-V funds is not required if the material is of low value. Forest Service officials encourage the collection of K-V funds on salvage sales if the sales generate enough funding.

K-V collections that are needed for each sale, district staff prepare a sale area improvement plan (SAI plan). This plan describes the projects needed in the sale area and the projects' estimated costs, including the costs to support the reforestation program at all organizational levels. Each project is supported in an environmental analysis and is approved by the district ranger or the forest supervisor. The initial SAI plan can be revised until the sale is completed and the contract is closed.

When a timber sale contract has been awarded, the price for the timber in the sale area is established. Throughout the term of a sale contract, which may take several years, the Forest Service's guidance requires district officials to annually update the corresponding SAI plan to reflect the project's current estimated costs and to adjust the amount of money collected for the K-V fund accordingly.¹⁰ For example, on one sale in the Ouachita National Forest, the amount of K-V funds needed on the sale's 1992 SAI plan totaled \$102,213; by 1993, the amount of K-V funds needed for this sale had increased to \$122,760. Thus, of the timber receipts collected, up to \$122,760 could be deposited in the K-V Trust Fund.

Once a contract is closed, no more K-V collections can be made, thus creating the funding limit for work on the sale area's SAI plan. From this point onward, the Forest Service generally has up to 5 years to spend the K-V funds collected. If special circumstances warrant and the Regional Forester approves, however, forests may have up to 10 years after the sale closure date to spend the K-V funds.

SAI Plans Determine Reforestation Funding Needs

In developing the annual budget request, districts, and sometimes forests, determine each year their overall reforestation funding needs by consolidating the needs identified on individual SAI plans.¹¹ These needs, plus the estimated support costs of the program, then serve as the basis for the Forest Service's consolidated request to the Secretary of Agriculture. The Secretary then submits a K-V budget to the Office of Management and Budget for approval. Subsequently, the Congress is informed of the amount the Forest Service has requested.

¹⁰The Forest Service's guidance requires an annual review of the SAI plan. However, as we reported in 1994, almost half of the 50 sales we examined had no documentation to show that the plans had been reviewed annually. The Forest Service has revised its guidance to respond to the problems noted in our earlier report.

¹¹To facilitate this process, the K-V handbook recommends that forests and districts use, if available, an automated stand record system that contains information about the stands, such as the age of the trees and the date of last harvest. The handbook further states, however, that other systems may be needed to plan for and monitor K-V projects.

On the basis of congressional action and the Office of Management and Budget's approved apportionments, the Forest Service allocates these funds to its various organizational levels according to their requests. According to a Washington Office budget official, historically, the Forest Service generally has received approval from the Office of Management and Budget to spend the same amount of K-V funds that it requested. However, in fiscal year 1994, the Forest Service requested \$234 million but was authorized to spend a total of \$226 million, of which the Forest Service allocated \$125 million to reforestation work and \$101 million to timber stand improvement and other renewable resources activities.

Other Reforestation Funding Sources

For areas in which K-V funds are not collected, such as areas destroyed by natural causes, reforestation is funded through appropriations and the Reforestation Trust Fund. These funding sources are also used when K-V funds are not sufficient to pay for all needed reforestation in timber sale areas. About one-third of total reforestation funding is provided by these two sources.

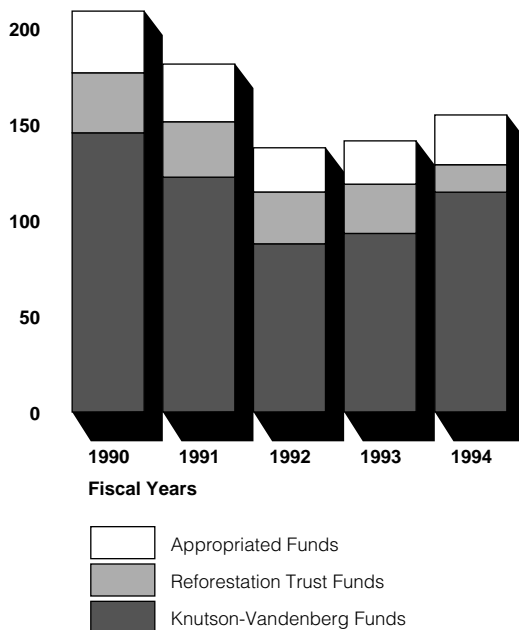
The Forest Service requests reforestation appropriations through the annual budget process. In lieu of SAI plans, which do not have to be prepared for areas that do not receive K-V funding, the forests and districts can use the automated stand record system to help determine the level of appropriations needed for reforestation. As in the K-V budget development process, districts, and sometimes forests, develop a proposed reforestation appropriation request based on needs, which is eventually incorporated in the agency's overall budget request.

The Reforestation Trust Fund, established in 1980 with funds generated from import tariffs on wood products, was created to supplement congressional appropriations for reforestation and timber stand improvement on national forests. Each year, approximately \$30 million is made available to the Forest Service from the Reforestation Trust Fund. After the Forest Service determines its needs for appropriations for reforestation, it then applies Reforestation Trust Fund moneys toward this amount, in essence reducing the amount needed through appropriations.

Figure 2.1 compares the amount of funding provided by appropriations and the Reforestation Trust Fund to the amount of funds provided through the K-V Trust Fund.

Figure 2.1: Forest Service's Reforestation Funding, Fiscal Years 1990-94

250 Dollars in Millions



Note: All dollars are in constant 1994 dollars.

Source: GAO's presentation of the Forest Service's data.

Reforestation Needs Can Change

Generally, reforestation funds are allocated to the field offices in the amount requested, unless individual reforestation workloads have changed. For example, harvests may be delayed or court injunctions may prohibit work from being done in an area. Changes in reforestation needs after the budget has been requested may affect the amount of reforestation funds that are used for reforestation work.

For example, in 1992 a district in the Targhee National Forest planned its reforestation program for fiscal year 1994. Then, about a year later, the district staff determined that two more planting projects needed to be done during fiscal year 1994. The staff requested an increase in its reforestation funding allocation during fiscal year 1994 to pay for the additional reforestation work. Thus, the changes in the district's

reforestation needs affected the amount of funding that the district required in fiscal year 1994.

Reforestation Funds Pay for Program Costs at All Organizational Levels

During fiscal year 1994, of the about \$163 million obligated for reforestation and related support costs for the program, \$109.5 million came from the K-V fund and the remaining \$53.5 million came from appropriations and the Reforestation Trust Fund. The majority of reforestation funds—about \$153 million in fiscal year 1994—were used by the district—and sometimes forest—offices for direct reforestation activities. These include such things as the cost to produce seedlings, to prepare the site for planting, and to pay for the salaries of district reforestation staff and for equipment.

In addition to the direct reforestation costs, a smaller percentage of funds is used for other program costs incurred to support and manage the reforestation program, such as rents, utilities, or the salaries of support staff. Of the \$163 million in obligations for reforestation activities, about \$10 million, or 6 percent of the reforestation funds, was used by the Washington Office and regional offices to pay for support costs. Specifically, the Washington Office obligated almost \$3 million for the costs of supporting the reforestation program, while the regional offices obligated about \$7 million.

Appendix II provides a further breakdown of the reforestation obligations and support costs for the program for all of the Forest Service's regions and for the four forests and districts we visited.

Ability of K-V Fund to Finance All Planned K-V Projects Is in Jeopardy

Sufficient funds are not available to pay for all planned K-V projects because \$420 million was transferred from the K-V fund for emergency firefighting purposes during 1990, 1992, and 1995. In the past, when such transfers were made, the Department of Agriculture requested and received supplemental appropriations to restore the transferred moneys generally within 2 years of the original transfer. However, until recently, the Department of Agriculture has not submitted a request for a supplemental appropriation to the Congress. While the Forest Service acknowledges that failure to restore this amount will be potentially disruptive to the K-V program, forest and district offices continue to operate and plan for future reforestation projects as if the transfers had not occurred. Furthermore, the Forest Service has not informed the Congress of the impact the funding shortfall would have on the agency's reforestation activities or developed a plan or strategy for reallocating the remaining funds to the highest-priority projects. In addition, the Forest Service lacks reliable financial management information and effective controls to ensure compliance with the K-V Act's prohibition against expending more trust fund moneys on an individual sale area than had been collected from the sale area.

Unrestored Firefighting Transfers Jeopardize Some Planned Projects

As of September 30, 1995, the Forest Service reported a K-V unobligated fund balance of \$338 million. Although timber receipts amounting to about \$200 million are added to the fund annually, the Forest Service will not be able to pay for all of its planned projects, currently estimated at about \$942 million, unless the \$420 million transferred from the K-V fund in fiscal years 1990, 1992, and 1995 for firefighting purposes is restored. Historically, most transfers have been restored through the supplemental appropriations process. However, it was not until March 15, 1996, that the Department of Agriculture submitted a request for supplemental appropriations to the Office of Management and Budget for the \$420 million transferred during fiscal years 1990, 1992, and 1995. As of May 1996, no request for a supplemental or annual appropriation to restore this amount had been submitted to the Congress.¹² Despite this situation, the forests and districts have not adjusted their plans to reflect the transfers. The Forest Service has not developed a plan or strategy to reduce its planned projects to make them commensurate with the fund's actual balance. As a result, the Forest Service has not determined the impact that the transfers will have on the agency's K-V program.

