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

September 1997

FOREST SERVICE

Actions Needed to Ensure That Salvage Sale Fund Is Adequately Managed

GAO/RCED-97-228

GAO

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

Resources, Community, and
Economic Development Division

B-277210

September 26, 1997

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

Dear Mr. Yates:

Sales of salvage timber—that is, timber that is insect-infested, dead, damaged, or downed—represented nearly half of all the timber offered for sale from the national forests in fiscal year 1996. Because nonsalvage timber offered for sale has declined significantly in recent years, the salvage sale volume offered is nearly double the proportion offered just 5 years ago. Because of this proportional increase, you asked us to obtain information about the fund used to prepare and administer these sales—the Salvage Sale Fund. In August 1996, we provided you with information on how the fund is used, its status, and its current and historical deposits and outlays.[1] As agreed with your office, this second report updates the status of the fund's balance and provides a more in-depth look at the management practices affecting the replenishment of the fund. Our analysis is based on nationwide data from the Forest Service and on a detailed review of the salvage sale programs at four national forests and the Forest Service regions that administer them.[2] (App. I contains a more detailed discussion of our scope and methodology.)

Results in Brief

After reaching a high of $247 million at the end of fiscal year 1993, the Salvage Sale Fund's balance declined 25 percent to $186 million at the end of fiscal year 1996. The decline occurred for a variety of reasons, and the fund's balance appears to be stabilizing in fiscal year 1997. If the Forest Service's estimates are correct, the Salvage Sale Fund's balance will total about $182 million at the end of fiscal year 1997, a balance the Forest Service believes is sufficient to meet the estimated obligations for fiscal year 1998.

[1]Salvage Sale Fund's Deposits and Outlays (GAO/RCED-96-240R, Aug. 22, 1996).

[2]The forests reviewed were the Clearwater National Forest in Idaho, the Stanislaus National Forest in California, the Umatilla National Forest in Oregon, and the Homochitto National Forest in Mississippi. The regions reviewed were the Northern Region, the Pacific Southwest Region, the Pacific Northwest Region, and the Southern Region.

Several management practices that affect the flow of salvage sale receipts into the Salvage Sale Fund need to be improved. Specifically, these practices include how regions and forests (1) establish priorities for distributing salvage timber sale receipts, (2) establish estimates of the costs to be recovered, (3) review salvage sale plans for completeness and accuracy, and (4) satisfactorily correct deficiencies.

Background

With a few exceptions, the volume of salvage timber the Forest Service has offered for sale has remained fairly constant over the years. However, as the green (or nonsalvage) timber sale program has decreased in size, the salvage sale program has increased as a percentage of the total volume offered for sale. For example, even though the actual salvage timber offered for sale declined from about 2.9 billion board feet to 1.9 billion board feet in 1990 through 1996, it actually increased as a percent of total timber offered for sale from about 26 percent to 48 percent during this same period.

The National Forest Management Act of 1976, as amended (16 U.S.C. 472a[h]), established the Salvage Sale Fund as a permanent appropriation, and the Congress appropriated $3 million in fiscal year 1977 to get it started. The act authorized the Secretary of Agriculture to require timber purchasers to make deposits into the Salvage Sale Fund as part of the payment for the timber. Such deposits are then available to replenish the fund and pay for the costs of preparing and administering future salvage sales. As appropriations to fund the overall timber program have decreased, the importance of the Salvage Sale Fund as a source of funding has increased. For example, in fiscal year 1990, moneys from the Salvage Sale Fund represented 20 percent of all funds needed for the green and salvage timber programs, but by fiscal year 1996, the amount had risen to 45 percent.

The Salvage Sale Fund is not the only fund in which salvage sale timber receipts are deposited. Salvage sale receipts not used to recover costs may be deposited into (1) the Knutson-Vandenberg (K-V) Fund, where they are used to reforest harvested timberlands, and (2) the National Forest Fund, where they can be used to make required payments to the states, the Roads and Trails Fund, and other obligations. Under federal law, at the end of each fiscal year, 25 percent of all moneys received at each national forest, including moneys received from salvage sales, is to be paid to the state in which the forest is located. These funds are to be expended for public roads and schools. Federal law also requires that at the end of the

fiscal year, 10 percent of all moneys received is to be deposited into the Roads and Trails Fund. These funds are to be expended for roads and trails in the forests from which the moneys were derived.

