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FOREST SERVICE

Effect of H.R. 4149 on
Indirect Expenditures
Charged to Four Funds

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Mr. Chairman and Members of the Committee:

We appreciate the opportunity to provide comments for the record on H.R. 4149, The Forest Service Cost Reduction and Fiscal Accountability Act of 1998. Our comments focus on those provisions in H.R. 4149 that would reduce indirect expenditures (i.e., expenditures that cannot be identified with a single project activity) in managing the National Forest System. Our observations are drawn from work that we have completed over the past year on costs in certain funds, including “off-budget” funds (i.e., funds other than direct appropriations such as the Brush Disposal Fund, the Cooperative Work—Knutson-Vandenberg Fund—commonly called the K-V Fund, the Reforestation Trust Fund, and the Salvage Sale Fund),¹ and on the Forest Service’s response to earlier funding restrictions.² Specifically, this statement discusses H.R. 4149’s impact in (1) increasing the visibility of indirect expenditures, (2) charging indirect expenditures to off-budget funds, and (3) whether eliminating indirect expenditures from off-budget funds would reduce overall Forest Service indirect expenditures.

In summary, we found the following with regard to H.R. 4149’s likely impact:

- H.R. 4149 includes several provisions which would increase the visibility of indirect expenditures, thereby addressing weaknesses we identified in the Forest Service’s management of these expenditures during prior audit work. These provisions would require the Forest Service, as part of its budget request, to estimate future indirect expenditures, compare them against expenditures in prior years, and identify how indirect expenditures would be affected by any changes being made in definitions or accounting practices. The Forest Service would also be required to develop a strategic plan for decreasing indirect expenditures.
- H.R. 4149 would have a substantial impact on the Forest Service’s ability to obtain funding for indirect expenditures from off-budget funds. It would reduce indirect expenditures charged to off-budget funds within 90 days of its enactment and eliminate off-budget funds entirely as a funding source for indirect expenditures within the second full fiscal year. On the basis of the indirect expenditures charged to four of these funds in 1997, more than \$115 million in indirect expenditures would have to be eliminated within 2

¹Forest Service: Indirect Expenditures Charged to Five Funds (GAO/T-RCED-98-214, June 4, 1998); Forest Service: Indirect Expenditures Charged to Five Funds (GAO/RCED-98-164R, May 6, 1998).

²Forest Service: Review of the Alaska Region’s Operating Costs (GAO/RCED-98-106R, March 31, 1998).

years or shifted to some other funding sources.

- Although H.R. 4149 would restrict funding sources the Forest Service could use for indirect expenditures, the extent to which its provisions would actually reduce these expenditures overall is unknown. H.R. 4149 provides the Forest Service with significant flexibility in how it could meet the required elimination of indirect charges from off-budget funds. Our previous work has shown that the Forest Service has used such flexibility to comply with funding restrictions without actually reducing costs. Rather than making reductions, the Forest Service has redefined the costs or shifted them to another funding category. It is likely that similar redefinitions and shifting will occur in this case, given the short time frame allowed to reduce indirect expenditures, the magnitude of the reductions required, and the difficulty of eliminating some expenditures the Forest Service places in this category, such as those for rent, utilities, and computers—all of which are common expenditures associated with Forest Service programs.

Background

The Forest Service generally obtains its funding partly from appropriations made directly by the Congress and partly from trust and other funds established to cover certain activities such as reforestation, brush removal, and sales of salvage timber. These other funds are referred to as off-budget funds because they are not annually appropriated. Rather, they are trust funds or permanent appropriations administered by the Forest Service. Within each funding source, the Forest Service places indirect expenditures into a specific account for “Indirect Support Activities.” The Forest Service Handbook explains that expenditures to be included in this account are those expenditures “that cannot be readily identified specifically with a single project activity in a feasible manner.” For example, forest supervisors involved with overall forest management would charge their time to indirect support activities, whereas staff preparing a timber sale would charge their time to that specific project.

The Forest Service’s guidance calls for including the following three categories of work under indirect support activities:

- Line management. This category is for costs related to line officers and their identified support staff. Line officers include district rangers, forest supervisors, regional foresters, and specifically named Washington Office positions. Costs that can be assigned include salary, travel, training,

vehicle use, and secretarial support costs.