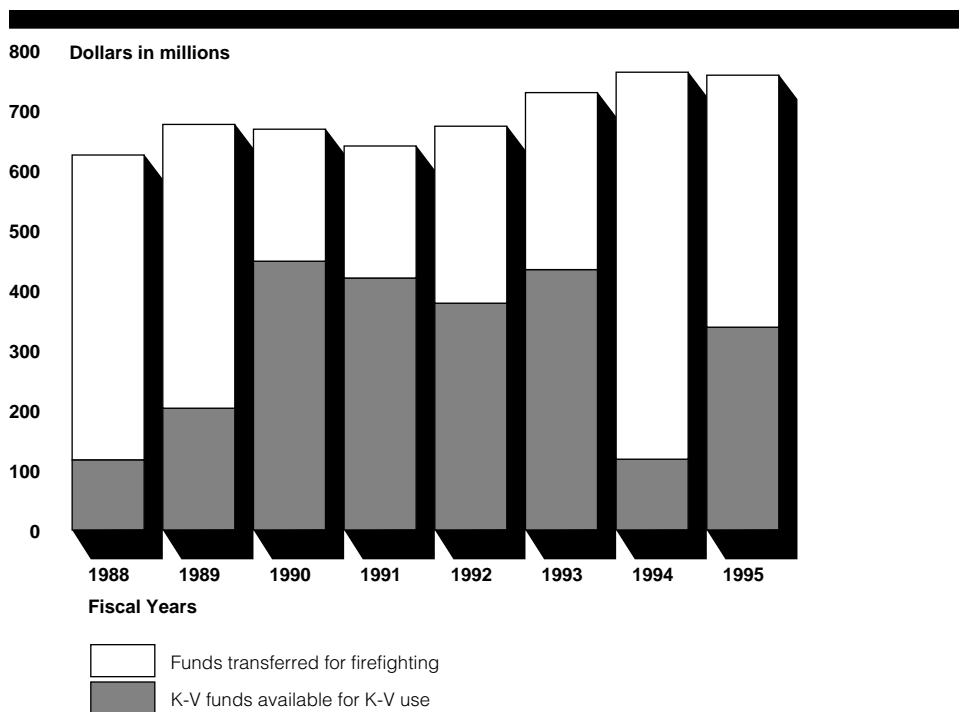
¹²At the time we prepared this report, the Office of Management and Budget had not acted on this request.

Federal law permits the Forest Service to transfer amounts from the K-V fund, as well as other Forest Service appropriations, to supplement the Forest Service's firefighting funds when emergencies arise. According to 16 U.S.C. 556d, the Forest Service is authorized to advance money from any of its appropriations and trust funds to pay for fighting forest fires. The law does not authorize the Forest Service to restore amounts so transferred. Congressional action is required to restore such funds. In the past, the Forest Service generally has asked the Department of Agriculture to submit a request for supplemental appropriations to the Office of Management and Budget to restore these funds, and the Congress appropriated almost \$1.1 billion for this purpose as of the beginning of fiscal year 1996. Supplemental appropriations generally have been provided within 2 years of the original transfer of moneys. However, the law does not require that transfers for firefighting purposes be restored.

During fiscal years 1988 through 1995, the Forest Service transferred almost \$1.5 billion of K-V funds to help pay for about \$3 billion in firefighting costs. In fiscal years 1988 and 1989, the Forest Service transferred a total of \$723 million from the K-V fund for emergency firefighting, which was fully restored through supplemental appropriations by fiscal year 1990. In fiscal years 1990 and 1992, the Forest Service again used K-V funds—\$295 million in total—for firefighting purposes. In fiscal year 1994, the Forest Service transferred \$350 million of K-V funds for firefighting, which was restored to the fund at the beginning of fiscal year 1995 after the agency had requested and received supplemental appropriations for that purpose. In fiscal year 1995, the Forest Service transferred \$125 million from the K-V fund to the firefighting fund.

To summarize these annual transfers, figure 3.1 shows the annual balance of the K-V fund with the net amount of K-V funds transferred to firefighting at the end of each fiscal year.

Figure 3.1: K-V Fund's Balance and Funds Transferred to Firefighting, Fiscal Years 1988-95



Note: Funds transferred for firefighting are net of funds transferred and repaid to the k-v fund.

Source: GAO's presentation of the Forest Service's data.

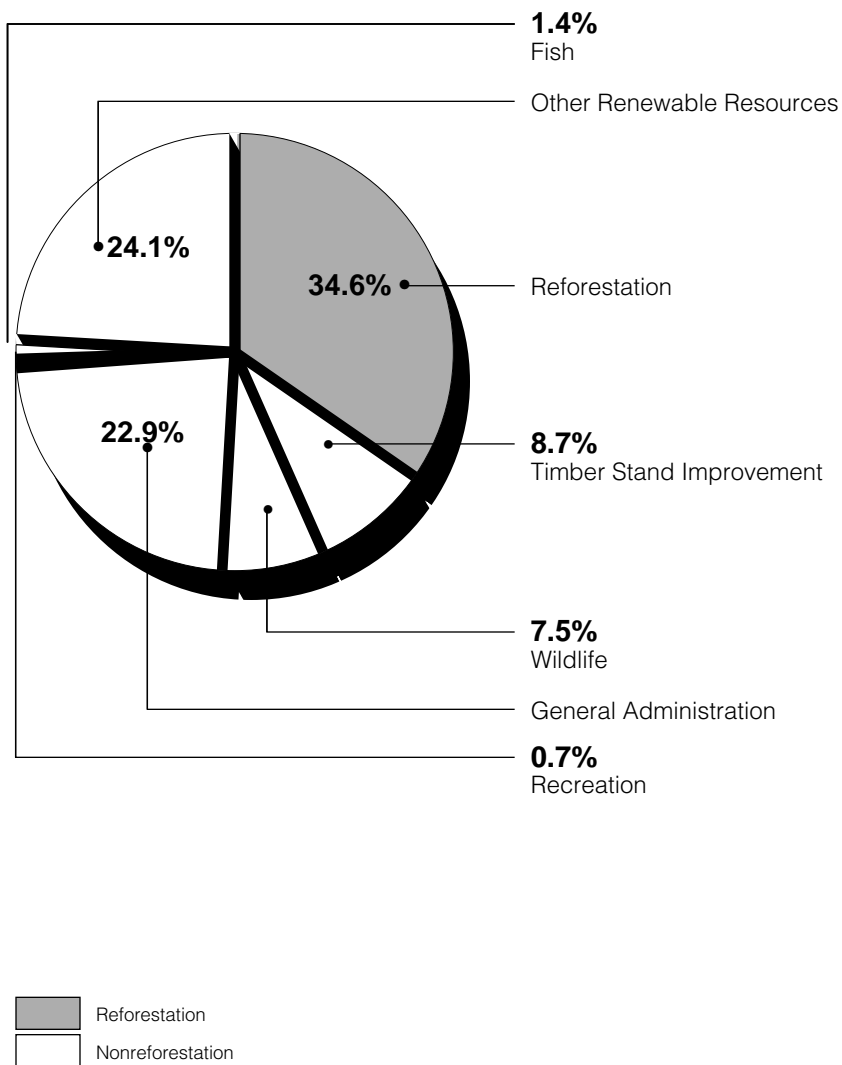
We attempted to determine whether the Forest Service ever formally advised the Congress of the impact of the unrestored firefighting transfers on the fund's balance and the implications that the transfers would have on the agency's ability to complete all planned projects. We found that during the fiscal year 1996 appropriations hearings, the Forest Service provided the Congress with general information for the record about the amount of money needed to ensure that reforestation and timber stand improvement projects could be accomplished as planned. However, this information did not fully describe the implications for not completing the planned other renewable resources projects if the transferred funds were not restored. Furthermore, we asked if a more detailed report had ever been provided to the Congress. According to the Reforestation Manager, he was unaware whether such analyses had been prepared for the Congress but believed that he would have been involved had such analyses been completed. He did indicate, however, that to reduce the planned K-V

projects by \$420 million, each individual forest would have to absorb a portion of the unrestored amount. However, the effect of eliminating the \$420 million worth of projects would not be spread evenly among the forests because the forests with greater reforestation needs will retain more K-V funds than those with fewer reforestation needs. The Forest Service does not know the specific implications of cutting \$420 million worth of planned projects because no contingency plans have been developed.

To help demonstrate the potential impact on the K-V program, figure 3.2 provides an overview of how K-V expenditures were distributed during fiscal year 1995.

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Figure 3.2: Accrued K-V Expenditures, by Type of Work, Fiscal Year 1995



Note: Other renewable resources include watershed, range, and soil resources.

Note: Percentages do not total 100 percent due to rounding.

Note: Accrued expenditures are net of transfers to firefighting.

Source: GAO's presentation of the Forest Service's data.