The Forest Service's guidelines require that a plan be prepared for each salvage sale or group of small sales. This plan determines the amount of receipts to be deposited into the Salvage Sale Fund to recover the sale's costs. Specifically, the salvage sale plan identifies the sale's volume, the sale's direct and indirect costs, and any additional amount that may be collected to meet future program needs. The salvage sale plan is the only document in which these costs are estimated and identified on a sale-by-sale basis. The Forest Service's accounting systems do not track actual sale-by-sale costs.

After a Three-Year Decline, the Salvage Sale Fund's Balance Appears to Be Stabilizing in 1997

The history of the Salvage Sale Fund has been one of a growing balance through fiscal year 1993 and then a declining balance for the next 3 years. From the start of fiscal year 1990 through the end of fiscal year 1993, the Salvage Sale Fund's balance more than doubled, from $111 million to a high of $247 million (see table 1). Declines through fiscal year 1996 lowered the balance to $186 million, a drop of 25 percent.

Table 1: The Salvage Sale Fund's Ending Balance, Fiscal Years 1989 Through 1997

Dollars in millions

Fiscal year	Unobligated fund balance at end of the fiscal year
1989	$111
1990	162
1991	182
1992	223
1993	247
1994	229
1995	210
1996	186
1997(est.)	182

The fund's ending balance declined from fiscal years 1994 through 1996 for the following reasons:

- In fiscal year 1994, $40.2 million of the fund's balance was considered excess to the salvage sale program's anticipated needs and was used for other authorized purposes.

- During fiscal year 1994, salvage timber offered for sale declined to its lowest level in almost 10 years. As a result, less salvage sale receipts were collected from these sales in fiscal years 1995 and 1996.

- In fiscal year 1995, the emergency salvage timber sale program was implemented and additional costs were incurred to prepare and administer sales that would generate receipts largely in future years.[3]

- In fiscal year 1996, as costs for the emergency salvage timber sale program continued to rise, the Forest Service deposited $35.6 million originally intended for the Salvage Sale Fund into the National Forest Fund to cover a shortage in the funds needed to make the payment to the states and other obligations.[4] In addition, Forest Service officials stated that lowered receipts resulted from the volume offered under the emergency salvage program because the salvage timber was of lower quality.

Because the fund's balance had declined for 3 years and because the salvage sale program's obligations for the last 2 years exceeded deposits to the Salvage Sale Fund by more than $30 million, we asked Forest Service officials to provide us with information about the agency's ability to meet the salvage sale program's future needs with available funding levels. They told us that the Salvage Sale Fund's obligations for fiscal year 1997 and 1998 will be much lower than those in fiscal year 1996 because they expect a lower volume of salvage timber to be offered for sale. In addition, the Forest Service projects that in fiscal year 1997, about $167 million in salvage sale receipts will be deposited into the fund to cover an estimated $172 million in obligations. Forest Service officials expect the fund's fiscal year 1997 ending balance to be about $182 million, an amount they consider sufficient to meet expected needs of $153 million in fiscal year 1998.

[3]Under the emergency salvage program, established by the Congress in 1995, the Forest Service offered 4.6 billion board feet of salvage timber that was 1.2 billion board feet more than originally proposed by the Forest Service before the emergency program.

[4]For a detailed discussion of the reasons for the funding shortage, see Forest Service: Unauthorized Use of the National Forest Fund (GAO/RCED-97-216, Aug. 29, 1997).

Several Management Practices Affect How the Fund Is Replenished

Several management practices that affect the flow of salvage sale receipts into the fund need to be improved to ensure more consistency in the salvage sale program. Specifically, these practices include how regions and forests (1) establish priorities for distributing salvage sale receipts, (2) establish estimates of costs to be recovered, (3) review salvage sale plans for completeness and accuracy, and (4) satisfactorily correct deficiencies.

