Part B

FINANCIAL SECTION

Message from the Chief Financial Officer

The U.S. Forest Service, an agency of the United States Department of Agriculture (USDA), continues with its high standard of financial management and reporting for the past fiscal year. As Chief Financial Officer for the Forest Service, I am proud to present the Fiscal Year (FY) 2009 results for the stewardship and management of public funds entrusted to the Forest Service.

For the eighth consecutive year, the Forest Service has received an unqualified opinion and, for the second consecutive year, no material weaknesses. Seven deficiencies remain and as of the date of this letter, we know of no major impediments impacting our ability to correct any identified significant deficiencies and areas of noncompliance.

Donna M. Carmical

Donna M. Carmical
Chief Financial Officer

USDA

U.S. Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

NOV 1 3 2009

REPLY TO
ATTN OF: 08401-10-FM

TO: Thomas Tidwell
Chief
Forest Service

ATTN: Sandy Coleman
Agency Liaison Officer Title
Forest Service

Erica Banegas
Branch Chief and Acting Audit Liaison Officer
Forest Service

FROM: Robert W. Young
Assistant Inspector General Robert W. Young
for Audit

SUBJECT: Forest Service's Financial Statements for Fiscal Years 2009 and 2008

This report presents the results of the audit of Forest Service's (FS) financial statements for the fiscal years ending September 30, 2009 and 2008. The report contains an unqualified opinion on the financial statements as well as an assessment of FS' internal controls over financial reporting and compliance with laws and regulations.

KPMG LLP (KPMG) an independent certified public accounting firm, conducted the audit. In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards* (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, opinions on FS' financial statements, internal control or on whether FS' financial management systems substantially complied with the Federal Financial Management Improvement Act (FFMIA); or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report, dated November 12, 2009, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted *Government Auditing Standards*, and the Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

It is the opinion of KPMG, that the financial statements present fairly, in all material aspects, FS' financial position as of September 30, 2009, and 2008; and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The KPMG report identified seven significant deficiencies. Specifically, KPMG identified weaknesses in FS':

- Information technology controls environment;
- period-end expense accrual processes;
- procedures and analysis to document and support management assumptions regarding revenue accruals;
- implementation of new accounting standards and financial reporting requirements;
- management review of credit card transactions and controls over the programs;
- internal controls for revenue related transactions; and
- physical inventory policies and procedures of pooled real property.

KPMG did not consider any of the above significant deficiencies to be material weaknesses.

KPMG's report also disclosed instances of noncompliance with FFMIA.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, including the timeframes to address the report recommendations. Please note the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

Independent Auditors' Report

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PO Box 3990
Albuquerque, NM 87190

Independent Auditors' Report

Chief, U.S. Forest Service and
Inspector General, United States Department of Agriculture:

We have audited the accompanying consolidated balance sheets of the United States (U.S.) Forest Service (an agency of the United States Department of Agriculture) as of September 30, 2009 and 2008 and the related consolidated statements of net cost, and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our Fiscal Year (FY) 2009 audit, we also considered the U.S. Forest Service's internal control over financial reporting and tested the U.S. Forest Service's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on these financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that the U.S. Forest Service's financial statements as of and for the years ended September 30, 2009 and 2008, are presented fairly, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles (GAAP).

As stated in our opinion on the financial statements, we concluded that the U.S. Forest Service's Required Supplementary Information related to deferred maintenance is lacking internal controls to ensure the accuracy and completeness of the reported information.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be significant deficiencies, as follows:

- The U.S. Forest Service Needs to Continue to Improve its Information Technology Internal Control Environment
- The U.S. Forest Service Needs to Refine its Period-end Expense Accrual Processes
- The U.S. Forest Service Needs to Develop Comprehensive Procedures and Analysis to Document and Support Management's Assumptions Regarding Revenue Accruals
- The U.S. Forest Service Needs to Develop a Coordinated Intra-Agency Effort to Address Implementation of New Accounting Standards and Financial Reporting Requirements
- Management Review Procedures of Credit Card Transactions and Controls Over the Programs Need Continued Improvement
- The U.S. Forest Service Needs to Improve Internal Controls for Revenue Related Transactions
- Physical Inventory Policies and Procedures of Pooled Real Property Need to be Developed

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB)Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

The results of our tests of FFMIA disclosed instances where the U.S. Forest Service's financial management systems did not substantially comply with Federal Financial Management System Requirements and the U.S. Standard General Ledger (USSGL). The results of our tests of FFMIA disclosed no instances in which the U.S. Forest Service's financial management systems did not substantially comply with applicable Federal Accounting Standards.

The following sections discuss our opinion on the U.S. Forest Service's financial statements, our consideration of the U.S. Forest Service's internal controls over financial reporting; our tests of the U.S. Forest Service's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the U.S. Forest Service as of September 30, 2009 and 2008 and the related consolidated statements of net costs, and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Forest Service as of September 30, 2009 and 2008, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. GAAP.

The information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections is not a required part of the financial statements, but is supplementary information required by U.S. GAAP. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and accordingly, we express no opinion on it. As a result of our performing these limited procedures, we believe that the Required Supplementary Information related to deferred maintenance is lacking internal controls to ensure the accuracy and completeness of the reported information.

The information in the Other Accompanying Information section is presented for purposes of additional analysis and is not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

In our FY 2009 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and that are described in Exhibit I. Exhibit II presents the status of prior year significant deficiencies, including those open conditions on which we are making no further recommendations in this report.

We noted certain additional matters that we have reported to management of the U.S. Forest Service in a separate letter dated November 12, 2009.

Compliance and Other Matters

The results of certain of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in the *FFMIA,* disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed instances, described in Exhibit III, where the U.S. Forest Service's financial management systems did not substantially comply with Federal Financial Management System Requirements and the USSGL at the transaction level. Exhibit IV provides the status of prior year's non-compliance findings and other matters, including those open conditions on which we are making no further recommendations in this report.

The results of our tests of FFMIA disclosed no instances in which the U.S. Forest Service's financial management systems did not substantially comply with applicable Federal Accounting Standards.

We noted certain additional matters that we have reported to management of the U.S. Forest Service in a separate letter dated November 12, 2009.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to the U.S. Forest Service.

Auditors' Responsibilities. Our responsibility is to express an opinion on the FY 2009 and 2008 financial statements of the U.S. Forest Service based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the U.S. Forest Service's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our FY 2009 audit, we considered the U.S. Forest Service's internal control over financial reporting by obtaining an understanding of the U.S. Forest Service's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982.* The objective of our audit was not to express an opinion on the effectiveness of the U.S. Forest Service's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the U.S. Forest Service's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the U.S. Forest Service's FY 2009 financial statements are free of material misstatement, we performed tests of the U.S. Forest Service's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the U.S. Forest Service. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

The U.S. Forest Service's response to the findings identified in our audit is presented in Exhibit V. We did not audit the U.S. Forest Service's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the U.S. Forest Service's management, the United States Department of Agriculture (USDA) Office of the Inspector General (OIG), OMB, the U.S. Government Accountability Office (GAO), and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2009

INTRODUCTION TO EXHIBITS

The U.S. Forest Service continues to make progress in closing out its prior year audit recommendations and minimizing new audit recommendations. During the FY 2008 audit, the U.S. Forest Service information technology (IT) control weakness was downgraded to a significant deficiency from a prior year's material weakness. During the FY 2009 audit, the U.S. Forest Service continues to remediate its IT control weaknesses. While the U.S. Forest Service has taken significant strides in its efforts to centralize and improve its IT functions, more actions are necessary to fully address the deficiencies identified as well as to ensure an appropriate level of confidentiality, integrity, and availability of critical information systems and resources.

We continue to recognize that certain recommended IT control enhancements pertaining to the U.S. Forest Service's operations cannot be implemented solely by the U.S. Forest Service, because the U.S. Forest Service's applications are in many cases hosted on USDA managed systems. As a result, several IT control deficiencies identified in this report will continue to require the combined effort of USDA and the U.S. Forest Service management.

During FY 2009 the U.S. Forest Service made progress on downgrading or closing several of its non-IT significant deficiencies. The significant deficiencies on which the U.S. Forest Service took corrective action include: environmental and disposal liabilities, unliquidated obligations, accounting for wildland fire activity, and the statistical component of its expenditure accrual estimate.

Although improvement was noted in the U.S. Forest Service's internal control over financial reporting, we identified new significant deficiencies relating to: validating and refining its management assumptions in the expense accrual estimate, developing procedures and documenting support for management's assumptions regarding revenue accruals, and developing a coordinated intra-agency effort to address new accounting standards and financial reporting requirements.

With regard to compliance and other matters, the U.S. Forest Service closed one of its noncompliance matters relating to timely obligations by implementing a new travel system called GovTrip. Noncompliance with two of the three components of the FFMIA remains open.

Exhibit I presents the significant deficiencies as of and for the year ended September 30, 2009. Exhibit II of this report summarizes the current year status of prior year recommendations. Exhibit III provides an update of those instances of noncompliance with laws and regulations and other matters and applicable new instances of noncompliance. Exhibit IV summarizes the status of prior year recommendations for noncompliance with laws and regulations and other matters. The U.S. Forest Service management's response is presented in Exhibit V.

SIGNIFICANT DEFICIENCIES

Number 1: The U.S. Forest Service Needs to Continue to Improve its Information Technology Internal Control Environment (*Repeat Condition)*

Segregation of Duties Needs Continued Improvement

Segregation of duties controls are not in place to ensure that the Human Resource Management (HRM) personnel with access to the Entry, Processing, Inquiry, and Correction (EPIC) system did not also have the pay administrator role within Paycheck7.