As can be seen, essential reforestation comprises about 35 percent of overall K-V expenditures. Given that the unobligated K-V balance totaled \$338 million as of September 1995 and that about \$200 million is collected annually for the K-V projects, it appears likely that the fund will be adequate to cover the costs of essential reforestation. Yet because the Forest Service currently estimates that \$942 million will be needed to cover all planned K-V projects, shortfalls may occur in the future if the \$420 million that was transferred is not restored. For example, some timber stand improvement projects and most, if not all, other renewable resources projects will need to be dropped from K-V funding to ensure that sufficient funds will be available to pay for all reforestation projects.

Forest Service Cannot Ensure Compliance With the K-V Act's Requirement

The K-V Act requires that trust fund expenditures in any one sale area not exceed the amounts collected in that sale area. The Forest Service's information systems, however, do not provide the financial information and controls at the individual sale-area level to ensure that K-V expenditures do not exceed collections on individual sale areas. Moreover, the way the Forest Service allocates the K-V program's support costs reduces the available funds for project expenditures on sale areas. As a result, the Forest Service generally does not know whether it is allocating and spending more or less on any individual sale area than it has collected.

Overexpenditure of K-V Funds in Some Sale Areas May Be Occurring

The K-V Act requires that the trust fund expenditures in any one sale area not exceed the amount collected in that sale area. To facilitate the management of K-V projects and the accounting for K-V funds, however, the Forest Service allows each forest to pool its K-V collections for each timber sale into a forest-level fund, commonly called a K-V pool. At the end of each fiscal year, each forest is required to create a balance sheet showing the cash available for its K-V projects, the projected collections from ongoing sales, and the estimated costs for planned projects. The Forest Service's policy requires that each forest's projected K-V pool balance be positive or zero.

When insufficient funds are projected for a forest's K-V pool balance, the Forest Service's guidance provides two ways to address the situation. First, if the sales are still ongoing, the forests and districts can update K-V plans to reflect the current costs of planned K-V work. They can then increase the amount of timber sales receipts going to the K-V fund to recognize these updated costs.¹³ Second, if the sales are closed, the forests

¹³Our September 1994 report on the K-V Trust Fund discussed how districts create and update K-V plans.

and districts can eliminate planned projects from K-V funding or seek appropriations or other funding for the work. The Forest Service's guidance requires that first priority for the use of K-V funds be given to reforestation work.

Our review of the K-V balance sheets showed that many forests had projected deficits, which may indicate potential future overexpenditures of K-V funds. For example, for fiscal years 1992 and 1993, over one-third of the forests projected negative balances in their funds, which means that they projected insufficient funds for completing planned projects. According to Forest Service officials, the forests likely revised or adjusted their plans—for example, by eliminating planned projects—to make them consistent with the funds' balances. However, in fiscal year 1994, 14 percent of the forests still were projecting insufficient balances in their funds. Table 3.1 shows, by fiscal year, the number of forests projecting sufficient and insufficient funds.

Table 3.1: Forests' K-V Pool Funds' Balances

Dollars in millions

Fiscal year	Total number of forest pools ^a	Number of pools projecting sufficient funds	Value of surplus funds	Number of pools projecting insufficient funds	Value of insufficient funds	Percent of insufficient pools
1992	154	97	\$19	57	(\$73)	37
1993	158	102	\$21	56	(\$37)	35
1994	157	135	\$17	22	(\$15)	14

Note: While funds can be pooled at the forest level, surplus funds in one forest cannot be used to offset deficits in another forest.

^aDifferences in the totals occur from year to year because the number of forest pools can change and because some forests did not submit a pool balance analysis each year.

Source: GAO's analysis of the Forest Service's data.

Because the Forest Service's financial systems do not provide information at the individual sale-area level, we could not identify specific instances of the actual overexpenditures. However, according to the forests' annual estimates of the costs for all planned projects during the time frame for completing all of the projects, some forests determined that they will have surpluses (that is, costs may not have increased as much as originally estimated, or the number or types of projects needed in a sale area may have decreased), and some forests determined that they will not have

sufficient trust funds to pay for all planned projects compared to the amounts that had been collected for those projects.

The Forest Service attributes these projected deficits to overspending of funds (that is, the forests used more of their K-V funds for completing projects than they had collected for completing those projects) or to K-V plans not being updated to reflect current costs that would enable the forests to collect more funds on the open sales and deposit those additional funds in the K-V fund. However, according to a Washington Office program official, no information exists as to how much collections were increased or how many projects were dropped to correct projected deficits. In the one forest that we visited that had a projected deficit in its fiscal year 1994 balance sheet summary, the staff dropped projects to correct for a projected negative balance. While dropping projects helps to eliminate the projected deficits in the K-V fund, unless the Forest Service consistently applies this control, it cannot ensure that potential future overspending by forests and districts on individual sale areas will not occur.

Forest Service Systems Do Not Provide Reliable Financial Information and Effective Controls Needed to Manage K-V Expenditures

The Forest Service does not have the financial management information and controls needed to ensure compliance with the K-V act prohibition that limits K-V expenditures on individual sale areas to the collections from those sale areas. Collections are recorded for individual sales, whereas expenditures are managed and recorded in total at the district level rather than by individual sales. By allowing each forest to pool K-V collections without adequate financial controls and information, the Forest Service cannot ensure that the trust fund expenditures do not exceed collections for a given sale area.

Because the K-V Act requires that the Forest Service not spend more trust funds on an individual sale area than were collected for that sale, adequate financial information is needed to manage the expenditures of funds for each sale area. Accordingly, district staff need expenditures information available in sufficient detail so that, before requesting funding allocations for additional K-V work, they are aware of what has already been spent on each sale area and what funds remain available to spend. For example, on a closed sale, if the K-V collections for a sale area were \$100,000 and the expenditures for prior projects were \$80,000, then only \$20,000 of K-V funds would be available to spend for the sale area's remaining K-V work.

The Forest Service uses two main accounting systems that provide information on K-V expenditures. Neither system, however, is able to provide sale-specific information on expenditures. For example, the Forest Service uses the Department of Agriculture's Central Accounting System as its primary financial reporting system. The Central Accounting System can report total K-V expenditures only down to the district level, and according to Washington Office financial officials, the system is incapable of handling the extra coding necessary to track expenditures by sale area over a multiyear period. Similarly, the Forest Service's primary cost accounting system—the Timber Sale Program Information Reporting System—cannot provide expenditures information at the sale level.

In the absence of an accounting system that provides the necessary information on both K-V collections and expenditures, some forest offices have developed ad hoc automated systems to help manage the K-V fund. Of the four forests we reviewed, only the Black Hills National Forest could use its automated system to track information on K-V expenditures for individual sale areas. This system tracked the amount of K-V funds that had been spent on a sale area and how much was left to spend on the area's remaining projects. District officials used the system's information to manage their program as well as to limit their budget requests for K-V funding.

We discussed with Washington Office program officials the feasibility of establishing a standardized tracking system nationwide. According to the reforestation manager, a standardized system that could track information on individual sale areas would be beneficial for the district offices, but the manager believed it would be costly to create a new system or to redesign the current system, including the time and labor involved in maintaining and updating the system daily.

The Department of Agriculture is currently updating its departmental accounting system. Although the new system is intended to replace a portion of the Central Accounting System, it will not have the capability, unless it is modified, to provide information on K-V collections and expenditures for each sale area. Because the Forest Service did not have any estimates of the cost or time involved to develop and implement a sale-area capability in the new system, we are not in a position to assess the cost implications of doing so.

Forest Service Lacks Effective Method for Calculating and Limiting Program Support Costs

The agency collects a certain amount of K-V funds on each sale area plan to pay for the costs of supporting the program at all organizational levels. The regions and forests issue guidance that specifies the percentage of K-V funds that should be collected from individual sale areas to support the program at the forest, regional, and Washington offices. The agency's overall guidance, however, does not explain how individual regions or forests should calculate and limit the amounts for program support. If the allocations for support costs are not limited to the amount collected, however, funds available for project expenditures in sales areas could be insufficient.

Only one forest we visited limited its use of K-V funds for program support to the amounts collected for that purpose. For three of the forests, the regions did not restrict their expenditures for program support to the amounts that had been collected, nor did the forests limit the amount spent for program support at the forest level. For example, if a project costs \$100, the forest might instruct the district to collect an additional 20 percent of the project's cost, or \$20, to cover the cost of supporting the program. When the forest allocates funds for a project to the district, it withholds funds to cover the forest's support costs. However, rather than limiting these withholdings—to continue our example—to 20 percent of the project's cost, or \$20, the forest would withhold 20 percent of the total cost (\$120) or \$24. This method of determining support costs would reduce the amount available for project work to \$96, \$4 less than the projected need. This amount represents 24 percent of the project's cost and results in withholding a larger amount for program support—\$24—than was collected for that purpose—\$20.

One of the four forests that we reviewed was limiting its use of K-V funds to the amounts collected. At the Black Hills National Forest, the staff limited the forest office's K-V spending for program support to the amount collected. We believe that to prevent overspending project support funds on individual sales, the Forest Service needs to have a standardized method to limit expenditures for program support to the amounts collected.