Priorities for Distributing Salvage Sale Receipts Need Clarification in Policy Guidance

When timber sale receipts were at much higher levels, Forest Service regional and forest-level officials decided how to distribute receipts. As a result, none of the four forests we visited distributed salvage sale receipts in the same order or complied with the legislative distribution priorities. Recently, however, declining timber receipts, combined with concerns about meeting all required obligations, resulted in headquarters actions to clarify how receipts should be distributed. It is not yet clear whether these clarifications will ensure that regions and forests handle the distributions of receipts in keeping with the different legislative priorities applicable to salvage and green sale receipts. If the separate legislative priorities are not applied, salvage sale receipts could be used for other purposes before the fund is replenished to cover costs.

Legislative Priorities for Distributing Salvage Sale Receipts

The first legislative priority for the distribution of timber sale receipts is the required 25-percent payment to the states. Even though the 25-percent requirement applies to receipts from both salvage and green sales, it does not require that the payment be made from the same source that generated the receipts. For example, if the receipts from green sales are sufficient, then they may be used to make the payment to the states that are attributable to salvage sales.

There is one basic difference in how salvage sale receipts and green sale receipts are to be handled once the 25-percent requirement is met: Salvage sale receipts must be deposited into the Salvage Sale Fund until the sale's preparation and administration costs are recovered. This deposit must occur from salvage sale receipts because receipts from the sale of green timber may not be deposited to the Salvage Sale Fund. Once salvage sale costs are recovered, any remaining salvage sale receipts may then be deposited in accordance with the priorities attributable to green sales.

Forest Service Is Developing Guidance to Clarify Priorities

Since September 1996, the Forest Service has made several attempts to clarify how timber sale receipts should be distributed. These include amendments to the manual and the handbook as well as both interim and

draft guidelines. The Forest Service issued interim guidelines in January 1997 to provide guidance until a task force developed and completed national guidelines. This task force issued its first draft in June 1997, a second draft in August, and a final report on August 28, 1997. However, none of these documents—the amendments, the interim or draft guidelines, or the final task force report—clearly illustrated the separate priorities existing for the distribution of salvage and green timber sale receipts.

In its report, the task force recommended establishing priority groups to distribute timber receipts. For example, the first priority group includes required commitments for the payments to the states, the payment to roads and trails, the payments for the next year's planned purchaser-elect road program,[5] and the recovery of required K-V reforestation costs. The second priority group includes the regional and local needs of the Salvage Sale Fund and other reforestation activities. However, the priority groupings do not show that, unlike green sale receipts, deposits to the Salvage Sale Fund must be made to recover costs before the identified K-V reforestation requirements are satisfied. If receipts are set aside for other activities before salvage sale costs are recovered, the amount remaining may be insufficient to adequately replenish the fund.

Practices Used by Regions and Forests Raise Concern About Whether Priorities Will Be Followed

The task force's report has been sent to the regions for implementation. How it will be implemented and interpreted remains to be determined. The four regions we reviewed were all responding in different ways to the interim guidance they had received:

- Officials in the Southern Region stated that because the region has always met the payments to the states and the other required payments, they saw no reason to change their established priorities as a result of the interim guidance. The region and the forests will monitor the situation to ensure that the National Forest Fund can meet all of its obligations, but the forests will continue to decide how to distribute timber sale receipts.

- The Pacific Northwest Region and the Northern Region have adopted regional policies similar to those in the task force's June draft, except that the priorities within the first category have been reordered. For example, required reforestation is listed before the payments to the states.

- The Pacific Southwest Region is following the January interim guidance.

[5]Under the National Forest Management Act of 1976, certain small purchasers may elect to have the Forest Service build the roads necessary to access the timber. These are referred to as "purchaser-elect" roads.

We reviewed the task force's final report, including the new guidance, which clearly identifies the 25-percent payment to the states as the first priority and the appropriate source of funding for the Roads and Trails Fund, both of which were not always clear in earlier guidance. However, the relative priority of distributing receipts from salvage sales to the Salvage Sale Fund and to the K-V Fund remains unclear. For example, the guidance states that the Salvage Sale Fund takes priority over the K-V Fund for salvage sale receipts but later states that if insufficient value is received on a salvage sale to fund the needs of both the Salvage Sale Fund and the K-V Fund, then a decision must be made as to which fund will take priority. In addition, the transmittal letter leaves the relative priority between the Salvage Sale Fund and K-V Fund to the discretion of the responsible line officer. These statements could easily lead to continued confusion. Consequently, we remain concerned about whether the final version of the guidance will be clear enough to be correctly interpreted or consistently implemented by those who must use it. Our concern stems in part from the variety of regional practices we found for the interpretation and implementation of the interim and draft guidelines as well as for the other problems discussed below.