Incident Business Database (IBDB) users were able to access the My WebMethods Server (MWS) workflow system to assign documents to themselves, bypassing Application/segregation of duties (SOD) controls. Specifically, a level 2 processor was able to create, modify, and approve a payment in IBDB without having any secondary review or approval. Level 2 processors should not have access to approve a payment. An employee can reassign a payment multiple times enabling the individual to be the sole processor/approver on an invoice. Note this condition was corrected as of June 11, 2009.

Also in the Oracle password database, which is a central repository that contains all of the administrative-level passwords for U.S. Forest Service-managed servers and databases, the following SOD issues existed:

- Two users had access to both the Legacy Server and Oracle groups, which granted them administrator access to Paycheck7 on both the operating system and database level. U.S. Forest Service management implemented corrective actions for this issue during September 2009 by removing access for the individuals in question.

- 17 Application Hosting Environment (AHE) System Administrators who manage the Incident Business System (IBS) had access to both the Data Center and Oracle groups. This granted them administrator access to IBS on both the operating system and database level. This issue was remediated by the U.S. Forest Service in September by assigning users to either the Data Center or Oracle group, not both.

- U.S. Forest Service management indicated that HRM resources and personnel are limited at many U.S. Forest Service field units. The U.S. Forest Service implemented EmpowHR, which would have addressed this SOD issue by replacing EPIC; however, U.S. Forest Service rolled back the implementation due to performance issues with EmpowHR.

The breakdown in controls appears to have resulted from a lack of SOD in the roles established in the IT system controls matrix in the IBDB system, further affected by a lack of controls over access to the MWS system; which allowed the user to manipulate approval assignments.

U.S. Forest Service management granted access to these individuals in the Oracle Password Database based upon their job responsibilities. Additionally, management stated that access to Oracle databases requires administrative operating system level access as well.

Forest Service Manual (FSM) 6600, Chapter 6680, Security of Information, Information Systems, and Information Technology, Section 6684.23, Least Privilege, states: “Configure the information system to enforce the most restrictive set of rights/privileges or accesses needed by users (or processes acting on behalf of users) for the performance of specified tasks.” Additionally Section 6683.11, Separation of Duties, states: “Different individuals should perform each of the following actions for critical operational control functions: authorization/approval, system management, and monitoring or auditing.”

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The National Institute of Standards and Technology (NIST) Special Publication (SP) 800-12, *An Introduction to Computer Security*, states: "Logical access controls can help protect operating systems and other system software from unauthorized modification or manipulation (and thereby help ensure the system's integrity and availability). While it is obvious that users must have access to the information they need to do their jobs, it may also be required to deny access to non-job-related information."

NIST SP 800-53, *Recommended Security Controls for Federal Information Systems*, Control SI-9, Information Input Restrictions, states: "Control: The organization restricts the capability to input information to the information system to authorized personnel. Supplemental Guidance: Restrictions on personnel authorized to input information to the information system may extend beyond the typical access controls employed by the system and include limitations based on specific operational/project responsibilities."

Without proper SOD controls, there is increased risk that fraudulent data could be entered into EPIC and Paycheck7 and processed by the National Finance Center (NFC).

The ability to both create or modify and approve a payment without a secondary review could lead to the misappropriation or incorrect recording of assets. The U.S. Forest Service has performed an analysis of IBDB payments to ascertain any inappropriate exploitation of the weakness in the system and found no exploitations. Subsequently, we re-performed the analysis of IBDB payments and did not identify inappropriate usage of the segregation of duties weakness.

Finally, individuals with privileged access to both the operating system and database can make unauthorized changes to application data and tamper with any audit trail that would track such an incident.

Recommendation Number 1:

We recommend that U.S. Forest Service management:

A. Establish, communicate, and document the enforcement of policies and procedures which require quarterly management review of EPIC access listings to verify that access is appropriate and in compliance with policy.

B. Implement periodic reviews of IBDB user role access to ensure that individuals with MWS workflow access do not have (Level 1 or Level 2 processor) access to enter payments.

In addition, we continue to recognize the need for the U.S. Forest Service management to implement segregation of duties principles as reported in prior year Recommendation 3B and 3D of Audit Report 08401-8-FM.

Finally, we continue to recognize the need for the U.S. Forest Service management to implement access controls for Paycheck 7 and EPIC as reported in prior year Recommendation 3A of Audit Report 08401-8-FM.

Change Control Continues to Need Improvement

During our fieldwork, the following control weaknesses were identified regarding change control:

- Change Management Board (CMB) meeting minutes were not retained for four of five selected meetings. Meeting minutes were not consistently maintained on the repository, meeting minutes were stored on individual employee computers during certain weeks, and the U.S. Forest Service was unable to determine whether change control board meetings were cancelled for any given week. The U.S. Forest Service implemented corrective action in June 2009 by updating the CMB team room to track actions of the board.

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- The Change Management Coordinator (CMC) or Change Advisory Board approvals for U.S. Forest Service Computer Base (FSCB) network configuration changes were not documented for five of eight network device changes. U.S. Forest Service did not require CMC approvals to be consistently documented within change control tickets.

- For I-Web, Database Administrators (DBAs) had access to migrate changes into production and also have modified access to Polytron Version Control System (PVCS) where changes are developed and tested. This condition occurred because the U.S. Forest Service did not require the I-Web DBAs to have read-only access to PVCS. The U.S. Forest Service management implemented corrective action on July 17, 2009 by creating a database administrator group with read-only access in the development environment. KPMG inspected evidence of corrective action and determined that one IBS DBA still retained inappropriate access to the Developer group.

KPMG questioned the appropriateness of PVCS Developer access and were informed by the U.S. Forest Service that 20 user accounts had inappropriate access as follows:

- Seven were identified as no longer with the project;
- Six were identified as not being team members;
- Five were identified as generic accounts; and
- Two were identified as DBA team members no longer requiring developer access.

In addition, we also noted that change implementation tickets were not consistently identified in code change entries in the PVCS software library. U.S. Forest Service management did not require change implementation tickets to be identified in code change entries in the PVCS software library until April 2009, when the weakness was corrected.

Finally, the following configuration / change control exceptions were identified regarding Foundation Financial Information System (FFIS), IBS, and Paycheck7 applications:

- An FFIS user with PEND1 access can modify and approve a transaction in FFIS. The system should require the approver to return the document to the person that entered the transaction for modification. An approver should only have approval rights and not modification rights. FFIS configuration does not prevent an approver from modifying and approving a transaction.

- Testing was not documented for one of four IBS change requests. This was due to an inadvertent error.

- Until September 2009, the U.S. Forest Service did not have a mechanism to accurately track applications affected by program changes for Paycheck7 and IBS (i.e., no column in the change management database identifying affected application).

- The U.S. Forest Service does not utilize or manage a software library for Paycheck7 and IBS to maintain previous versions and audit trails of changes in development and in the production environments. Although U.S. Forest Service management is in process of implementing a Change Control Configuration Management Database (CCMDB) solution to replace the manual change control tracking in the Lotus Notes database and monitor changes implemented into production for all applications on the U.S. Forest Service infrastructure, U.S. Forest Service did not identify the necessity for such a solution when the applications were initially implemented.

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FSM 6600, Chapter 6680 – Security of Information, Information Systems, and Information Technology, Section 6682.6 - Configuration Management states:

1 "Place [U.S.] Forest Service information systems reported under the Federal Information Security Management Act (FISMA) inventory requirements under configuration management (CM).

2 Implement an effective CM program that provides overall guidance and procedures for those information systems.

3 Incorporate general CM requirements in all statements of work and procurement requests for all IT contracts that involve [U.S.] Forest Service systems.

4 Establish the scope of authority of the CMB through a charter approved by the [U.S.] Forest Service Chief Information Officer."

Section 6682.63 - Monitoring Configuration Changes states:

1 "Assess potential impact of proposed configuration changes.

2 Monitor implemented changes for unexpected security impacts and for opportunities to improve the effectiveness of security controls.

3 Ensure that any changes to be made to [U.S.] Forest Service information systems are reviewed and approved."

Section 6682.64 - Access Restrictions for Change states:

1 "Harden operating systems to the maximum extent and configure to prevent circumvention of IT security application controls.

2 Provide access to application configurations only to the system administrator to prevent unauthorized access.

3 Store and control the contents of software code and system technical documentation in a centralized, agency-wide system software repository.

   a. Appoint an administrator to maintain and manage the repository.

   b. Keep in the repository, official master copies (or pointers to their location) of all configuration item baselines, including item code and object module baselines.

   c. Restrict and control access to repository."

NIST SP 800-53, *Information System*, Revision 2, Recommended Security Controls for Federal Information Systems, Appendix F-CM, Control CM-3 Configuration Change Control states: "The organization manages configuration changes to the information system using an organizationally approved process (e.g., a chartered Configuration Control Board). Configuration change control involves the systematic proposal, justification, implementation, test/evaluation, review, and disposition of changes to the information system, including upgrades and modifications. Configuration change control includes changes to the configuration settings for IT products (e.g., operating systems, firewalls, routers). The organization includes emergency changes in the configuration change control process, including changes resulting from the remediation of flaws. The approvals to implement a change to the information system include successful results from the security analysis of the change. The organization audits activities associated with configuration changes to the information system. Control CM-5 Access Restrictions for Change. Planned or unplanned changes to the

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hardware, software, and/or firmware components of the information system can have significant effects on the overall security of the system. Accordingly, only qualified and authorized individuals obtain access to information system components for purposes of initiating changes, including upgrades, and modifications. Control SI-9, "Information Input Restrictions," states that "restrictions on personnel authorized to input information to the information system may extend beyond the typical access controls employed by the system and include limitations based on specific operational/project responsibilities."