- **Common services.** This category is for the nonpersonnel costs associated with providing space and a working environment for employees. It includes such costs as those for rent, utilities, communications, radio, office and computer equipment, mail and postage, office supplies, and forms.
- **Program support.** This category is for costs to coordinate, manage, and/or execute a program, business activities, community involvement, and common service activities. It includes the salary, travel, training, and vehicle use of employees involved with the coordination and management of program support.

For this testimony we concentrated on four off-budget funds—the Brush Disposal Fund, the K-V Fund, the Reforestation Trust Fund, and the Salvage Sale Fund — these are described in appendix I. Collectively, these four funds accounted for about \$400 million in total expenditures in fiscal year 1997. As reported by the Forest Service³, indirect expenditures accounted for more than 20 percent of total expenditures in all four funds in fiscal year 1995. See appendix II for a summary of the indirect expenditures made in each of the four funds for fiscal years 1993 through 1997.

H.R. 4149 Would Increase Visibility of Indirect Expenditures

H.R. 4149 contains several provisions that would increase the visibility of indirect expenditures. Among the main provisions are the following:

- As part of the annual budget request, a disclosure identifying indirect expenditures by line item or program and comparing them with expenditures for the past 3 years.
- An addendum to the annual budget request that would identify changes in the definition of or the method of accounting for indirect expenditures.
- A strategic plan that would include a schedule for eliminating indirect expenditures from off-budget funds and a framework for establishing and achieving a 5-year goal for reducing indirect expenditures for each Forest

³As we have reported previously, we continue to have concerns about the reliability of the Forest Service's financial information in general. Some areas of questionable reliability include real property valuation and revenue accounting, which may not affect the data used in this statement. We recently reported on these concerns in *Forest Service: Status of Progress Toward Financial Accountability* (GAO/AIMD-98-84, Feb. 27, 1998).

Service program. Washington, regional, forest, and ranger district offices would all be required to reduce their indirect expenditures.

Each of these provisions would respond to weaknesses that we have identified in the Forest Service's management of off-budget funds during prior audit work. During fiscal years 1993-97, the Forest Service initiated many changes in how it accounted for indirect expenditures, such as changing the definition of them and reclassifying how expenditures were charged. While the Forest Service has reported what was covered under different indirect costs with each redefinition, it has not made a practice of identifying how the definitions changed from year to year or the dollar impacts of the changes. Even though these changes produced significant increases in indirect expenditure rates and in the amounts of these expenditures charged to the funds we reviewed, Forest Service officials responsible for program development and budget, financial management, and forest management were generally unaware of the increases that had occurred because they had not monitored the increase in indirect expenditures.

H.R. 4149 Would Substantially Revise Forest Service's Sources of Funding for Indirect Expenditures

As proposed, H.R. 4149 would have an immediate effect on the four off-budget funds we examined. It limits indirect expenditures in off-budget funds to no more than 20 percent of total expenditures within 90 days of its enactment. In fiscal year 1997, all four funds had indirect expenditure rates above this threshold. If the definition of indirect expenditures remained the same and current expenditure patterns continued, some action to reduce or reclassify indirect expenditures would be necessary immediately. More significantly, H.R. 4149 would require that all indirect expenditures from off-budget funds be totally eliminated by the end of the second full fiscal year after enactment. This requirement would eliminate the Forest Service's practice of charging the off-budget funds with indirect expenditures, which in fiscal 1997 amounted to \$115 million.

These new limitations would substantially alter the trends we have observed in these funds. For example, for fiscal years 1993 through 1997, as total expenditures from the Brush Disposal Fund were decreasing from \$39.2 million to \$21.8 million, indirect expenditures rose from \$7.3 million to \$7.5 million, or from 19 percent to 34 percent of total expenditures. For the Salvage Sale Fund, where total expenditures rose from \$144 million in fiscal year 1993 to \$180 million in fiscal year 1997, the indirect expenditure rate also increased. For the Salvage Sale Fund, indirect expenditures rose

from \$21.9 million in 1993 to \$50.1 million in 1997, or from 15 percent to 28 percent of total expenditures.