Inconsistencies in Cost Development

A critical step in replenishing the Salvage Sale Fund is accurately estimating the amounts necessary to reimburse the fund for direct and indirect sale costs. Because the Forest Service does not account for actual costs on a sale-by-sale basis, these costs must be estimated using cost information from previous years. While these estimates are used to determine what can be deposited into the Salvage Sale Fund, the Forest Service has not provided detailed guidance on how these costs should be determined. The method used to estimate costs is left to the regions, which, in turn, often pass this decision along to the individual forests. This practice has led to a variety of cost development methods.

At the four forests we reviewed, four different cost development methods were used. For salvage sales awarded in fiscal year 1995, the Clearwater National Forest developed costs using a 3-year average of cost data taken from the accrual-based Timber Sale Program Information and Reporting System;[6] the Umatilla National Forest used fiscal year 1992 expenditure data taken from the cash-based Central Accounting System; the Stanislaus National Forest used a 3-year average of the Central Accounting System

[6]The reporting system presents financial and long-term economic information for each national forest timber sale program.

expenditure data; and the Homochitto National Forest developed its own cost estimates on the basis of its experience.

The Forest Service does not account for costs on a sale-by-sale basis, and as a result, the method chosen to estimate these costs can have a substantial impact on the amount to be deposited in the fund. As the size of the salvage sale program changes, the costs associated with it rise and fall. Thus, the costs selected and the period chosen can have a significant effect on the amount identified as needed to replenish the fund. For example, if the Umatilla National Forest had used the 3-year average method utilized by the Stanislaus National Forest, its identified costs would have been $1.3 million instead of the $367,223 actually claimed. By selecting a method that incorrectly estimates the program's cost, a forest runs the risk of not setting aside the amount necessary to finance the program in the future. (For a table showing the total costs for the sales examined in the four forests we reviewed, see app. II.)

Inadequate Review of Salvage Sale Plans Permits Errors

Forests need to accurately prepare salvage sale plans because these documents serve as the basis for depositing available receipts to the Salvage Sale Fund. At the four forests we reviewed, however, we found numerous errors. For example, (1) regional and headquarters overhead had not been included in the indirect costs, (2) overhead was calculated on overhead, (3) incorrect volumes were listed, (4) excessive allowable surcharges were calculated, and (5) basic computational errors were made. These errors and omissions point to a lack of adequate review of the salvage sale plans by managers at the forest and regional levels.

The effect of these errors varied, understating costs in some places and overstating them in others. For example, of the 16 sales reviewed at the Umatilla National Forest, 6 overstated indirect costs and 7 understated them. The overall impact was an overstatement of about $21,000. At the Stanislaus National Forest, the program's future needs were based on 150 percent of direct and indirect costs instead of the 50 percent permitted by the Forest Service's handbook; this calculation overstated the amounts to be collected for the nine sales reviewed by almost $150,000. Furthermore, this incorrect calculation method has been in effect since at least 1991.

We also found instances in which salvage sale plans were never prepared. At the Homochitto National Forest, 3 of the 19 sales we reviewed had no plan. Without a plan, there is no basis for distributing any receipts to the

Salvage Sale Fund. This omission at the Homochitto National Forest cost the Salvage Sale Fund about $19,000 in deposits.

Monitoring Efforts Identify Problems, but Resolution Requires Follow-Up

Over the past 5 years, both the U.S. Department of Agriculture's Office of Inspector General and various regional and headquarters teams within the Forest Service have reviewed the salvage sale program. These reviews have reported many management weaknesses similar to those we identified. However, many of these management weaknesses persist because the Forest Service has not communicated the results of these reviews to all regions or adequately followed up to ensure that corrective actions are taken.

Responses to Inspector General's Findings Insufficient to Ensure Corrective Action

In 1992, the Office of Inspector General audited three Forest Service regions to determine whether the salvage sale program complied with the applicable laws and regulations and whether collections and receipts were appropriate. Among other things, the Inspector General found that

- the guidelines and monitoring of the salvage sale program were inadequate,
- improvements were needed in the management and in the collection of salvage sale funds, and
- controls over expenditures charged to the salvage sale program were inadequate.