OMB Circular No. A-130, *Management of Federal Information Resources*, Section 8a-4, states: "Each stage of the information life cycle carries with it records of management responsibilities. Agencies need to record their plans, carefully document the content and procedures of information collection, ensure proper documentation as a feature of every information system, keep records of dissemination programs, and, finally, ensure that records of permanent value are preserved."

OMB Circular No. A-130, Appendix III, states: "SOD is the practice of dividing the steps in a critical function among different individuals. For example, one system programmer can create a critical piece of operating system code, while another authorizes its implementation. Such a control keeps a single individual from subverting a critical process."

When the Business Application Service Environment change management system was developed, the U.S. Forest Service did not implement functionality to capture approvals for migration to the testing environment, approvals for migration to production, and results of end-user testing.

By not consistently updating a central repository of change control board meeting minutes, the U.S. Forest Service is unable to consistently provide evidence of approvals for changes requiring board approval. This weakness could result in unapproved changes being implemented into production.

With a lack of functionality to capture approvals for migration to test and production environments and the result of end-user testing, the U.S. Forest Service is exposed to the risk of program changes implemented in production that have not been approved or adequately tested.

Having code changes in the software library tied to change implementation tickets helps to ensure that each code change is part of an approve change request. Without this functionality, the U.S. Forest Service is unable to determine if a code change in PVCS was authorized, increasing the risk of unauthorized program changes remaining undetected.

By not having functionality to monitor changes implemented into production environments, the U.S. Forest Service is unable to provide a complete population of program changes, and risks unauthorized program changes remaining undetected.

Recommendation Number 2:

We recommend that U.S. Forest Service management:

A. Review existing FFIS controls and determine a cost effective approach to correct or mitigate the control design weakness and work with the USDA to ensure that the new General Ledger (GL) system limits the PEND1 approver to only approve a transaction and not make modifications to that transaction.

B. Ensure that change control board meeting minutes are consistently maintained in a central repository for those systems that are in-scope for the CMB.

C. Implement a change management solution to monitor changes implemented into production in order to provide a complete population of program changes and detect unauthorized program changes for Paycheck7, IBS, and I-Web.

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D. For Paycheck7 and IBS, update the change request database to include a column for the affected application to aide in the identification of a population of program changes.

Monitoring of Audit Logs Needs Improvement

During our audit testwork, the following control weaknesses were identified regarding audit log monitoring:

- U.S. Forest Service has not documented detailed procedures to provide guidance over the Net Forensics audit logging software tool review process. The Net Forensics tool is not used on I-Web and Paycheck8 systems as they are outside the U.S. Forest Service domain; however, the tool is used on Paycheck7 and IBS.
- U.S. Forest Service does not retain evidence of formal review of IBS, I-Web, and Paycheck7 operating system and database audit logs.
- U.S. Forest Service does not effectively monitor the auditing of privileged users. U.S. Forest Service stated that there are controls to track the "SUDO" command in Unix, but that no periodic review is conducted. The "SUDO" command is used for I-Web, IBS, and Paycheck7 servers.
- The Windows Group Policy Object (GPO) is not configured to audit actions of users with privileged authority.
- Audit logging for the Paycheck7 Oracle database does not track privileged users' activity.
- GDC Integration (GDCI) has not enabled audit logging for privileged users on the Windows operating system supporting Paycheck8. U.S. Forest Service remedied this issue during fieldwork by updating the GDCI GPO setting to audit privileged use in August 2009.

The U.S. Forest Service is currently formulating detailed procedures; however, they have not yet been completed. The U.S. Forest Service does not have a formalized process for review of Net Forensics audit logs. This is caused by the lack of procedures for the use of the Net Forensics software tool. U.S. Forest Service is currently capturing the use of the root account via the Switch User (SU) logs; however, there is no periodic review of this activity due to resource constraints and a lack of an automated process to summarize and report events. The Windows GPO, U.S. Forest Service Paycheck7 Oracle audit logs, and GDCI Paycheck8 operating system do not currently track actions of privileged users due to hard drive space constraints.

FSM 6600, Chapter 6680, Section 6684.31, Auditable Events, states that for systems that materially affect the ability of the agency to perform its mission to automatically generate audit records, at a minimum, for the following events:

a. Unsuccessful logons,

b. Unsuccessful password change attempts,

c. Security policy changes,

d. System shutdowns and restarts,

e. System maintenance,

f. All administrative / system actions of users with privileged authority (for example, system operators, administrators, security personnel),

g. Remote access to network devices, and

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h. Other auditable events as determined by the Information System Security Program Manager based on a risk-based assessment of the security category of the information system such as:

(1) Creation, deletion and opening of files containing sensitive information, and

(2) Initiation of programs processing sensitive information.

FSM 6600, Chapter 6680, Section 6684.33 – Audit Monitoring, Analysis, and Reporting states the following requirements:

1. Review and analyze information system audit records, at least quarterly (or more frequently if otherwise specified in the [System Security Plan] SSP), for indications of inappropriate or unusual activity.
2. Investigate suspicious activity or suspected violations and report findings in accordance with agency mandated incident reporting procedures.
3. For auditable events, as described in *FSM* 6684.31, employ automated mechanisms to alert security personnel of inappropriate or unusual activities with security implications.
4. Maintain subscription for automated alert mechanisms to keep the lists of inappropriate or unusual activities updated.
5. Maintain evidence of audit log reviews and changes to the list (or subscription) of auditable events.

NIST SP 800-53, Revision 2: Audit and Accountability, AU-1 states that: "(i) a formal, documented, audit and accountability policy that addresses purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and compliance; and (ii) formal, documented procedures to facilitate the implementation of the audit and accountability policy and associated audit and accountability controls."

NIST 800-53, Revision 2: AU-6 states that: "The organization regularly reviews/analyzes information system audit records for indications of inappropriate or unusual activity, investigates suspicious activity or suspected violations, reports findings to appropriate officials, and takes necessary actions."

NIST 800-53, Revision 2: Access Control, AC-13 states that: "The organization reviews audit records (e.g., user activity logs) for inappropriate activities in accordance with organizational procedures."

NIST 800-53, Revision 2: AC-2 states that: "The organization requires proper identification for requests to establish information system accounts and approves all such requests."

Without formal documented and implemented procedures for audit logging, unauthorized and damaging activities may take place on the U.S. Forest Service systems, U.S. Forest Service personnel may not be aware of what activity needs to be monitored, how to identify harmful activities, or the proper response to these activities. Overall, there is an increased risk that harmful activity could go undetected, and that proper actions will not be taken when harmful activities occur.

By not retaining documentation of audit log reviews, there is a risk that incidents may go undetected or not given the proper response.

By not monitoring the activity of privileged users, there is a higher risk of individuals performing harmful activities going undetected.

(Continued)

<u>Recommendation Number 3:</u>

We recommend that U.S. Forest Service management:

A. Augment current audit procedures to include a process for documenting the Net Forensics software tool suspicious activity log reviews.

B. Begin logging the activities of privileged users for the Windows GPO, U.S. Forest Service Paycheck7 Oracle audit logs, and GDCI Paycheck8 operating systems.

C. Perform periodic reviews of audit logs for the IT systems in this finding.

In addition, we continue to recognize the need for the U.S. Forest Service management to implement the audit logging capabilities and management review of such reports as reported in prior year Recommendation 3A and 3B of Audit Report 08401-9-FM.

Access Controls Need Continued Improvement

During our testwork over access controls, the following weaknesses were noted:

- One IBS user had roles that were marked to be deactivated during the second quarter 2009 review dated June 17, 2009. However, the user still had these roles as of the IBS user list dated July 6, 2009. U.S. Forest Service remedied this issue during fieldwork by removing the user in August 2009.

In addition, terminated employees are removed from the network every two weeks as opposed to 24 hours, and terminated users maintained access in Lotus Notes, IBS, Paycheck8, and I-Web as follows:

- In Lotus Notes, 1,557 users have retained access 60+ days, 97 users have retained access for 30-60 days, 55 users have retained access for 15-30 days, and 99 users have retained access for 0-15 days.

- In Paycheck8, 544 users have retained access 60+ days, 127 users have retained access for 30-60 days, 50 users have retained access for 15-30 days, and 6 users have retained access for 0-15 days.

- In I-Web, 39 users have retained access 60+ days. In addition, the User Management Application does not provide the ability to separate between employees and contractors.

- In IBS, 66 users have retained access for 60+ days, 6 have retained access for 30-60 days, one user retained access for 15-30 days, and one user retained access for 0-15 days.

FSM 6600, Chapter 6680 – Security of Information, Information Systems and Information Technology, dated September 17, 2008, Section 6684.2c states "User accounts must be disabled after a period of inactivity to be determined by [U.S.] Forest Service officials and documented in the SSP. User identifiers must be disabled if the user no longer requires access to [U.S.] Forest Service systems for reasons including but not limited to: a change in job responsibility where the user no longer requires access to the system, resignation from [U.S.] Forest Service, and termination, unless an extension is requested by the supervisor. An account must be disabled within 24 hours for voluntary termination, reassignment, or change in job role."