Conclusions

Although the Forest Service's overall K-V fund has a reported unobligated balance of \$338 million, and about \$200 million in new moneys are deposited annually from timber sales, the fund does not currently have sufficient moneys to complete all planned projects for which the K-V funds were originally collected. Despite this funding shortfall, neither the

Department of Agriculture nor the Forest Service has informed the Congress of the balance in the fund. In addition, it was not until March 1996 that the Department of Agriculture submitted a request for the Office of Management and Budget to seek appropriations from the Congress to restore the transferred funds. Moreover, the Forest Service has continued to operate the program as if the transfers had not occurred. In addition, the Forest Service lacks effective financial management controls to ensure compliance with the K-V Act's limitation on expending more K-V funds on an individual sale area than were collected for that area. These problems, if left unresolved, will lead to program disruptions and the failure of the reforestation program to accomplish projects for which funds already have been collected.

Recommendations

To provide the Congress with the information it needs to consider any future requests for appropriations to restore previously transferred funds, we recommend that the Secretary of Agriculture report to the Congress on the financial status of the Knutson-Vandenberg fund and the amount and type of Knutson-Vandenberg projects that will not be completed if the funds transferred to the Emergency Forest Service Firefighting Fund are not restored.

Additionally, to help ensure that the most critical planned projects can be completed within existing fund limits, we recommend that the Secretary of Agriculture direct the Chief of the Forest Service to take the following actions:

- In the event that the administration decides not to forward to the Congress the Department's request for restoration of the funds transferred for firefighting purposes, or the Congress decides not to restore these funds during the fiscal year 1997 budget considerations, the Forest Service, by the end of fiscal year 1997, should revise the list of planned Knutson-Vandenberg projects to take into account the actual balance in the Knutson-Vandenberg fund.
- Perform, in consultation with the Chief Financial Officer, an analysis of alternatives (including the costs and benefits of each alternative) to obtain the financial data necessary to ensure that Knutson-Vandenberg Trust Fund expenditures in one sale area would be limited to the amounts collected from that area, as required by the Knutson-Vandenberg Act.
- Require all organizational levels to use a standardized national methodology for assessing and withholding the support costs for the

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Knutson-Vandenberg program that will limit the expenditures for program support to the amounts collected for such purposes.

Agencies' Comments and GAO's Evaluations

We provided a draft of this report to the Department of Agriculture—including the Office of the Chief Financial Officer—and the Forest Service for comment. The Department's comments are reproduced as appendix III and the Forest Service's as appendix IV. The following is a summary of the agencies' comments and our evaluations.

Recommendation 1

To provide the Congress with the information it needs to consider any future requests for appropriations to restore the previously transferred funds, GAO recommends that the Secretary of Agriculture report to the Congress on the financial status of the Knutson-Vandenberg fund and the amount and types of Knutson-Vandenberg projects that will not be completed if the funds transferred to the Emergency Forest Service Firefighting Fund are not restored.

The Department's comment: The Department disagreed with the recommendation because it believes that the Congress is already adequately informed of the balance of the K-V fund through the Forest Service's Explanatory Notes to the President's annual budget. The Department indicated that the Explanatory Notes display the unobligated balances at the beginning of the fiscal year, the anticipated receipts, and the anticipated obligations for the year and that this information permits a fairly straightforward analysis of the effects, if any, that the advances for firefighting will have on the ability of the Forest Service to accomplish its planned K-V program for the year. The Department further indicated that it believed that the issue of restoring the advances from the K-V fund has been well understood for some time and cited a 1991 GAO report as alerting the Congress that reforestation could be adversely affected if the advances were not repaid. Finally, the Department believed that this type of information would not be useful for policy decisions.

The Office of the Chief Financial Officer concurred with the Department's view that no extraordinary actions need to be taken at this time and that no additional information needs to be furnished to the Congress until or unless it is requested.

The Forest Service's comment: The Forest Service disagreed with GAO's recommendation and indicated that compiling this information is unnecessary. The Forest Service pointed out that previous supplemental appropriations have been authorized without the need for such information.

GAO's evaluation: GAO disagrees with both the Department and the Forest Service that this information is unnecessary and would not be useful for policy decisions. Although we agree that historically, additional appropriations have been approved without an identification of the amount and types of projects that may not be completed, we believe that because of the current large unrestored amount, the Congress should be fully informed of the implications that not restoring the funds would have on completing all of the planned projects. We believe that because of the size of the unrestored transfers—\$420 million—and the length of time that the funds have remained unrestored—some transfers occurred as early as 1990—the Congress needs to be informed of the situation so that it can decide on the appropriate action that is warranted, in light of the program's objectives and budgetary constraints.

We also disagree that the President's Budget and the accompanying Explanatory Notes provide adequate information on the transfers made from the fund or the impact that the unrestored transfers would have on completing all of the planned projects. While the Explanatory Notes provide a general description of the program, the objectives of the program for fiscal year 1997, the estimated number of acres to be accomplished, and the anticipated cost of such work for that fund year, the Notes do not disclose that the estimated total cost to complete all of the planned projects is \$942 million and that large sums of money have been transferred from this fund for the purposes of fighting fires and had not been restored since 1990.

Although the Department cited a 1991 GAO report as evidence that the issue of restoring the advances from the K-V fund has been well understood for some time, we do not believe that the 1991 report alone fully apprises the Congress of the current financial condition of the fund. Because of the age of that report and the fact that sizeable transfers were also made in fiscal years 1992 and 1995 and not restored, we continue to believe that the Congress should be made aware of the extent of the transfers that have been made and the implications of the transfers for the program should the Congress decide not to restore all or part of the funds. Moreover, we believe that the agency should begin contingency planning to determine which types of projects would need to be eliminated if the Congress does not restore these funds.

While we recognize that identifying the potential projects that may need to be eliminated may be time-consuming, we believe that the Congress needs to be informed of the amount and types of projects that would be affected

by transferred funds that may not be restored. While the President's Budget reflects that over \$300 million remains in the K-V fund, it does not fully describe the types and locations of where improvements to timber stands or other renewable resources would need to be eliminated because of the fund's current financial condition. Without such information, and without an explanation of the potential impact of not completing the planned projects on the nation's forests, the Congress cannot make an informed decision on the extent to which the transferred funds should be restored. Instead, the transfers may remain outstanding, the Forest Service will continue to operate as if the funds were still available, and potentially lower-priority projects may be completed in the near term to the later detriment of higher-priority projects in other geographical locations.

Recommendation 2

Additionally, to help ensure that the most critical planned projects can be completed within the existing limits of the fund, GAO recommended that the Secretary of Agriculture direct the Chief of the Forest Service to revise the list of planned Knutson-Vandenberg projects to take into account the actual balance in the Knutson-Vandenberg fund.

The Department's comment: The Department disagreed with this recommendation and questioned GAO's presumption that the funds advanced for firefighting will not be restored and, as a result, linked this possibility to the need to reduce the number of K-V projects. In its response, the Department referred to the prompt repayment of the fiscal year 1994 advance and the fact that "[s]o long as there are adequate unobligated balances and receipts to finance the year's plan of work, there is no need to 'reduce planned projects' . . . [s]ufficient balances were maintained in the account to accomplish the work that needed to be done" as its basis for not wanting to revise the list of current K-V projects. The Department also questioned the need to continually revise the notification to the Congress as projects were accomplished or when new advances were made or repaid.

The Office of the Chief Financial Officer also did not believe that project planning needs to be altered as a result of the firefighting advances, since they are valid receivables that the Congress has the responsibility to restore.

The Forest Service's comment: The Forest Service disagreed with the recommendation and indicated that it believes that revising the current list of planned K-V projects to take into consideration the actual balance of the

κ-v fund is unnecessary, undesirable, and would violate the statutory language contained in the κ-v Act. The Forest Service stated that writing off the projects would violate the purpose for which the trust fund was established and would likely involve the agency in costly litigation. In addition, the Forest Service considers as speculative our recommendation that supplemental appropriations will not be forthcoming and stated that it will not revise the current lists unless directed by the Secretary or by an act of Congress. As with the Department, the Forest Service interpreted our recommendation as one suggesting the need for continual revision of its plans whenever transfers are made from the κ-v fund in the future.

GAO's evaluation: We continue to believe that the Forest Service needs to bring individual project plans in line with existing fund balances. However, in light of the recent actions by the Department to formally submit a request for the restoration of the total transferred amount of κ-v funds, we have modified our recommendation to provide the administration and the Congress an opportunity to decide whether to restore any or all of the funds before the Forest Service needs to eliminate planned projects from the existing sale area improvement plans. Yet should either the administration decide not to submit the request to the Congress or the Congress decide during its consideration of the fiscal year 1997 budget not to restore the entire amount of the funds transferred, we continue to recommend that the planned projects be revised in fiscal year 1997 to reflect the actual balance in the fund.