To correct these problems, the Inspector General recommended that the Forest Service provide detailed instructions to its field offices on the management of the salvage sale program and that the program be monitored on a regular basis. The Inspector General also recommended that detailed and specific instructions be established for the preparation of salvage sale plans in addressing allowable direct costs, the calculation of indirect costs, and permissible excess collections.

In response to these recommendations, the Forest Service updated and clarified its manual and handbook and agreed to schedule additional reviews of its salvage sale program. However, at the four forests and regions that we reviewed, neither the guidance nor the monitoring is specific enough to address the problems we found. For example, while the guidance requires that estimated costs be included in salvage sale plans, it does not state how estimates should be calculated. The guidance also requires that costs be updated, but it does not state how or on what basis. The monitoring system put in place does not include provisions requiring

follow-up to ensure that problems are corrected or that the weaknesses, problems, or best practices identified in one office are communicated throughout the agency so that changes can be made everywhere they are needed.

Problems Identified in Internal Reviews Often Remain Uncorrected

The Forest Service conducts its own reviews of the salvage sale program by annually selecting one or two regional offices for in-depth analysis. During these reviews, headquarters and regional officials visit selected forests and examine guidelines, program direction, and accounting procedures. However, the problems or best practices identified during these reviews are not communicated throughout the agency so that changes can be made where needed. Consequently, the problems identified during a 1992 review were also identified as problems 3 years later in another region.

Since 1992, each region that we visited had been selected for review. The Forest Service review teams found many of the same problems we identified, including

- incorrect calculation and updating of direct and indirect costs,
- inconsistent priorities in distributing salvage sale funds,
- failure to update salvage sale plans, and
- failure to collect the correct amount for the program's future needs.

Action plans were prepared to address the problems uncovered by the reviews, but the Forest Service did not share this information with other regions or do the follow-up necessary to ensure that the weaknesses were actually corrected. For example, when we asked Southern Region officials about the status of the action items in their September 1995 review, we were told that many of the items in the review that were targeted for completion by June 1996 were still open in June 1997. Headquarters officials said that because of limited staff, they seldom follow up to ensure that the problems are corrected, and they also do not report the results of their reviews to other regions. They said that they rely on regional officials to report on the status of corrective actions and that they would follow up on specific weaknesses during their next review.

Task Force's Efforts Carry No Assurance of Effective Implementation

The Forest Service has established two task forces whose work may help improve some of the management practices affecting Salvage Sale Fund replenishment. The first task force, dealing with funding priorities, has already been discussed. The other task force is developing directions for calculating indirect costs, improving internal management controls over

indirect costs, and identifying ways to best manage the K-V Fund. Forest Service officials expect, however, that some of these findings will be applicable to the management of the Salvage Sale Fund. Forest Service officials stated that the issuance date for the task force's report is uncertain at this time.

Over the years, the Forest Service has often used task forces to identify problems and recommend solutions. The results of these task forces' studies, like those of activity reviews, are often thorough and constructive, and they could do much to correct identified problems if the recommendations were communicated and implemented. As we have pointed out, however, regions and forests do not always carry out suggestions or recommendations for change.

As we stated in our testimony of July 31, 1997,[7] the highly decentralized management structure of the Forest Service gives managers considerable autonomy and discretion for interpreting and applying the agency's policies and directions. As a result, it will be a significant challenge for the Forest Service to ensure that the recommendations made by the two task forces will be fully and consistently implemented throughout the agency.

Conclusions

The actions taken by the Forest Service in the past year to improve the management of the Salvage Sale Fund show a willingness to correct identified weaknesses. Task forces have completed the new guidance for the distribution of timber sale receipts and are identifying ways in which the management of the Salvage Sale Fund can be improved. Substantial progress has been made. The guidance on priorities, however, needs additional clarification to ensure compliance with the legislative priorities for the distribution of salvage sale receipts. In addition, concerns about management practices affecting fund replenishment still need to be resolved and corrective action implemented. The need for consistent action requires that the guidance include the identification of appropriate data sources, cost calculation methods, and specific monitoring and feedback activities. In addition, the correction of individual mistakes or errors may not result in solving systemic problems. When reviews identify best practices or mistakes, some mechanism is needed to communicate this information throughout the agency so that all locations benefit.