U.S. Forest Service did not comply with its policy to remove separated employee access within 24 hours. Terminated users retained access in Lotus Notes, IBS, Paycheck8, and I-Web because removal of access of terminated employees heavily relies on manual controls as an automated process is not in place.

By not removing terminated employee access in a timely manner, the U.S. Forest Service is at risk of terminated employees accessing network resources.

(Continued)

<u>Recommendation Number 4:</u>

We recommend that U.S. Forest Service management review its policy for account termination appropriateness and update policy or alter account termination process accordingly.

Vulnerability Scanning and Remediation Needs Continued Improvement

Not all in-scope Internet Protocol (IP) addresses were scanned for all applications, including Paycheck7, Paycheck8, IBS, and I-Web. This is due to oversight by the U.S. Forest Service. Specifically:

- One network infrastructure server, which was identified as an in-scope IP for IBS, was not scanned in January, March, and May. This IP was described as a primary Domain Name Server (DNS) for IBS in the IP survey that was administered by U.S. Forest Service management.
- For Paycheck7, two of 28 in-scope IP's were not scanned in January; 18 of 28 were not scanned in February; and 20 of 28 were not scanned in March.
- For Paycheck8, eight of 12 in-scope IP's were not scanned in April and June.

Not all found vulnerabilities have been remedied for IBS and Paycheck7. Specifically, the following vulnerabilities were discovered in January 2009 and have not been remedied as of September 2009:

- For IBS, the OSTicket and Apache vulnerabilities have not yet been remedied.
- For Paycheck7, Apache vulnerabilities have not yet been remedied. The U.S. Forest Service implemented corrective action in September 2009 by remedying the Apache vulnerability.

Although corrective actions have been planned to remediate identified vulnerabilities, the vulnerabilities are not remedied to date and have therefore not been remedied in a timely manner. The timeliness of remediation is a result of U.S. Forest Service prioritizing known vulnerabilities and implementing patches or updates within an appropriate time frame that the U.S. Forest Service has not definitively established.

NIST, SP 800-42: *Guideline on Network Security Testing* states: "Organizations should conduct vulnerability scanning to validate that operating systems and major applications are up to date on security patches and software version. Vulnerability scanning is a somewhat labor-intensive activity that requires a high degree of human involvement in interpreting the results. It may also disrupt network operations by taking up bandwidth and slowing response times. However, vulnerability scanning is extremely important for ensuring that vulnerabilities are mitigated before they are discovered and exploited by adversaries. Vulnerability scanning should be conducted at least quarterly to semi-annually. Highly critical systems such as firewalls, public web servers, and other perimeter points of entry should be scanned nearly continuously. It is also recommended that since no vulnerability scanner can detect all vulnerabilities, more than one should be used. A common practice is to use a commercially available scanner and a freeware scanner."

NIST, SP 800-40: *Creating a Patch and Vulnerability Management Program* states: "The risk of delaying remediation must be weighed carefully. Consider the following:

- Threat Level. Does the organization or systems requiring remediation face numerous and/or significant threats? For example, public Web servers and most Federal government organizations may face high threat levels. In general, timely remediation is critical for these systems. In contrast, for an intranet site that is inaccessible from the Internet, remediation can often be delayed because such a site usually faces a lower threat level.
- Risk of Compromise. What is the likelihood that a compromise will occur? If the vulnerability is easy to exploit, then remediation should be applied swiftly.

(Continued)

- Consequences of Compromise. What are the consequences of compromise? If the system is critical or contains sensitive data, then the remediation should be performed immediately. This holds true even for non-critical systems if a successful exploitation would lead to an attacker gaining full control of the system."

By not scanning all of the IP addresses that were indicated as "In-Scope" from the vulnerability survey, the U.S. Forest Service is unable to obtain assurance that vulnerabilities within in-scope applications, which include Paycheck7, Paycheck8, IBS, and I-Web, are discovered and remedied. Vulnerabilities within in-scope IP addresses are more pertinent since financial data may be affected.

Vulnerabilities that are not remedied in a timely manner may result in information leaks or system threats. These vulnerabilities may also disrupt normal system processes, allow inappropriate access, or prevent updates from being implemented.

Recommendation Number 5:

We recommend that U.S. Forest Service management:

A. Establish goals to scan all in-scope IP address (or financially related IP addresses) during its monthly scans of all in-scope applications; including Paycheck7, Paycheck8, IBS, and I-Web commensurate with risk.

B. Remedy discovered vulnerabilities from monthly scans within required timeframes; and include creating a time table to remedy vulnerabilities based on their threat categorization.

In addition, we continue to recognize the need for the U.S. Forest Service management to improve patch management practices and ensure that unpatched systems or improper configurations are identified and issues are remedied as reported in prior year Recommendation 1A and 1B of Audit Report 08401-9-FM.

Number 2: The U.S. Forest Service Needs to Refine its Period-end Expense Accrual Processes *(Partial Repeat Finding)*

Mathematical Expense Accrual Process Assumptions Need Continued Validation and Adjustment

During FY 2009 the U.S. Forest Service developed a single integrated accrual process named the Mathematical Accrual Process II (MAP II). MAP II directly estimates unrecorded liabilities, without regard to when they might be paid, based on multiple independent variables (i.e., the database). The process is run using a statistical software package called Stata.

The MAP II database includes the transaction history for all applicable obligations beginning with March 2005 and are segregated into five defined categories [i.e., Construction, Grants & Agreements, (temporary assignments) TDY Travel, (permanent transfers) TOS Travel, and Operations]. The MAP II utilizes two data sets: 1) the time-series history of the obligations, and 2) the open obligations at the accrual date.

The MAP II is executed in the following order. First, the time-series history of the obligations is run to calculate parameter estimates for each category for the independent variables (i.e., days elapsed between payments, work percentage left to be completed, etc.). Second, the resulting parameter estimates are applied to the characteristics of each individual obligation open as of the accrual date. This step provides a unique estimate of the incremental work completion as of the cutoff date for each obligation. Third, the estimated work completion percentage is applied to each individual obligation's original contract amount to determine an estimate of the dollar amount of the current liability for each obligation. The individual obligation estimates are summed, by category, to provide an overall liability estimate to be recorded in the agency's financial statements.

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When management develops an estimate to record an amount in its GL and financial statements at a point in time, the development of sound, reliable and proven management assumptions are critical to an accurate estimate. The following assumptions are some of the significant assumptions underlying the premise of MAP II for FY 2009 and represent management's judgment of the most likely circumstances and events.

- Groups of obligations with similar attributes and characteristics can be identified to focus accruals into consistent defined groups. We have defined five accrual categories with such similar attributes and characteristics: Construction, Grants & Agreements, TDY Travel, TOS Travel, and Operations. Each category definition is mutually exclusive from the others and also from all other existing accrual processes. The TDY and TOS transactions are identified through the data compilation process; however, the associated liability is estimated outside the statistical model.

- Some obligation documents contain multiple budget lines which, individually, could meet the definition criteria of more than one accrual category. As a result, all accrual calculations are performed at the budget line (rather than document) level to assure mutual exclusivity of categories.

- For each defined category, there exists a "typical" performance or lapsing curve. Among such "typical" characteristics are: life (i.e., length of time the obligation remains open), number of days between payments, seasonal activity levels, and a ratio of payment to original obligation amount at a given point of contract completion. These "typical" characteristics remain reasonably consistent over a period of years. When the Stata process develops the estimation, it takes into account the variability of these characteristics in computing the width of the statistical confidence interval.

- Not every data point within the database is relevant to the best estimate of unrecorded liabilities. A minority of data points that are not relevant are excluded from the estimation universe so they do not distort the calculated result, either upward or downward. Examples of these excluded data points include: documents with uncorrected errors, documents with incomplete data due to the arbitrary inception point, etc. The exclusions from the process include: 1) eliminations made to exclude items subject to other accrual process, and 2) adjustments made for statistical relevance and accuracy. Examples of adjustments made for statistical relevance and accuracy are: inactive obligations, positive obligations, obligations equal to zero, any obligations falling outside completion boundaries (e.g., work remaining cannot be more than 100% or less than 0%). The remaining majority of data points are sufficient to calculate an estimate of unrecorded liabilities at the accrual date.

- A large data set reflecting as closely as possible the entire categorical obligation creation and performance history will allow for an estimation of current liabilities utilizing a percentage of completion methodology at a 95% confidence interval.

- An obligation may lie dormant at some point during its life when no delivery is being made. In this case, no current performance liability should be recognized for this obligation until there is evidence (usually a payment) that it is once again active and should rejoin the accrual base. The trigger for determining the dormancy period for exclusion is related to the accrual category characteristics.

- Payments are not made on the same day as vendor invoice preparation, even if submitted electronically. Therefore, a processing delay period must be added to the accrual period, which runs from the latest payment date to the accrual month end. Such a processing period is common to all categories.

As this estimate is based on subjective as well as objective factors, includes many management assumptions, and because the estimate is material to the U.S. Forest Service's financial statements, KPMG evaluated both the quantitative as well qualitative attributes related to the estimate.

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During FY 2009 the U.S. Forest Service focused its efforts, and closed its related prior year recommendations on developing and enhancing the statistical code and identifying management's assumptions inherent in MAP II. However, the U.S. Forest Service did not equally focus its efforts on validating the reasonableness of management's assumptions used to derive the accrued liability estimate produced by MAP II for the June 30, and September 30, 2009 accrual estimates.