Historically, the Congress has restored all transfers within 2 years after the transfer occurred. However, in the case of the 1990 transfer, more than 6 years have elapsed, while more than 4 years have elapsed since the 1992 transfer. During this period, the Department of Agriculture did not formally submit a request to the Office of Management and Budget for supplemental appropriations to restore the moneys transferred. Only because the fiscal year 1994 fires were extraordinarily costly did the Department of Agriculture request, and the Congress ultimately approve, a supplemental appropriation in early fiscal year 1995 to restore the funds transferred in fiscal year 1994. Yet that request did not ask for funds to replace the 1990 or the 1992 transfers. It was not until we discussed a preliminary draft of our report and our potential recommendations that the Department of Agriculture formally requested the Office of Management and Budget to propose the restoration of the moneys transferred in all 3 fiscal years.

While we agree that the current reported unobligated balance of the κ-v fund at the beginning of fiscal year 1996, plus the expected collections from ongoing timber sales, may be adequate to cover the costs of the current year's projected expenditures, the program cannot continue to operate in the long term as if the \$420 million in transfers had not occurred. We believe that in light of the uncertainty about whether the transferred funds will be restored, the Forest Service should focus its available resources on ensuring that the highest-priority projects—that is, essential reforestation activities—are accomplished before expenditures are made for improving timber stands or other renewable resources. Because the Forest Service's guidance permits expenditures for other than reforestation activities as long as the agency "collect[s] at least one payment for material cut," we are concerned that sufficient funds may not be available from the collections from that sale area to complete the essential reforestation projects that must take place after the timber purchaser completes the harvest.

Additionally, we disagree that eliminating planned projects would violate the κ-v Act. The Congress authorized the Forest Service to transfer and use any appropriated funds, including κ-v funds, to fight forest fires in emergency situations. These funds can only be restored by the Congress. Consequently, the revision of planned projects when it becomes clear that the Congress will not restore the funds transferred would not violate the κ-v Act. The principle involved here is the same in connection with the Forest Service's other reforestation responsibilities. While the federal statutes, including the Multiple-Use and Sustained Yield Act of 1960 and the National Forest Management Act of 1976, assign the Forest Service the responsibility for reforestation efforts in the national forests, such efforts can only be carried out within the amounts the Congress appropriates. Furthermore, we do not know now whether eliminating projects would lead to costly litigation.

Our recommendation did not envision a continual revision to the list of planned projects each time a new sale area improvement plan was developed, when individual projects are completed, or when transfers are made or restored. Rather, we believe that once the current project plans are brought in line with the available fund balances, the Forest Service should consider revising the individual plans when additional transfers are made in the future and not restored within a reasonable period of time. This action will allow the Forest Service to redirect its remaining resources to the highest-priority projects existing at that time.

Finally, we disagree with the Chief Financial Officer that a valid receivable has been established or that the Congress has the responsibility to restore the funds transferred. When such a transfer occurs, the Forest Service records a transfer, not an advance, and appropriately does not record a receivable. The law that authorizes the Forest Service to advance the moneys does not require that the funds be restored to the account from which they were transferred. Because, in our opinion, the Department has not requested additional funding from or adequately informed the Congress of the impact on the program if the funds are not restored, we do not believe that a basis exists to expect the funds to be restored.

Recommendation 3

Additionally, to help ensure that the most critical planned projects can be completed within the existing limits of the fund, GAO recommended that the Secretary of Agriculture direct the Chief of the Forest Service to perform, in consultation with the Chief Financial Officer, an analysis of alternatives (including the costs and benefits of each alternative) to obtain the financial data necessary to ensure that the expenditures from the Knutson-Vandenberg Trust Fund in one sale area would be limited to the amounts collected from that area, as required by the Knutson-Vandenberg Act.

The Department's comment: The Department disagreed with GAO's recommendation and the implications that the Forest Service's financial information and controls at the individual sale-area level is insufficient to ensure that expenditures not exceed collections on individual sale areas. The Department cited a 1991 opinion, and a more recent 1996 one by the Department of Agriculture's Office of General Counsel, which emphasized that "while the requirement that collections from one sale area not be spent on another sale area was a matter of law, the precise accounting systems and administrative controls to comply with the law are 'properly within the realm of the Forest Service.'"

The Forest Service's comment: The Forest Service disagreed with the recommendation because it believed that the current procedures for accounting for K-V collections and expenditures, and the process currently used to annually determine the amount of excess K-V funding to return to the U.S. Treasury, are in full compliance with the statutory requirements of the K-V Act. The Forest Service cited the development and review of the sale area improvement plan as a means to determine the need for adjustments in the cost estimates and/or work activities to bring the planned K-V activities in line with the K-V collections on each timber sale.

Additionally, the Forest Service did not agree that a need exists to develop and analyze alternative procedures for obtaining the financial data necessary to ensure that the expenditures in one sale area would be limited to the amounts collected in that area. The Forest Service did, however, agree to investigate ways to improve the efficiency and consistency of applying its current procedures for managing the K-V funds.

GAO's evaluation: We disagree with both the Department and the Forest Service on the adequacy of the Forest Service's management information systems and controls to provide sale-area data and accountability. While we agree that at the national, regional, forest, and district level, the Forest Service's information system provides sufficient information to ensure that expenditures do not exceed collections, we disagree that the current information systems and controls provide that level of adequate assurance that funds from a sale area are spent on projects in that sale area as required by law. While the current information systems can account for the collections at the sale level—since this information is necessary to compute the required payments to the states—as we point out in chapter 3, comparable expenditure information is not available for a sale area. For example, a forest or a district may award a planting contract that covers multiple sales areas and, in some cases, sale areas in different districts. This expenditure would be accounted for at the district or forest level but would not identify how much of that expenditure applied to sale area “A” compared to the amount for sale area “B.”

In addition, during the budget development process, the district uses a computed amount for a specified number of acres anticipated to be planted 2 to 3 years forward, that is, how many acres from all of the sale areas need to be planted. While the district may review the individual sale area improvement plans to determine how many anticipated acres may be expected to be planted in the next fiscal year's increment of the plan, generally no consideration is given as to whether the remaining collections from the individual sale areas will cover the amount of funds being requested for those sale areas. For example, we found that one district, in developing its annual budget, requested \$106,326 to complete a planting project on 179 acres. Yet that district had collected only \$87,298 for 233 acres, or 50 acres more than what that year's budget request was expected to accomplish. Because budget dollars are allocated to the district level as a whole rather than by sale area, we could not specifically determine whether in fact this additional \$19,000 had been provided to the district. However, in discussing these situations with district and forest personnel, we were told that they generally receive the amounts that they request.

Thus, the likelihood exists that the districts receive and spend the money requested whether or not the amount exceeds their collections and that they are potentially overspending K-V funds.

In its 1992 revision to the K-V handbook, the Forest Service correctly pointed out that collections on one sale area should not be expended on another sale area and specified a requirement for an annual reconciliation of the expected expenditures and collections from each sale area. However, a reconciliation is an after-the-fact control that may result in adjustments for accounting errors but would not ensure that expenditures did not exceed collections on individual sale areas. Furthermore, this reconciliation does not match collections and expenditures on individual sale areas; rather, it matches them on a forestwide basis. Therefore, this reconciliation does not provide the level of control required to ensure compliance with the K-V Act.

The Forest Service also points out that the annual reconciliation is used to determine the amount of excess K-V collections that must be returned to the U.S. Treasury. However, the Forest Service has not returned these excess collections to the Treasury since the late 1980s. Instead, the Forest Service is currently retaining about \$49 million of excess collections as an offset until such time as supplemental appropriations are provided to restore the moneys advanced for firefighting. During this current review, however, we did not assess the appropriateness of retaining the excess K-V moneys until a supplemental appropriation is provided, but we plan to subsequently address this issue.

Finally, our recommendation was not directed to requiring the modification of the Forest Service's current or the Department's proposed accounting systems to require sale-by-sale accounting. Rather, we recommended that the Forest Service perform an analysis of alternatives, including the costs and benefits, as a basis for determining how it will meet the requirements of the K-V Act. While sale-by-sale accounting may provide the highest assurance that the expenditures on one sale area do not exceed the collections for that sale area, we recognize that modifying these systems may be costly and time consuming. However, as stated earlier, neither GAO nor the Forest Service has explored the potential cost of making these modifications or what other systems—such as the tracking system used in the Black Hills Forest—could be instituted to provide assurance that the Forest Service is complying with the legislative accountability requirements. Therefore, we continue to believe that the Forest Service should explore alternatives with the Office of the Chief

Financial Officer to correct the weaknesses identified in the K-V program and to better ensure overall improved financial management and accountability in the Forest Service.

Recommendation 4

Additionally, to help ensure that the most critical planned projects can be completed within the limits of the existing funds, GAO recommended that the Secretary of Agriculture direct the Chief of the Forest Service to require all organizational levels to use a standardized national methodology for assessing and withholding the support costs for the Knutson-Vandenberg program that will limit the expenditures for program support to the amounts collected for such purposes.

The Department's and Forest Service's comments: The Department, its Chief Financial Officer, and the Forest Service agreed with GAO's recommendation, and the Forest Service agreed to develop a national direction to achieve this purpose.