H.R. 4149 Would Allow the Forest Service Substantial Flexibility in Shifting Indirect Expenditures

Beyond encouraging the use of private-sector contractors to improve cost-effectiveness of Forest Service programs, H.R. 4149 does not identify the specific actions the Forest Service should take to reduce or eliminate indirect charges to off-budget funds. Although cost-efficiency efforts might reduce indirect expenditures, the Forest Service could not simply eliminate all of the indirect charges it currently makes to these off-budget funds. For example, expenditures for rent, utilities, program support, computer equipment, and line management are all classified as indirect expenditures unless they can be directly attributed to a specific project. To the extent that these expenditures would continue to be incurred to support Forest Service programs, they will need to be shifted to other funding sources.

In previous work, we found that when faced with requirements to cut certain types of spending, the Forest Service generally responded by redefining the items to be included in the cost category or moving the expenditures so that they were paid from some other funding source. By using these approaches, the Forest Service was able to comply with such restrictions without actually reducing costs, as these examples show:

- The Appropriations Committees, in committee and conference reports, have directed the Forest Service to limit what it charges to general administration—a budget line item for certain line management, administrative support, and common services. From fiscal year 1982, when the limitation was first applied, through fiscal year 1996, the line item declined by 32 percent in constant dollars. While the line item has declined, total costs were not always reduced. One of the ways that the Forest Service has been able to comply with this restriction is by redefining and moving costs, previously charged to general administration, to other expenditure categories. For example, in 1996, general administration funded Regional Foresters and Deputy Regional Foresters. In 1997, only the Regional Forester was funded by general administration. Similarly, ranger district support funded by general administration was reduced from up to five positions in 1989, to one position in 1995. These positions were not necessarily eliminated, only their eligibility for funding through general administration. For those positions removed from general administration, alternative funding sources needed to be found.

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- In a discussion about operations of the Forest Service's Alaska region in the conference report for the Forest Service's fiscal year 1998 appropriations, the conferees expressed concern "about the appearance that expenditures for regional office operations and centralized field costs (funds that usually have regionwide benefits) have risen significantly as a proportion of annual appropriated funds since 1993." As a result, in the appropriations act, the Congress limited the Alaska regional office's budget for regional operations and centralized field costs to \$17.5 million (without 60 days prior notice to Congress)—a contrast with the 1997 allocation of \$26.6 million and the preliminary 1998 budget allocation of \$26.5 million. The Alaska Region did not identify any actual cost reductions that were necessary to comply with the limitation. It eliminated the account for centralized field office costs and allocated the funds directly to the field offices, separated one of its organizational units away from the account for regional office operations and treated it as a separate entity for accounting purposes, and placed unallocated funds in a reserve account for eventual distribution to other offices.

H.R. 4149 appears to allow the Forest Service much of this same flexibility in responding to the requirement to eliminate indirect expenditures from off-budget funds. H.R. 4149 does require the Forest Service to explain the effect of any change it makes in the definition of indirect costs and any change in accounting practices that would have an effect on such costs, but this provision does not eliminate using these steps as an approach. Given the importance of some of the items currently included in the category of indirect expenditures, it would appear likely that the Forest Service will continue to make use of these approaches alongside actual reductions to obtain cost efficiencies.

In summary, H.R. 4149 would increase the visibility of indirect expenditures, both within the Forest Service and for the Congress. Previously, the large increases in indirect expenditures had little visibility within the agency, and therefore little attention was placed on reversing the trend. If this bill is enacted, indirect expenditures and indirect expenditure rates will become public. At the same time, eliminating off-budget funds as a funding source for indirect expenditures is not the same as eliminating the expenditures themselves. Some of these costs would continue no matter how efficient the Forest Service were to become. H.R. 4149 would allow the Forest Service substantial flexibility in how it meets the limitation and it is silent on a goal for actual cost reductions. It is left to the Forest Service to develop a plan for actual cost

reduction. The reporting mechanisms built into H.R. 4149 would provide greater insight into how the Forest Service is going about this task than has been the case in previous congressional attempts to limit particular types of spending by the Forest Service. That greater insight, however, will not minimize the difficulty of actually reducing indirect expenditures.

Descriptions of the Four Funds Examined

Brush Disposal Fund

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

Cooperative Work—Knutson-Vandenberg Fund

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

Reforestation Trust Fund

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

Salvage Sale Fund

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

Summary of Expenditures for Four Funds

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

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