U.S. Forest Service did not have a plan to perform validation tests (i.e., subsequent payment analysis) of all MAP II assumptions prior to implementing MAP II for its June 30, or September 30, 2009 accrual in its financial statements.

According to AU Section 342, Auditing Accounting Estimates, Paragraph .03: "Management is responsible for making the accounting estimates included in the financial statements. Estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate an amount at the date of the financial statements. Management's judgment is normally based on its knowledge and experience about past and current events and its assumptions about conditions it expects to exist and courses of action it expects to take.

Paragraph .05: Management is responsible for establishing a process for preparing accounting estimates. Although the process may not be documented or formally applied, it normally consists of:

a. Identifying situations for which accounting estimates are required.

b. Identifying the relevant factors that may affect the accounting estimate.

c. Accumulating relevant, sufficient, and reliable data on which to base the estimate.

d. Developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors.

e. Determining the estimated amount based on the assumptions and other relevant factors.

f. Determining that the accounting estimate is presented in conformity with applicable accounting principles and that disclosure is adequate.

Paragraph .06: An entity's internal control may reduce the likelihood of material misstatements of accounting estimates. Specific relevant aspects of internal control include the following:

a. Management communication of the need for proper accounting estimates.

b. Accumulation of relevant, sufficient, and reliable data on which to base an accounting estimate.

c. Preparation of the accounting estimate by qualified personnel.

d. Adequate review and approval of the accounting estimates by appropriate levels of authority, including:

   1. Review of sources of relevant factors,
   2. Review of development of assumptions,
   3. Review of reasonableness of assumptions and resulting estimates,
   4. Consideration of the need to use the work of specialists, and
   5. Consideration of changes in previously established methods to arrive at accounting estimates.

e. Comparison of prior accounting estimates with subsequent results to assess the reliability of the process used to develop estimates."

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KPMG requested that U.S. Forest Service validate the MAP II accrual estimate using a retrospective look at historical payments. During October 2009, U.S. Forest Service performed a comparison of the MAP II September 30, 2008 accrued liability to subsequent payments and applied the results to the September 30, 2009 MAP II accrued liability based on comparability of the FYs. As a result of the validation analysis, the U.S. Forest Service identified process weaknesses as well as required adjustments to management's assumptions.

1) For the last month of the quarter, (i.e., September for the FY end) transactions such as current month payments and the related obligations, new obligations, and modification to obligations should be excluded from the accrual calculation due to the period of performance for such transactions predominantly falling to the next FY. This resulted in a $69.3 million over accrual of the September 30, 2009 accrued liability.
2) For the September 30, 2009 accrual, U.S. Forest Service did not properly exclude the entire population of federal transactions, which are accrued through a different process outside of MAP II. This resulted in an additional $2.7 million over accrual for the September 30, 2009 accrued liability.
3) The subsequent payment testing resulted in an under accrual of the September 30, 2009 accrued liability of $14.4 million.

The overall conclusion of the above testwork is that the September 30, 2009 accrued liability is overstated by $57.6 million. This amount was proposed and passed as an audit adjustment.

Recommendation Number 6:

We recommend that U.S. Forest Service management:

A. Develop policies and procedures to obtain subsequent payment data on a monthly basis to validate the reasonableness of the MAP II quarterly expense accrual estimate.
B. Develop a robust review process to ensure all data input and exclusions from the MAP II expense accrual process are complete and accurate.
C. Document and retain validation testing and results as substantiation of the recorded estimate.
D. Determine if any changes to U.S. Forest Service operations, information systems or business process have an effect on any management assumptions used in the MAP II expense accrual.
E. Based on the above, make any adjustments to the methodology and/or assumptions to the MAP II expense accrual.

Accrual of Real Property Needs Improvement (Repeat Finding)

During FY 2009 substantive testwork, we noted that real property was not being accrued properly at year-end. Specifically, we identified 33 out of 196 real property samples which should have been recorded (i.e., accrued) in the prior FY. These errors amounted to approximately $20 million.

These exceptions resulted from a lack of adherence to established accrual policies and procedures to record into service, in the proper FY, completed assets that have been placed into operation.

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Forest Service Handbook (FSH) 6509.19 – Asset Financial Management Handbook, Chapter 20 – Real Property, Section 20.41f - Albuquerque Service Center, Branch Chief of the Property and Working Capital Branch, "It is the responsibility of the Albuquerque Service Center (ASC-B&F), Branch Chief of the Property and Working Capital Branch or equivalent to:

1. Verify that funds are appropriately used for the acquisition and maintenance of real property assets based on requests submitted from the field to establish job codes and approved by both the Budget Officer and the Real Property Specialist….
2. Establish in FFIS the real property job codes with the proper accounting data to capture the capitalized costs correctly based on coordination with other staffs….
7. Coordinate with Acquisition Management (AQM), Engineering, Recreation, or other Forest Service staffs to review acquisition actions to determine proper capitalization or expense treatment…."

Section 22.23 Work-in-Process [WIP], "Costs are not depreciated while coded as WIP. An asset is put into service when it has been completed and accepted by [U.S.] Forest Service. When the Asset is put into service, the in-service date is entered in the [Corporate Property Asset Information System] CPAIS sub ledger. At that time, CPAIS generates accounting transactions to move the capitalized value to the appropriate GL account."

Construction in progress in the notes to the financial statements as of September 30, 2008 was overstated by approximately $20 million and buildings/structures account was understated by the same amount, due to the capitalization of assets in FY 2009 that were placed in service prior to October 1, 2008. This had no impact on the FY 2009 real property balance since these assets were properly capitalized as of September 30, 2009. However, depreciation expense in the current year was overstated by approximately $7.2 million due to the catch-up in depreciation from the date the property was actually placed into service. The prior period depreciation amount was proposed and passed as an audit adjustment.

<u>Recommendation Number 7:</u>

We recommend that the U.S. Forest Service management:

A. Devote the necessary resources to address the remaining backlog of real property assets that are placed into service but still remain in the accounting system as WIP.

B. Create escalation procedures to ensure that real property assets that are placed into service are recorded in the proper FY.

<u>Period-end Analytical Procedures Need Development (Repeat Finding)</u>

In the FY 2008 audit report, it was recommended the U.S. Forest Service develop period-end analytical procedures. During our 2009 audit, it was noted that those procedures have not yet been developed.

If U.S. Forest Service develops a comprehensive analytical procedure to review the reasonableness of period-end financial statement amounts, the variance such as the depreciation expense error that occurred in FY 2008 would have been identified, researched, and resolved.

OMB Circular No. A-123, *Management's Responsibility for Internal Control* states: "Reliability for financial reporting means that management can reasonably make the following assertions:

1…All assets and liabilities exist as of the reporting date.

2…All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included…."

We continue to recognize the need for the U.S. Forest Service management to develop and perform a robust analytical as noted in prior year Recommendation 15 of Audit Report No. 08401-9-FM.

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Number 3: The U.S. Forest Service Needs to Develop Comprehensive Procedures and Analysis to Document and Support Management's Assumptions Regarding Revenue Accruals

U.S. Forest Service's internal control and review procedures over general revenue transactions did not ensure that it has accurately and consistently accounted for general revenue transactions in accordance with U.S. GAAP. Specifically, we identified 24 out of 270 samples in which the U.S. Forest Service recorded general revenue transactions that were either not partially or completely recorded in the correct accounting period.

Further, comprehensive analysis was not performed and documented by U.S. Forest Service management to ensure that all material sources of revenue were properly accrued and accounted for in the correct accounting period. Additionally, there was no documented analysis to validate management's assumption that revenue which is not accrued is not material to the financial statements in any given year, or to quantify such amounts.

U.S. Forest Service's policy for accruing general revenue does not ensure that all general revenue transactions are recorded in the proper period. There is also a lack of formal management review in place to ensure all material sources of revenue are considered for accrual and management's assumptions of materiality are substantiated.

The Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standard (SFFAS) No. 7, *Accounting For Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,* Paragraph 3 identifies the following: "These accounting standards recognize exchange revenue at the time that a Government entity provides goods or services to the public or to another Government entity. The revenue is measured at the price likely to be received. Thus, with some differences that are explained in the standard, the accounting for earned revenue is comparable to the private sector's accrual accounting for earned revenue. Exchange revenue includes most user charges other than taxes. Such user charges include regulatory user charges, in which the exchange is not wholly voluntary but the revenue is generally, but not always, related to the cost of providing service to identifiable groups."

Paragraph 27 and 28 identifies the following: "Except as otherwise noted, the provisions of the accounting standards in this statement need not be applied to items that are qualitatively and quantitatively immaterial. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement."

Paragraph 37 identifies the following: "When advance fees or payments are received, such as for large-scale, long-term projects, revenue should not be recognized until costs are incurred from providing the goods and services (regardless of whether the fee or payment is refundable). An increase in cash and an increase in liabilities, such as 'unearned revenue,' should be recorded when the cash is received. 'Unearned revenue' should also be recorded if an agency requests advances or progress payments prior to the receipt of cash and records the amount."

Not accruing for revenue in the year earned can cause a material understatement or overstatement of revenue in any given year causing inconsistent reporting of operating results. For the FY ending September 30, 2009, the sample results were extrapolated to a likely overstatement of approximately $50.8 million for general revenue. This amount was proposed and passed as an audit adjustment.

<u>Recommendation Number 8:</u>

We recommend that Forest Service management:

A. Enhance its testing procedures, including a quarterly robust analysis of subsequent receipts and the related period of performance, to ensure that general revenue transactions are properly recorded in the correct period.