In addition to commenting on specific recommendations, both the Department and the Forest Service provided comments related to other material presented in the report. Their comments and our evaluations follow.

The Department's comment: Concerned that GAO made statements that the Department had not requested appropriations from the Congress, the Department pointed out that it is the President who submits budget proposals to the Congress and that the Department can make a request only to the Office of Management and Budget.

GAO's evaluation: While GAO recognizes that it is the President who submits budget proposals to the Congress, our point was that the Department had not, until March 15, 1996, formally requested the Office of Management and Budget to request the President to submit a proposal to the Congress asking for supplemental appropriations to restore the moneys transferred from the K-V fund for firefighting purposes in fiscal years 1990, 1992, and 1995. For ease of reporting, we used the terms, "the Department of Agriculture has not submitted a request for a supplemental from the Congress." Page 24 accurately reflects the fact that the Department of Agriculture had submitted a request to the Office of Management and Budget but that at the time of our report, the Office of Management and Budget had not taken action on the request. As of May 20, 1996, the Office

of Management and Budget still had not taken action on the request and stated that it would still be several more weeks before the matter was even considered.

The Department's comment: The Department was concerned with the use of the term "transfer" as it relates to the moneys used from the K-V fund for firefighting purposes. The Department pointed out that the administrative provision authorizing the use of the funds uses the word "advance." Furthermore, the Department believed that the word "transfer" implies the permanent movement of budgetary resources from one account to another, while "advance" has the connotation that there is a responsibility to restore budgetary resources to the donating account.

GAO's evaluation: We disagree. While 16 U.S.C. 556d uses the word "advance," the funds advanced are not required to be restored. Therefore, we believe that it is more appropriate to refer to these advances as transfers. Furthermore, we chose to use the term "transferred" since the Forest Service in its reports to the Department of the Treasury (as required by Office of Management and Budget Circular A-34) reflects these moneys as transfers from the K-V fund to the firefighting fund. While the Forest Service established a "Liability for Fire Fighting Advances" (note 15) as part of its "Future Financing Sources" (note 20) in its financial statement audit for the year ended September 30, 1994, the Forest Service indicated that it had "not recognized this amount [not restored] as a receivable in the financial statements and will not until such time as Congress authorizes supplemental funding to repay the trust fund loan." Thus, since no supplemental appropriation had been made for the moneys and no receivable created, we chose to use the term "transferred from the K-V fund" to reflect that the money is no longer in the K-V fund and to demonstrate our uncertainty that a supplemental appropriation—particularly for the 1990 and the 1992 transfers—would ever be provided.

The Forest Service's comment: The Forest Service did not agree with the basic premise in the draft report that the K-V Act requires expenditures to be accounted for on a sale-by-sale basis. The Forest Service believed that this premise had shaped the audit findings and had led to recommended actions that are costly, burdensome, impractical, and unnecessary to meet the requirements of the K-V Act.

GAO's evaluation: The Forest Service misstates a basic premise of our report: that the Forest Service lacks the reliable financial information and adequate controls necessary to ensure that K-V expenditures on one sale

area do not exceed the collections from that sale area as required by the K-V Act. We are not saying that the act requires the Forest Service to establish an accounting system; rather, our recommendation addresses the need for the Forest Service to have a mechanism to ensure that expenditures do not exceed collections on a sale area.

The Forest Service's comment: The Forest Service disagreed with the statements that conveyed the impression that they had not actively sought to get the advanced K-V funds repaid.

GAO's evaluation: We did not intend to infer that no attempts had been made to seek the restoration of the transferred funds. We intended only to point out that sizeable amounts of the K-V fund had been transferred in 1990, 1992, and 1995 and that no formal departmental actions had been taken until March 1996 to request that these transfers be restored. In fact, when the opportunity arose in 1994 to request the restoration of the 1990 and 1992 transfers, the Department did not submit a request for all of the transferred moneys but instead limited the request to the amount transferred for the 1994 fires. While, historically, transferred funds had been restored within 2 years of such transfer, we believe that waiting until March 1996 to request restoration of the 1990 and 1992 transfers exceeds a reasonable period of time.

Bureau of Land Management's Reforestation Program

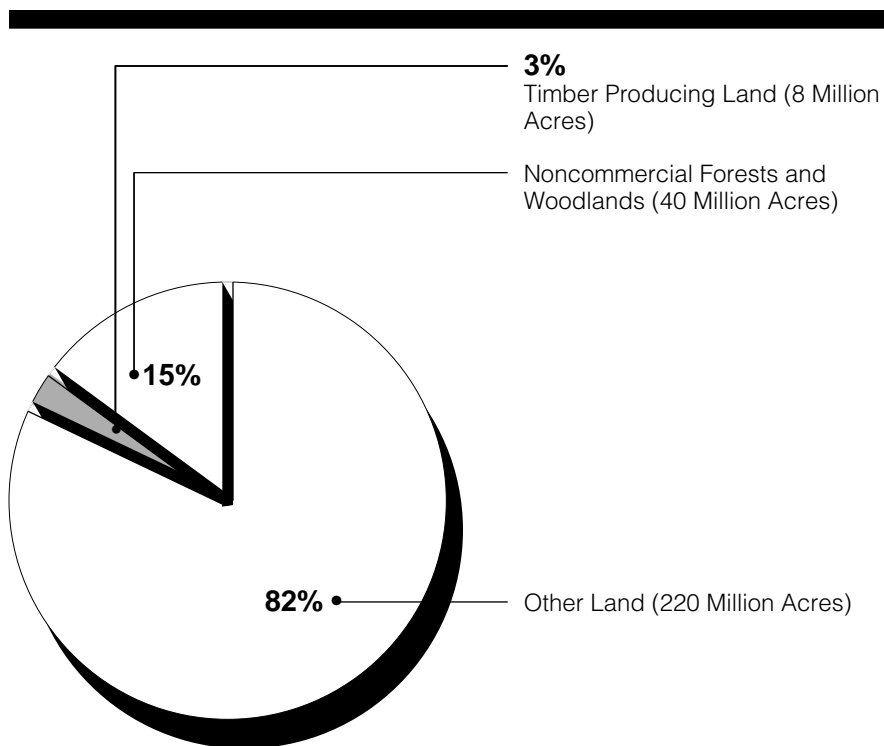
The Bureau of Land Management (BLM) manages more federal acreage than any other federal agency, including a small amount of timberlands. When timber is harvested on BLM's lands, the areas cut must be reforested to maintain the forest's desired structure, diversity, and sustained future growth. BLM's reforestation activities are funded through appropriated and nonappropriated dollars.

BLM's Reforestation Responsibilities

Although commercial forest lands represent approximately 3 percent of BLM's total acreage and noncommercial forests and woodlands represent approximately 15 percent, sales of timber accounted for more than 95 percent of the agency's receipts in fiscal year 1993. The reforestation of harvested lands is an integral part of BLM's forest management and is required by legislative mandate. The responsibility for the agency's reforestation program on the Oregon & California (O&C) lands is divided among the four different organizational levels.

BLM manages about 268 million acres of public land, including grazing and forest lands, in 28 states. The majority of this acreage is located in Alaska and 11 western states. BLM manages, develops, and protects approximately 8 million acres of productive timberland, of which the 2.6 million acres in western Oregon are generally recognized to be one of the nation's most productive and valuable commercial forest properties. BLM also manages, develops, and protects 40 million acres of woodlands that supply a number of forest products. Figure I.1 shows BLM's commercial timberland and noncommercial forests and woodlands as a percentage of total acres managed.

Figure I.1: BLM's Timberlands, Forests, and Woodlands as a Percentage of Total Land Managed



Source: GAO's presentation of BLM's data.

BLM's responsibilities for reforestation are set forth in two laws. The Oregon and California Sustained Yield Act of 1937 (43 U.S.C. 1181a *et seq.*) sets forth the general policies and guidelines for managing the Oregon and California Railroad and Coos Bay Wagon Road grant lands, known as the o&c lands, in western Oregon. The act states that these lands shall be managed for the purpose of providing a permanent source of timber supply. The Federal Land Policy and Management Act of 1976 (43 U.S.C. 1711, 1732), as amended, provides for the multiple-use management of public land on a sustained-yield basis and for recognizing the nation's need for domestic sources of timber.

In fiscal year 1995, BLM harvested 120 million board feet of timber; 103 million board feet (or 86 percent) were harvested from the forests in

western Oregon. During that same period, BLM reforested 55,000 acres of land in western Oregon and 2,330 outside of western Oregon.

BLM's four organizational levels share reforestation responsibilities. The agency's headquarters in Washington, D.C., provides policy formulation and program direction. Twelve state offices provide policy, procedural, and operational guidance. Fifty-nine district offices provide program direction, planning, and administrative support for 139 resource area offices, which have the direct responsibility for implementing BLM's policies and managing and protecting the resources. Currently, BLM is undergoing organizational restructuring to a two-tier field structure that will enable them to share resources both with other BLM offices and other agencies.