[7]The Results Act: Observations on the Forest Service's May 1997 Draft Plan (GAO/T-RCED-97-223, July 31, 1997).

Recommendations

To help ensure that appropriate and consistent practices are in place to manage the Salvage Sale Fund, we recommend that the Secretary of Agriculture direct the Chief of the Forest Service to take the following actions:

- Clarify the agency's guidance to emphasize that the Salvage Sale Fund takes priority over the K-V Fund for the distribution of salvage sale receipts until preparation and administration costs have been recovered.
- Establish national guidance that identifies acceptable data sources and methods for calculating the cost estimates that determine the fund's replenishment requirements.
- Establish national procedures to ensure that salvage sale plans will be adequately reviewed to detect errors.
- Develop national follow-up procedures to ensure that errors, problems, or best practices found in one location are communicated, corrected, or implemented everywhere.

Agency Comments

We provided a draft of this report to the Forest Service for review and comment. The Forest Service said that the report accurately and fairly presented the information about the fund's balance and the management practices affecting the replenishment of the fund. The Forest Service agreed with the recommendations for corrective action.

Objectives, Scope, and Methodology

To respond to the assignment objectives, we reviewed pertinent legislation, the agency's guidance, the agency's financial records, monitoring reports, and selected salvage sales. We spoke with representatives from Forest Service headquarters, four regional offices, and four national forest offices to discuss how the Forest Service manages the Salvage Sale Fund. We conducted our work from September 1996 through September 1997 in accordance with generally accepted government auditing standards. Appendix I provides a detailed discussion of our scope and methodology.

We are sending copies of this report to the Secretary of Agriculture, the Chief of the Forest Service, the Director, Office of Management and

Budget, and appropriate congressional committees. We will also make copies available to others upon request.

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

Sincerely yours,

James K. Meissner

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

Contents

Letter 1

Appendix I Objectives, Scope, and Methodology 16

Appendix II Costs of Sales at the Four Forests Reviewed 19

Appendix III Major Contributors to This Report 20

Tables

Table 1: The Salvage Sale Fund's Ending Balance, Fiscal Years 1989 Through 1997 3

Table I.1: Forests, Location and Regions 17

Abbreviations

K-V Knutson-Vandenberg

Objectives, Scope, and Methodology

Sales of salvage timber represented nearly half of all timber offered for sale in fiscal year 1996. Because of this increase in salvage sales, the Ranking Minority Member, Subcommittee on Interior and Related Agencies, House Committee on Appropriations, asked us to provide information on the status of the fund's balance and the management practices used by the Forest Service to replenish the Salvage Sale Fund. We agreed to provide this information in two phases. In phase one, we provided information on the uses and status of the fund and compared the timber sales receipts deposited in the Salvage Sale Fund to the outlays from the fund on a national, regional, and forest-level basis for fiscal years 1991 through 1995.[8] The second phase provides a more in-depth assessment of the current status of the fund's balance and the adequacy of the Forest Service's efforts to replenish and manage the fund.

To obtain information on the current status of the Salvage Sale Fund's balance, we requested information on fiscal year 1996 receipts, expenditures, and the fund's ending balance and reviewed the Forest Service's fiscal year 1997 projections for salvage sale deposits and obligations. In addition, we spoke with the Department of Agriculture's Office of General Counsel to establish the legislative distribution priorities for salvage sale receipts.

To obtain information on the adequacy of management practices affecting the replenishment of the fund, we spoke with agency officials at all organizational levels. We also reviewed the agency's guidance, financial records, and monitoring reports along with applicable laws and their legislative history. Specifically, we interviewed representatives from the Forest Management, Budgeting, and Financial Management offices at Forest Service headquarters, four regional offices, and four forest offices.

The four regions we selected were chosen because they had large salvage sale programs, provided wide geographic coverage, and had a variety of salvage conditions ranging from fires to insect infestation. Within each region, one forest was selected for detailed review. Two of the forests—the Clearwater and Stanislaus—were chosen because they were included in our recent review of the emergency salvage sale program.[9] We selected the Homochitto National Forest, within the National Forests in Mississippi, because of the extensive Southern Pine Beetle epidemic in

[8]Salvage Sale Fund's Deposits and Outlays (GAO/RCED-96-240R, Aug. 22, 1996).