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B. Enhance its review and documentation to include a more comprehensive analysis of materiality to consider revenues from certain business processes for accrual.

C. Enhance its policies and procedures to include an evaluation of the materiality of any revenues not recorded in accordance with U.S. GAAP, both individually by business process and in the aggregate.

Number 4: The U.S. Forest Service Needs to Develop A Coordinated Intra-Agency Effort to Address Implementation of New Accounting Standards and Financial Reporting Requirements

Stewardship Property Plant and Equipment Accountability and Reporting Needs Improvement

As of September 30, 2009, U.S. Forest Service personnel did not complete the data entry of heritage asset information into the Infrastructure Management System (INFRA) database module. In addition, there was not a complete listing available for financial reporting purposes.

Additionally, U.S. Forest Service does not have effective monitoring procedures in place to ensure the timely reporting of all "Non-Forest Service" heritage asset sites in its financial statements.

These control weaknesses existed because U.S. Forest Service has not issued directives to field personnel to correctly upload the heritage assets information to INFRA module. In addition, U.S. Forest Service management has not ensured that the heritage assets module in INFRA is completely populated to produce accurate financial statement information.

SFFAS 29, *Heritage Assets and Stewardship Land*, requires that entities adopt their physical unit for disclosing stewardship land and heritage assets and report the information as a note disclosure to the financial statements. The U.S. Forest Service adopted the physical unit of reporting their heritage assets as: Forests, Grasslands, and Non-Forest Service locations.

The disclosure of "Non-Forest Service" heritage asset sites in the U.S. Forest Service's financial statements is not complete and accurate. An INFRA report and information gathered through a data call of Forest Service's "Non-Forest Service" heritage asset sites as of September 30, 2009 indicates the number of "Non-Forest Service" heritage asset sites as of September 30, 2009 is 135. This number is an increase of 113 sites from the 22 sites reported as of September 30, 2008. Many of these sites existed as of September 30, 2008. In addition to the increase in the number of sites, the U.S. Forest Service still has a number of undisclosed sites that have yet to be accounted for in the financial statements.

Recommendation Number 9:

We recommend that U.S. Forest Service management:

A. Issue directions to field personnel to ensure that the heritage assets are completely and accurately recorded in INFRA in a timely fashion.

B. Develop monitoring policies and procedures to ensure that all heritage assets are recorded in INFRA and if necessary, updated through additions or deletions in a timely fashion.

The Impact of Full Costing of Inter-Agency Activity Was Not Fully Documented by the U.S. Forest Service

The U.S. Forest Service did not utilize a comprehensive team (including policy, financial reporting, acquisition management, and grants and agreements specialists) to identify, assess, and document the impact of implementing SFFAS No. 30 *Inter-Entity Cost Implementation,* on the U.S. Forest Service's operations and reporting of such information in the U.S. Forest Service's financial statements.

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SFFAS 30 and the SFFAS Technical Release No. 8 *Clarification of Standards Relating to Inter-Entity Costs,* state that for the reporting periods beginning after September 30, 2008, the entities will fully implement the inter-entity cost provision in SFFAS 4, *Managerial Cost Accounting Standards and Concepts*. By fully implementing the provisions in SFFAS 4 (issued in July 1996) this standard will require the following for inter-entity cost:

- Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of such goods or services either through billing or other advice.
- The receiving entity should recognize in its accounting records the full cost of the goods or services it receives as an expense or, if appropriate, as an asset (such as WIP or inventory). The information on costs of non-reimbursed or under-reimbursed goods or services should be available from the providing entity. However, if such cost information is not provided, or is partially provided, a reasonable estimate may be used by the receiving entity, therefore the receiving entity is not exempt from imputing the cost if the providing entity is unable to provide the information. The estimate should be of the cost of the goods or services received (the estimate may be based on the market value of the goods or services received if an estimate of the cost cannot be made).
- Recognition of inter-entity costs that are not fully reimbursed is limited to material items that (1) are significant to the receiving entity, (2) form an integral or necessary part of the receiving entity's output, and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provided by an entity to all or most other entities should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity.

The U.S. Forest Service relied on its policy department to consider the impact of this standard and never documented a formal analysis to determine if the standard would not have a material impact to the financial statements until requested to do so during the FY 2009 audit.

Although the impact of SSFAS 30 did not have a material effect on the September 30, 2009 financial statements, the effect could be material in future years depending on the volume of agreements and payments made in those years. By not performing a comprehensive analysis both at inception as well as annually, the U.S. Forest Service could understate the costs associated with inter-entity agreements.

Recommendation Number 10:

We recommend that U.S. Forest Service management develop procedures that would require a comprehensive team across all necessary functions/departments to fully assess the impact of this and future Federal accounting standards and that the analysis be documented, maintained, and periodically re-evaluated.

Comprehensive Linking of Strategic Goals and Reporting of Program Costs Needs Improvement

During our testwork we noted the major U.S. Forest Service programs identified in the FY 2009 financial statement note entitled Sub-organization Program Costs/Program Costs by Segment do not fully relate to the U.S. Forest Service's major goals and outputs described in the U.S. Forest Service's strategic and performance plan. Per the U.S. Forest Service's Strategic Plan FY 2007–2012 the following are its seven main goals:

1. Restore, Sustain, and Enhance the Nation's Forests and Grasslands
2. Provide and Sustain Benefits to the American People
3. Conserve Open Space
4. Sustain and Enhance Outdoor Recreation Opportunities

(Continued)

5. Maintain Basic Management Capabilities of the Forest Service
6. Engage Urban America With Forest Service Programs
7. Provide Science-Based Applications and Tools for Sustainable Natural Resources Management

The major goals described above do not fully relate with the following responsibility segments as reported on the U.S. Forest Service's financial statements:

1. National Forests and Grasslands
2. Forest and Rangeland Research
3. State and Private Forestry
4. Wildland Fire Management

When the FFIS was implemented, the U.S. Forest Service did not have a strategic plan in place. As a result, account mapping in FFIS was not established to match the strategic plan. U.S. Forest Service does not believe it is cost beneficial to change its account mapping in FFIS, since a new GL system is scheduled for implementation in FY 2011.

OMB Circular No. A-136, *Financial Reporting Requirements,* Section II.4.4.1 "The SNC [Statement of Net Costs] should show the net cost of operations for the reporting entity, as a whole, by major program, which should relate to the major goal(s) and output(s) described in the entity's strategic and performance plans, required by GPRA [Government Performance and Results Act]."

Currently the U.S. Forest Service's costs in its financial statements are not presented in a level of detail that provides a meaningful comparison of costs to outputs and/or performance measures.

Recommendation Number 11:

We recommend that the U.S. Forest Service management:

A. Work with the USDA to develop system configurations/account mapping, in the new GL system, which will allow the U.S. Forest Service to show the net cost of operations for the reporting entity, as a whole, by major programs, which relate to the major goals and outputs described in the U.S. Forest Service's strategic and performance plan.

B. Work with Strategic Planning Budget and Accountability to align the U.S. Forest Service's FY 2010-2015 Strategic Plan strategic goals to the U.S. Forest Service's presentation of its major responsibility segments in the statement of net cost (at a minimum make a connection from significant goals to major responsibility segments).

Number 5: Management Review Procedures of Credit Card Transactions and Controls Over the Programs Need Continued Improvement *(Repeat Condition)*

During the FY 2009 audit, the U.S. Forest Service migrated to a new purchase and fleet card system called SmartPay, which is administered by U.S. Bank. However, we continued to note control weakness in the purchase and fleet card program.

The U.S. Forest Service uses purchase cards to reduce administrative costs and allow its employees to procure supplies and services faster than through traditional government procurement regulations. During FY 2009, the U.S. Forest Service incurred expenses of approximately $205 million through the use of purchase cards. In addition, the U.S. Forest Service uses fleet cards to purchase automotive related services without going

(Continued)

through traditional government procurement regulations. During FY 2009, the U.S. Forest Service incurred expenses of approximately $47 million through the use of fleet cards.

Purchase Card Monitoring Needs Continued Improvement

During FY 2009 field site test work, we noted four of ten samples where U.S. Forest Service cardholders had not approved transactions within 30 days of appearing in the Access Online (AXOL) system and two of ten samples where U.S. Forest Service supervisors had not approved transactions within 60 days (30-day limit for cardholder approval and 30-day limit for manager approval) of appearing in the AXOL system.

FSH 6309.32 Part 4G13 (f) states that, "The cardholder's first line supervisor or detailed acting is responsible for monitoring purchase card activities".

The USDA Office of Procurement and Property Management, Charge Card Service Center issued a *Quick Guide to Proper Use of the Card and Convenience Checks for Approving Officials*. The guide details the monitoring responsibilities that an Approving Official (AO) is given over authorized cardholders. Specifically:

- The AO Responsibilities sections states "[An AO] Reviews cardholder transaction reports on a monthly basis and maintains the reports per instructions in DR (Departmental Regulations) 5013-6."
- The Transaction Approval Policy section states "AOs are responsible for ensuring that cardholders approve purchase card transactions within 30 days after appearing in AXOL. AO's must final approve transactions within 30 days after transactions appear in their 'Manager Approval Queue' in AXOL." [60 days noted in condition.]