Reforestation Is Funded With Appropriations and Nonappropriated Funds

BLM's forestry program receives funding through three accounts; two of the accounts are appropriated moneys and one is nonappropriated moneys. The appropriated accounts include the Western Oregon Resources Management, Reforestation and Forest Development account for the o&c lands and the Renewable Resources Management, Forest Management account for public domain lands. o&c lands are public lands granted to the Oregon and California Railroad Company and the Southern Oregon Company and subsequently revested to the United States. Public domain lands, on the other hand, are original holdings of the United States never granted or conveyed to other jurisdictions or reacquired by exchange for other public domain lands. By far, the o&c lands receive the largest amount of reforestation funding—about 90 percent of the more than \$23 million in reforestation funding in fiscal year 1994.

BLM's nonappropriated account is the Forest Ecosystem Health and Recovery Fund. In 1992, the Congress authorized BLM to retain the federal share of timber salvage receipts, and the moneys from this fund are available for planning, preparing, administering, and reforesting timber salvage areas.

How the Forest Service Obligated Fiscal Year 1994 Reforestation Funds

During fiscal year 1994, of the about \$163 million obligated for reforestation and related program support costs, \$109.5 million came from the K-V fund and the remaining \$53.5 million came from appropriations and the Reforestation Trust Fund. Of the over \$163 million,¹⁴ the Washington Office obligated almost \$3 million for the costs of supporting its reforestation program. For the regional obligations, table II.1 identifies both the total reforestation obligations of about \$159 million and the program support obligations of about \$7 million for fiscal year 1994.

Table II.1: Reforestation Program Obligations for the Forest Service's Nine Regions, Fiscal Year 1994

Dollars in thousands

Region ^a	Total reforestation for region	Program support for regional office	Program support as a percent of regional reforestation
1-Northern	\$21,260	\$739	3.5
2-Rocky Mountain	2,121	170	8.0
3-Southwest	2,478	183	7.4
4-Inter-Mountain	17,339	839	4.8
5-Pacific Southwest	28,722	704	2.5
6-Pacific Northwest	62,328	2,530	4.1
8-Southern	18,120	1,418	7.8
9-Eastern	5,890	245	4.2
10-Alaska	746	60	8.1
Total	\$159,006	\$6,887	4.3

^aThe Forest Service does not have a region 7.

Source: GAO's calculations based on the Forest Service's data.

For fiscal year 1994, the four forest offices we visited used between 8 percent and 36.2 percent of their total reforestation obligations for program support activities. Although these percentages varied considerably, we noted that some of the forest offices paid for a portion of district costs, while some forests did not. For example, the Ouachita forest office paid for its district offices' rents and utilities and for the districts' seedling costs. In the other national forests, the districts paid these costs.

¹⁴Some support costs of the appropriated reforestation program are funded by other administrative appropriations and are not easily identifiable. Therefore, our calculations of reforestation obligations are conservative because these costs were not included in our calculations.

Appendix II
How the Forest Service Obligated Fiscal
Year 1994 Reforestation Funds

Table II.2 identifies the amount of reforestation funds obligated by the four forests that we reviewed.

Table II.2: Four Forests' Reforestation Program Obligations, Fiscal Year 1994

Dollars in thousands

National forest	Total reforestation for forest	Program support for forest office	Program support as a percentage of reforestation
Black Hills	\$526	\$50	9.4
Ouachita	\$2,399	\$869	36.2
Targhee	\$2,918	\$717	24.6
Winema	\$4,286	\$343	8.0

Source: GAO's presentation of the Forest Service's data.

The remaining reforestation obligations are provided for the district's reforestation projects. While the districts incur some administrative and support costs, most of the reforestation funds are used for such items as planting contracts, vehicles for traveling to reforestation sites, materials for activities such as animal damage control and site preparation, and reforestation staff. For fiscal year 1994, the four districts obligated over \$1.3 million to reforest 4,389 acres. Table II.3 identifies the obligations for the four districts we visited.

Table II.3: Four District Offices' Reforestation Obligations, Fiscal Year 1994

Dollars in thousands

District—national forest	Reforestation obligations	Acres of reforestation work
Custer District—Black Hills National Forest	\$91	2,045
Oden District—Ouachita National Forest	\$50	338
Island Park District—Targhee National Forest	\$522	865
Chemult District—Winema National Forest	\$635	1,141

Source: GAO's presentation of the Forest Service's data.

Comments From the Department of Agriculture



United States
Department of
Agriculture

Office
of the
Secretary

Office of Budget
and Program
Analysis

Washington,
D.C.
20250

APR 25 1996

Mr. Victor S. Rezendes
Director
Energy, Resources, and Science Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Rezendes:

Thank you for the opportunity to comment on the draft GAO report Forest Service Reforestation Funding: Financial Sources, Uses, and Condition of the Knutson-Vandenberg Fund. We have several concerns.

In discussing the Knutson-Vandenberg Trust Fund (KV) advances to the firefighting account, the report on several occasions makes statements similar to the language on page 4: "However, the Department of Agriculture has not requested appropriations from the Congress to restore these funds and the Forest Service continues to operate the program as if the transfers had not occurred." Under the Budget and Accounting Act of 1921, 31 U.S.C. 1105, it is the President who submits budget proposals to the Congress. The Department can only make a request to the Office of Management and Budget to restore funds, and we have done so.

The report consistently characterizes the use of KV for firefighting as a "transfer." It is not. The administrative provision contained in Interior Appropriations Acts authorizes the "advance" of funds. A transfer implies the permanent movement of budgetary resources from one account to another. An advance has the connotation that there is a responsibility to restore budgetary resources to the donating account.

On several occasions, the draft report notes that \$420 million in KV funds were "transferred" for firefighting in fiscal years 1990, 1992, and 1995 but have not yet been repaid. This serves as the basis for the recurring implication that something should be done about the operation of the KV program as a result. For example, on page 29 the draft report states: "The Forest Service has not developed a plan or strategy to reduce planned projects commensurate with the fund's actual balance." At this time, we see no reason why the fact that some advances have not yet been repaid should affect the program's current or near-term operations. So long as there are adequate unobligated balances and receipts to finance the year's plan of work, there is no need to "reduce planned projects." This is borne out by the fact that over \$1.5 billion was advanced from the KV fund for firefighting in fiscal years 1988 through 1995, yet there were no reductions in KV accomplishments as a result. Sufficient balances were maintained in the account to accomplish the work that needed to be done.

Now on p. 24.

**Appendix III
Comments From the Department of
Agriculture**

Mr. Victor S. Rezendes

2

The report seems to presume that the KV funds advanced for firefighting will never be repaid. That is highly speculative. As recently as 1994, \$350 million was advanced from KV for firefighting and promptly repaid with funds made available in the 1995 Interior Appropriation -- as the draft report itself notes on page 30. This is not to say that substantial additional advances in a bad fire season could not affect KV operations. They could, but such a situation cannot be accurately predicted. The Department's current analysis is that if 1996 proves to be an average fire year, there should be no adverse effect on 1996 KV operations -- even if the outstanding \$420 million in advances is not repaid. In the longer term, we anticipate that KV expenditures will exceed collections for the next several years. Eventually this could force a reduction in KV operations if the advances are not repaid.

We believe that the draft report's recommendation on page 39 that the Department, "report to the Congress on the financial status of the Knutson-Vandenberg fund" is already adequately accomplished by the President's annual budget and the Forest Service Explanatory Notes. They display the unobligated balances at the beginning of the fiscal year, anticipated receipts, and anticipated obligations for the year. This permits a fairly straightforward analysis of the effects, if any, that advances for firefighting will have on the ability of the Forest Service to accomplish its planned KV program for that year.

The draft report also makes two related recommendations regarding a list of KV projects. First, it recommends that the proposed Secretary's financial status report discussed above show, "...the amount and type of Knutson-Vandenberg projects that will not be completed if the funds transferred to the Emergency Forest Service Firefighting Fund are not restored." Then in a separate recommendation, the report would have the Secretary direct the Chief of the Forest Service to: "Revise the list of planned Knutson-Vandenberg projects to take into account the actual Knutson-Vandenberg fund balance." We do not believe that these recommendations would provide useful information for policy decisions. At the same time, they could waste substantial resources that might better be used on program work. If such a project list were compiled, it would have to be constantly revised as projects on the list were accomplished -- despite the failure to repay advances. Every time additional advances were made or repaid the list would again have to be revised. We do agree with the views attributed to a Forest Service official on page 31 to the effect that if KV operations were curtailed there would be an emphasis on accomplishing reforestation projects. The report also cites internal agency guidance to that effect on page 33. Going beyond such a generic description to a display of modifications to thousands of projects across the Nation is unjustified.

Now on p. 34.

Now on p. 26.

Now on p. 30.

**Appendix III
Comments From the Department of
Agriculture**

Mr. Victor S. Rezendes

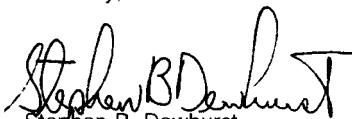
3

The Office of the Chief Financial Officer concurs with the view that no extraordinary actions need to be taken at this time and that no additional information needs to be furnished to Congress until or unless it is requested. That office also does not believe that project planning needs to be altered as a result of the firefighting advances, since they are valid receivables that Congress has the responsibility to restore.