[9]Emergency Salvage Sale Program: Forest Service Met Its Target, but More Timber Could Have Been Offered for Sale (GAO/RCED-97-53, Feb. 24, 1997).

fiscal year 1995 and the resulting large salvage sale program.[10] Finally, we selected the Umatilla National Forest in Oregon because it had a large salvage sale program and had not been reviewed by GAO in recent years. Table I.1 provides the forests' names, locations, and regions.

Table I.1: Forests, Location and Regions

Forest	Location	Region
Clearwater	Orofino, Idaho	Northern Missoula, MT
Homochitto	Meadville, Mississippi	Southern Atlanta, GA
National Forests in Mississippi	Jackson, Mississippi	Southern Atlanta, GA
Stanislaus	Sonora, California	Pacific Southwest San Francisco, CA
Umatilla	Pendleton, Oregon	Pacific Northwest Portland, OR

We examined the Forest Service's handbooks and manuals for guidance on how to develop direct and indirect salvage sale cost rates, distribute salvage sales receipts, develop salvage sale program budgets, and prepare individual salvage sale plans. To ascertain how this guidance was used, we performed a detailed review of the salvage sales awarded at the four forests in fiscal year 1995. Fiscal year 1995 was selected because most sales were prepared before the major impact of the emergency salvage sale program and because enough time had elapsed for many of the sales to be completed. For the Clearwater, Stanislaus, and Umatilla National Forests, we selected all salvage sales awarded in fiscal year 1995. Because of the extensive beetle epidemic in 1995, the Homochitto awarded more than 800 timber sale contracts and permits to sell the timber volume necessary to accomplish its salvage sale program. Because we were testing the system rather than extrapolating our findings to the whole, we randomly selected 13 contracts and 6 permits for detailed review.

Our review of the salvage sale files also included examining pertinent data on sales volumes, the salvage sales' collection plans, the sale areas' improvement plans, and financial documents showing how the receipts were distributed among the various Forest Service funds. Because the Forest Service does not have a sale-by-sale accounting system, we used data on forest-level obligations as the basis for determining the charges to the Salvage Sale Fund. We did not perform a financial audit of these data,

[10]While the Homochitto National Forest is a proclaimed national forest, for administrative purposes it is considered a ranger district within the National Forests in Mississippi.

nor did we independently verify or test the reliability of the deposits, the fund's balance, or other Forest Service-supplied data. However, the Forest Service's financial statement audit reports for fiscal years 1992 through 1995 revealed significant internal control weaknesses in various accounting subsystems that resulted in unreliable accounting data, including timber-related data. Even with these weaknesses, we used the data because they were the only data available.

We reviewed the agency-conducted activity reviews completed since fiscal year 1992 to determine whether the deficiencies we noted were similar to those identified internally. We then determined whether corrective action plans were developed and implemented. Finally, we reviewed the Department of Agriculture's Office of Inspector General's report issued in 1993 on the Forest Service's Salvage Sale Fund and reviewed the documents provided by the Inspector General that explain the corrective actions taken by the Forest Service in response to the Inspector General's recommendations.

We conducted our review from September 1996 through September 1997 in accordance with generally accepted government auditing standards.

Costs of Sales at the Four Forests Reviewed

Volumes in thousands of board feet

	National Forest			
Cost category	**Clearwater (5 sales)**	**Stanislaus (13 sales)[a]**	**Umatilla (16 sales)**	**Homochitto (16 sales)[b]**
Sales preparation	$86,192	$96,700	$173,379	$43,514
Sales administration	12,702	56,784	43,025	22,237
Road costs	46,670	0	0	0
Indirect costs	40,315	43,741	150,804	28,882
Total	$185,879	$197,225	$367,208	$94,633
Volume offered	1,199	3,065	5,499	3,430

[a]We reviewed one additional sale, but the forest had not prepared a salvage sale plan as required. Therefore, the estimated costs associated with this sale could not be determined because the Forest Service does not maintain a sale-by-sale accounting system.

[b]We reviewed three additional sales, but the forest had not prepared a salvage sale plan as required. Therefore, the estimated costs associated with these sales could not be determined.

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