The SmartPay policies are relatively new and are not fully implemented at most U.S. Forest Service locations. In addition, the policies set forth by *FSH* 6309.32 Part 4G13 were effective as of February 2009 and further updates from the *Quick Guide to Proper Use of the Card and Convenience Checks for Approving Officials* were effective as of May 2009. The U.S. Forest Service has continued to distribute additional updates regarding SmartPay procedures, the latest being issued during July 2009.

Timely approvals of purchase card transactions ensure that government purchase cards are properly utilized for official government business only. These approvals also help to detect questionable transactions or possible misuse of purchase cards. There is a possibility that inappropriate expenses could go undetected if cardholder reconciliations and supervisor reviews are not conducted in a consistent and timely manner.

Recommendation Number 12:

We recommend that U.S. Forest Service management:

A. Ensure through policy reminders and training that cardholders complete the 30 day reconciliation and that supervisors complete the 60 day supervisor review on a timely basis.

B. Monitor compliance with the policy which requires supervisors to complete reviews of cardholder transaction reports on a monthly basis and maintain the evidence of such reviews.

Controls Over Fleet Cards Need Improvement

During our FY 2009 internal control test of design and substantive testwork we noted that the U.S. Forest Service did not have reasonable supporting documentation to demonstrate evidence of the operating effectiveness/management review of the fleet card controls implemented.

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On December 1, 2008 the USDA switched from Bank of America to US Bank as the provider of purchase card and fleet card transactions. The new provider has been unable to provide the data necessary for the U.S. Forest Service fleet administrators to generate the statistical sampling and review reports that were utilized under the prior provider. Therefore, fleet managers currently have no consistent documented and auditable process for reviewing monthly non-gas purchases and gas purchase listings.

OMB Circular A-123 defines management's responsibility for internal controls over Government agencies, page 6 – 7 states, "Internal control includes processes for planning, organizing, directing, controlling, and reporting on agency operations." Page 11 states "Internal controls should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use or disposition of assets."

According to DR 5400-6 (10) (j) (1): "OMB Circular A-123 Appendix B, dated April 28, 2006, requires agencies to implement management controls, policies, and practices for ensuring appropriate charge card usage. USDA's [Department Program Manager] DPM and [Agency Fleet Program Coordinator] AFPC's monitor fleet charge card transactions through the [Electronic Access System] EAS and statistical sampling. [Local Fleet Program Coordinator] LFPCs, [Regional/Area Fleet Program Coordinator] R/AFPCs, and AFPCs are expected to routinely monitor (e.g., monthly, at a minimum quarterly) fleet charge card transactions within their agencies to identify questionable transactions. When questionable transactions are flagged, the coordinators will investigate these transactions and determine if there are any fraud, waste, or abuse issues that must be addressed."

There is a possibility that inappropriate expenses could go undetected if management reviews are not conducted in a consistent and timely manner.

Recommendation Number 13:

We recommend that U.S. Forest Service management, once US Bank is able to generate reports, implement a standardized process to evidence review of fleet card charge transactions in an effort to detect any unusual transactions or improper use of the fleet cards.

In addition, we continue to recognize the need for the U.S. Forest Service management to implement the Washington Office (WO) Directive 7130/1430 and to require receipts for purchases, where feasible, as reported in prior year Recommendation 10B of Audit Report No. 08401-8-FM.

Number 6: The U.S. Forest Service Needs to Improve Internal Controls for Revenue Related Transactions *(Repeat Condition)*

Residual Deposits in the Liability for Deposit Funds, Clearing Accounts, and Undeposited Collections Need to be Identified and Properly Posted *(Repeat Condition)*

During our FY 2009 audit we noted prior year transactions that resided in GL account 2400, Liability for Deposit Funds, Clearing Accounts and Undeposited Collections. These transactions resided in GL account 2400 because the final destination of the transaction has not been determined. Specifically, we identified 22 exceptions out of 120 sample items as of September 30, 2009. For all 22 exceptions there was a lack of support to prove the transactions are still valid in the account.

In addition, the U.S. Forest Service has misclassified Federal funds in fund SDFG as non-Federal. Fund SDFG is a fund specifically for Federal transactions and therefore, only Federal funds should be included.

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According to the U.S. Forest Service personnel, there is a lack of dedicated resources available to review and assess the accuracy of transactions flowing through the liability for deposit funds, clearing and un-deposited collections account.

SFFAS 1, *Accounting for Selected Assets and Liabilities,* paragraph 85 states, "Federal entities may receive advances and prepayments from other entities for goods to be delivered or services to be performed. Before revenues are earned, the current portion of the advances and prepayments should be recorded as other current liabilities. After the revenue is earned (goods or services delivered, or performance progress is made according to engineering evaluations), the entity should record the appropriate amount as a revenue or financing source and should reduce the liability accordingly. Other current liabilities due to federal entities are intra-governmental liabilities that should be reported separately from those due to employees and the public."

The U.S. Treasury and U.S. Forest Service definition of funds defines fund SDFG as an undistributed intergovernmental payment.

The U.S. Forest Service could be overstating its liability for deposit funds, clearing accounts and undeposited collections (GL 2400). There is a known overstatement of approximately $25.9 million and a known understatement of approximately $9.1 million, causing a net known overstatement of approximately $16.8 million. In addition, there is a likely overstatement of $30.8 million and a likely understatement of approximately $12.9 with a net likely overstatement of $17.9 million. These amounts were proposed and passed as audit adjustments.

In addition, there is a known misclassification of $3.2 million of federal funds classified as non-federal in fund SDFG. This amount was proposed and passed as an audit adjustment.

We continue to recognize the need for the U.S. Forest Service management to devote the necessary resources to identify, research, and resolve prior year residual deposits in GL 2400 as noted in prior year Recommendation 5 of Audit Report No. 08401-8-FM.

Internal Controls over the Reimbursable Agreement Close-out Process Need Improvement *(Repeat Condition)*

During our FY 2009 substantive testing over balances as of March 31, 2009 and activity for the period of April 1 through September 30, 2009 over liability for advances and prepayments (GL account 2310), we noted 22 exceptions out of 104 sample items. For all 22 exceptions the period of performance had expired but unfilled customer orders with advance remain recorded in U.S. Forest Service's GL.

In addition, during our substantive testing over balances as of March 31, 2009 and activity for the period of April 1, 2009 through September 30, 2009 for unfilled customer orders without advance (GL 4221), we noted 23 exceptions out of 126 sample items. For all 23 exceptions the period of performance had expired but unfilled customer orders without advance remain recorded in Forest Service's GL.

The U.S. Forest Service did not comply with its policy requiring agreements to be closed out within 90 days of the last activity/expiration date of the agreement.

FSH 6509.11k Chapter 50, Paragraph 56.82i, *Reimbursable Agreements* states that "The Reimbursable and Advance Collection Agreements (RACA) Branch, [ASC - B&F] ASC, is responsible for: Closing out agreements within 90 days of last activity."

The U.S. Forest Service is overstating its unfilled customer orders with advance (GL 4222) and advances from others (GL 2310). The errors identified in the sample were extrapolated to the population and an overstatement was estimated at $11.7 million. This amount was proposed and passed as an audit adjustment.

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As a result of our GL 4221 testwork as of March 31, 2009, the U.S. Forest Service performed a high level analysis and adjusted its GL account 4221 downward by $15.3 million. Taking into account the U.S. Forest Service's high level adjustment and the extrapolation of our testwork results, it was projected that GL account 4221 has a remaining overstatement of $2.7 million. This amount was proposed and passed as an audit adjustment.

We continue to recognize the need for the U.S. Forest Service management to periodically monitor the age and activity of agreements within FFIS and comply with the FSH Section 6509.11k as noted in prior year Recommendation 12A & 12B of Audit Report No. 08401-9-FM.

Cash Collection Officer Audit Internal Control Needs Improvement

During our internal control test of design over the annual Cash Collection Officer (CCO) audit, one CCO was selected at the Arapaho National Forest for review. The CCO had not received an annual audit within the past year as required by the FSH.

FSH 6509.11k, Chapter 30 – Collections, Para 31.11 – Audit of Collection Officer Activities, Frequency by type of Collection, Sub-para g. states: "All other. … One audit per year, and upon termination of collection officer designation."

The U.S. Forest Service has not effectively implemented its policy requiring annual audits of its CCOs.

The U.S. Forest Service may be misstating the cash collected by CCO. In addition, the risk of loss or misappropriation of assets is increased without a control in place to monitor its execution.

Recommendation Number 14:

We recommend that U.S. Forest Service management review and assess the efficiency of the control environment for the audits of cash collected by CCO and where necessary revise and train personnel on new policies and procedures.

Number 7: Physical Inventory Policies and Procedures of Pooled Real Property Need to be Developed (*Repeat Condition*)

The U.S. Forest Service agreed to develop and implement a plan to improve the quality of the 5-year pooled real property physical inventories. We determined that no plan has yet been developed to inventory pooled assets during the 5-year period FY 2008-2012.

Agriculture Property Management Regulations, Chapter 110-84 Annual Real Property Inventories Supplementing PART 102-84; and PART 104-51 Property Accountability and Control- 104-51.106 (a) (2) states: "Real Property. Physical inventories of all real property, except land, shall be taken by each agency every five years."

The pooled real property assets records may not be accurate and could be misstated in the financial statements.

We continue to recognize the need for the U.S. Forest Service management to develop and implement a plan to improve the quality of the 5-year pooled real property physical inventories as noted in prior year Recommendation 7 of Audit Report No. 08401-9-FM.