We believe that the issue of restoring KV advances has been well understood for some time. In 1991, GAO issued the report: BUDGET ISSUES: Funding Alternatives for Fire-Fighting Activities at USDA and Interior, which responded to a request from the Chairmen of the House and Senate Budget Committees for alternative firefighting financing methods which would not disrupt other programs. That report included a discussion of advancing KV funds for firefighting, and noted that reforestation could be adversely affected if the advances were not repaid. The fact that there are currently balances which have not yet been repaid is a result of tight spending limits faced by both the Executive Branch and the Congress and not a result of inadequate information reporting.

Regarding the issues raised by the report with respect to accounting for KV funds, the Department disagrees with the implications of the statement on page 32 that: "The Forest Service information systems, however, do not provide the financial information and controls at the individual sale area level to ensure that K-V expenditures not exceed collections on individual sale areas." A 1991 Office of the General Counsel opinion on using excessive collections from one sale area to fund project work on another sale area was requested precisely because the agency's systems had identified excess balances related to individual sale areas. A more recent memorandum from the Office of the General Counsel, dated April 18, 1996, emphasized that while the requirement that collections from one sale area not be spent on another sale area was a matter of law, the precise accounting systems and administrative controls required to comply with the law are "properly within the realm of the Forest Service." Like all such systems, there are undoubtedly individual instances where prescribed procedures were not followed or where improvements can be made. The Office of the Chief Financial Officer advises that the current process of managing funds can be improved through automation and the development of a standardized national methodology approach for assuring that expenditures are limited to the amounts collected.

Sincerely,


Stephen B. Dewhurst
Director

Now on p. 29.

Comments From the Forest Service



United States
Department of
Agriculture

Forest
Service

Washington
Office

14th & Independence SW
P.O. Box 96090
Washington, DC 20090-6090

File Code: 1420

Date: MAY 3 1996

Mr. Victor S. Rezendes, Director
Energy, Resources, and Science Issues
U.S. General Accounting Office, RCED
441 G Street
Washington, DC 20548

Dear Mr. Rezendes:

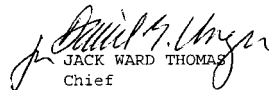
We have reviewed the draft report GAO/RCED-96-15, "Forest Service Reforestation Funding: Financial Sources, Uses, and Condition of the Knutson-Vandenberg Fund" draft report dated April 5, 1996. Our response to this report is enclosed.

We are providing both general comments concerning the key findings and recommendations emerging from this audit, as well as a more specific response to each of the recommendations contained in the report.

We appreciate the efforts by the individuals in the Resources, Community, and Economic Development Division, particularly the efforts on the part of the individuals in the Denver Regional Office who listened carefully to our personnel throughout this job. These individuals demonstrated a sincere commitment to responding to needs surfaced by our field personnel and a desire to offer recommendations which would help us in better managing K-V funds.

We also greatly appreciate the opportunity to comment on the draft report.


Sincerely,


JACK WARD THOMAS
Chief

Enclosure



Caring for the Land and Serving People

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**Appendix IV
Comments From the Forest Service**

U.S. General Accounting Office Draft Report RCED-96-15

**FOREST SERVICE REFORESTATION FUNDING:
Financial Sources, Uses, and Condition of the Knutson-Vandenberg Fund
April 5, 1996**

USDA Forest Service Comments

General Comments:

Forest Service Response:

The Forest Service does not agree with a basic premise in this report that the Knutson-Vandenberg (K-V) Act requires expenditures to be accounted for on a sale-by-sale basis. The Forest Service believes that this premise has shaped the audit findings and has led to recommended actions which are costly, burdensome, impractical and unnecessary to meet the requirements of the K-V Act.

The Forest Service agrees that the \$420 million of K-V funds advanced to the Emergency Forest Service Fire Fighting Fund (EFSFF), if not eventually restored, will affect accomplishment of planned K-V projects on National Forests and negatively affect the health the K-V fund. The Forest Service disagrees with statements contained in this report that convey the impression that we have not actively sought to get these funds repaid. The fact is that since 1990, a total of \$770 million was advanced from K-V to EFSFF and \$350 million has been repaid. A request for a supplemental appropriation to repay the balance was sent to the Office of Management and Budget by the Department on March 15, 1996.

The Forest Service believes that current procedures for accounting for K-V collections and expenditures, and the process currently used to annually determine the amount of excess K-V funding to return to the U.S. Treasury are in full compliance with the statutory requirements of the K-V Act. These procedures require that a sale area improvement (SAI) plan be prepared and approved for each timber sale. The SAI plan is constructed by estimating the cost of K-V funded work activities. SAI plans are reviewed annually to determine the need for adjustments in cost estimates and/or work activities to bring planned K-V work activities in line with K-V collections on each timber sale. Annual reviews of these plans feed directly into a yearly cash balance analysis of K-V accounts on each proclaimed National Forest. This analysis reveals any excess K-V funding for return to the U.S. Treasury, as required by law. The Forest Service believes that these accounting procedures are practical, cost-effective, and entirely consistent with the K-V Act itself, as well as interpretations and rulings rendered since the Act was passed.

The Forest Service agrees that there are opportunities to improve efficiency and consistency of application of our current K-V accounting procedures and agrees to pursue these opportunities.

The Forest Service agrees that improved direction is needed at the national level to better limit K-V expenditures associated with program support and agrees to implement this direction.

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Recommendation 1: To provide the Congress with the information it needs to consider any future requests for appropriations to restore previously transferred funds, we recommend that the Secretary of Agriculture report to the Congress on the financial status of the Knutson-Vandenberg fund and the amount and type of Knutson-Vandenberg projects that will not be completed if the funds transferred to the Emergency Forest Service Firefighting Fund (EFSFF) are not restored.

Forest Service Response: The Forest Service does not believe that compiling this information is necessary. Congress has previously restored K-V advances to the Emergency Forest Service Firefighting Fund (EFSFF) through supplemental appropriation without requiring this detailed information. The Forest Service can readily describe the programmatic consequences of a failure to restore these advances without imposing this administrative burden on our personnel. If Congress requests a listing of projects that will not be completed if K-V funds are not restored, the Forest Service will provide it.

Recommendation #2: Additionally, to help ensure that the most critical planned projects can be completed within existing fund limits, we recommend that the Secretary of Agriculture direct the Chief of the Forest Service to:

Recommendation #2a: Revise the list of planned Knutson-Vandenberg projects to take into account the actual Knutson-Vandenberg fund balance.

Forest Service Response: This recommendation appears to be based on speculative assumption that the amount still owed to the K-V fund will not be repaid and therefore must be immediately written off as uncollectable. The Forest Service will not undertake actions to eliminate any K-V funded renewable resource work from sale area improvement plans associated with the unrestored K-V amount unless directed by the Secretary or by Act of Congress. The Forest Service believes this action is unnecessary and undesirable and would violate statutory language contained in the K-V Act. The Act establishes a trust fund to enable K-V collections from timber sales to be expended on approved renewable resource work activities. The Forest Service believes that any effort to write this work off would violate the purpose for which this trust fund was established and would be likely to involve us in costly litigation. Furthermore, this recommendation implies that each advance of K-V funds to EFSFF would require a subsequent bookkeeping adjustment to eliminate K-V projects affected by the advance. The Forest Service is concerned that these bookkeeping adjustments would unnecessarily burden large numbers of our personnel with time-consuming revisions to tens of thousands of SAI plans. The Forest Service does not believe that it is prudent to incur the high costs associated with making revisions to SAI plans under the speculative assumption that advances would not be repaid to the K-V fund, only to have to revise these plans again when the advances were restored. The Forest Service believes that it can readily describe the programmatic consequences of a failure to restore these advances without imposing this administrative burden on our personnel and expending resources better utilized to do program work.

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Recommendation #2b: Perform, in consultation with the Chief Financial Officer, an analysis of alternatives (including costs and benefits of each alternative) to obtain financial data necessary to ensure that Knutson-Vandenberg trust fund expenditures in one sale area would be limited to the amounts collected from that area as required by the Knutson-Vandenberg Act.

Forest Service Response: The Forest Service does not agree there is a need to develop and analyze alternative procedures for consideration by the Secretary of Agriculture. The Forest Service believes that the procedures it currently utilizes for accounting for K-V collections and expenditures fully satisfy the requirements of the K-V Act. The Forest Service agrees to investigate ways to improve the efficiency and consistency in application of its current procedures for managing K-V funds.

Recommendation #2c: Require all organizational levels to use a standardized national methodology for assessing and withholding support costs for the Knutson-Vandenberg program that will limit expenditures for program support to the amounts collected for such purposes.

Forest Service Response: The Forest Service agrees to develop national direction to ensure a standardized approach is utilized to withhold K-V funds associated with support costs that will limit these expenditures to the amount collected.

Major Contributors to This Report

Energy, Resources, and Science Issues

Alan J. Dominicci
Linda L. Harmon
Susan E. Iott
John P. Murphy, Jr.
Cheryl L. Pilatzke
Pamela K. Tumler

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