STATUS OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES

As required by *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended, we have reviewed the status of the prior year's significant deficiencies. The following table summarizes these issues and provides our assessment of the progress U.S. Forest Service made in correcting these significant deficiencies. We have also provided the OIG report where the issue is monitored for audit follow-up. In the status column of the table a recommendation will be note as either:

- Open, which means corrective action has not been completed by the U.S. Forest Service, and the comment has been repeated in Exhibit 1.
- Closed, which means corrective action has been completed by the U.S. Forest Service, and the comment has not been repeated in Exhibit 1.
- Reissued- Closed, which means a new recommendation has been issued in Exhibit 1 because there were changes in the business processes making the prior year recommendation not practical.

Open Conditions In this Table are Referenced In Exhibit I		
USDA OIG Audit Report No. 08401-9-FM November 2008		
Material Weakness/ Significant Deficiency	**Recommendation**	**Status**
The U.S. Forest Service Needs to Continue to Improve its General Controls Environment *[2009 Significant Deficiency; 2008 Significant Deficiency]*	1. We recommend that the U.S. Forest Service management:	
	A. Improve patch management practices to establish a set frequency for reviewing system patch levels for security weaknesses.	Open
	B. Determine if vulnerability scanning procedures need to be refined in order to ensure future issues related to unpatched systems or improper configurations are identified and issues are remedied.	Open
	2. We recommend that U.S. Forest Service management initiate the [Certification and Accreditation] C&A process for all major applications in a timely enough manner in order to avoid having systems in production that are not appropriately certified.	Closed
	3. We recommend that U.S. Forest Service management:	
	A. Ensure that all required audit logging capabilities are turned on as required by FSM 6684.31.	Open
	B. Establish procedures to periodically review these audit logs for unauthorized activity.	Open
	4. We recommend that U.S. Forest Service management:	
	A. List and document all known weaknesses in their [Plans of Action and Milestones] POA&Ms, including [Security Test and Evaluation] ST&E results. Each POA&M documented should be checked for completeness and accuracy to verify that all issues are	Reissued-Closed

(Continued)

Open Conditions In this Table are Referenced In Exhibit I		
USDA OIG Audit Report No. 08401-9-FM November 2008		
Material Weakness/ Significant Deficiency	**Recommendation**	**Status**
	assigned an official due date and task number to allow for the effective tracking of issues. B. Document the rationale behind all assigned due date extensions so that the root causes can be easily identified and addressed. C. Develop POA&M-related metrics that can be updated and reviewed on a quarterly basis. These metrics would highlight inefficiencies so that they can be addressed immediately to help prevent date slippage from becoming a pervasive issue for numerous POA&M items.	Reissued-Closed Reissued-Closed
The U.S. Forest Service Needs to Develop Comprehensive Policy and Procedures for Financial Management and Reporting of Wildland Fire Activity *[2009 Control Deficiency; 2008 Significant Deficiency]*	5. We recommend that U.S. Forest Service management develop and implement comprehensive accounting policy and procedures related to: A. Expenditure and non-expenditure transfers-in of funds to Wildland Fire fund (i.e., [Treasury Appropriation Fund Symbol] TAFS 12X1115) for wildfire suppression; B. Utilization of expended appropriations posting logic of transferred funds (both expenditure and non-expenditure) in Wildland Fire Fund (i.e., TAFS 12X1115) based upon management's intent to obtain appropriations to repay borrowed funds, and; C. Record the repayment of these funds to the originating federal or non-federal funds treasury symbols. 6. We recommend that U.S. Forest Service management develop and implement formal policies and procedures to credit principal appropriations and offset costs incurred by the U.S. Forest Service on behalf of other governmental entities when expenditure refund receivables are collected in compliance with the Intergovermental Cooperation Act.	Closed Closed Closed Closed
Physical Inventory Policies and Procedures of Pooled Real Property Need to be Developed *[2009 Significant Deficiency; 2008 Significant Deficiency]*	7. We recommend that U.S. Forest Service management develop and implement in FY 2009 a plan to improve the quality of the 5-year pooled real property physical inventories.	Open
Accountability for Unliquidated Obligations (ULOs) Needs Continued	8. We recommend that U.S. Forest Service management: A. Strengthen the ULO review process and monitor the validity and accuracy of outstanding ULO balances at	Closed

(Continued)

Open Conditions In this Table are Referenced In Exhibit I		
USDA OIG Audit Report No. 08401-9-FM November 2008		
Material Weakness/ Significant Deficiency	**Recommendation**	**Status**
Improvement *[2009 Control Deficiency 2008 Significant Deficiency]*	the local and national levels, B. Perform additional review of ULO activity occurring between 8/1/08 and 9/30/08 for validity and accuracy; and C. Perform review of all Non-Routine ULOs to determine validity and accuracy as of year-end.	 Closed Closed
The U.S. Forest Service Needs to Improve Internal Controls and Management Oversight for Environmental and Disposal Liabilities (EDL) *[2009 Control Deficiency 2008 Significant Deficiency]*	9. We recommend that U.S. Forest Service management: A. Implement a process whereby both the environmental engineers and ASC – B&F review the EDL transactions recorded in CEE for compliance with SFFAS No. 5 on a quarterly basis. This review would be to determine the validity of recorded balances as well as the proper classification of such liability. B. Develop a standard for documentation for all EDL estimates to ensure compliance with documentary evidence requirements. C. Revise and implement the FSH policy to comply with applicable technical accounting literature cited above to ensure accurate reporting. D. Revise, implement, and assess the efficiency of the control environment for developing the EDL accrual. E. Require regional engineers to fully document and support all EDL accrual estimates and to provide this supporting documentation to both WO Engineering and ASC-B&F for review of reasonableness and compliance with technical accounting literature. The review by both WO Engineering and ASC-B&F should take place on at least a quarterly basis and evidence of such review should be documented and maintained. 10. We recommend that U.S. Forest Service management: A. Ensure that future note disclosures relating to EDL comply with OMB Circular A-136. B. Identify an individual within the [Financial Reporting and Reconciliation] FR&R Branch that would be responsible for completing the following tasks in a timely manner: • Identifying and researching new and existing financial reporting standards, and OMB policies; • Determining if existing accounting policies and procedures are in compliance with promulgated	 Closed Closed Closed Closed Closed Closed Closed

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Open Conditions In this Table are Referenced In Exhibit I		
USDA OIG Audit Report No. 08401-9-FM November 2008		
Material Weakness/ Significant Deficiency	**Recommendation**	**Status**
	standards.	
The U.S. Forest Service Needs to Improve Internal Controls for Revenue Related Transactions *[2009 Significant Deficiency 2008 Significant Deficiency]*	11. We recommend that U.S. Forest Service management record mineral royalty revenues obtained from [Mineral Management Service] MMS as non-Federal and ensure that deposits held in GL 2400 are properly classified between federal and non-federal.	Closed
	12. We recommend that U.S. Forest Service management:	
	A. Comply with the FSH Section 6509.11k, and	Open
	B. Periodically monitor the age and activity of agreements within FFIS.	Open
The U.S. Forest Service Needs to Refine its Period-end Accrual Processes *[2009 Significant Deficiency 2008 Significant Deficiency]*	13. We recommend that the U.S. Forest Service management:	
	A. Expand the number of variables to form multiple regression models and/or the types of analysis to include the use of seasonal indexes in order to account for the various changes in the payment patterns by fiscal quarter;	Closed
	B. Test models with specific additional independent variables in some of the models which may help substantiate and better expose the true nature of the relationships between ULOs and payments in the various types of obligations;	Closed
	C. Test the adequacy of a 30 day tail and attempt a 90 day tail;	Closed
	D. Use Box – Jenkins technique to reduce out (and further explain) some of the model variability that may be due to temporal effects [see text by G&P, Box and Gulliam Jenkins]; and	Closed
	E. Stratify plot data – ULOs greater than $500,000 vs. ULOs less than or equal to $500,000.	Closed
	14. We recommend that U.S. Forest Service management establish formal policies and procedures to accrue for property at period-end and train personnel on those policies and procedures.	Reissued-Closed
	15. We recommend that U.S. Forest Service management develop and perform a robust analytical whereby depreciation expense would be analytically reviewed for reasonableness and consistency with management expectations on at least a quarterly basis. We believe this review would help identify unusual or unexpected	Open

(Continued)

Open Conditions In this Table are Referenced In Exhibit I		
USDA OIG Audit Report No. 08401-9-FM November 2008		
Material Weakness/ Significant Deficiency	**Recommendation**	**Status**
	variances such that any necessary correcting adjustments could be processed in a timely manner.	

Open Conditions In this Table are Referenced In Exhibit I		
USDA OIG Audit Report No. 08401-8-FM November 2007		
Material Weakness/ Significant Deficiency	**Recommendation**	**Status**
The U.S. Forest Service Needs to Continue to Improve its General Controls Environment *[2009 Significant Deficiency; 2008 Significant Deficiency; 2007 Material Weakness]*	1. We recommend that U.S. Forest Service management:	
	A. Document and finalize a risk assessment in accordance with the FSM 6682.1 and NIST SP 800-30 for IBS.	Closed
	D. Ensure that a formalized [Authority To Operate] ATO [or an interim ATO] is in place for all major applications prior to implementation in accordance with FSM 6682.4.	Closed
	3. We recommend that U.S. Forest Service management:	
	A. Establish, communicate, and document the enforcement of policies and procedures which require quarterly management review of Paycheck7 access listings and EPIC access listings to verify that access is appropriate and in compliance with policy.	Open
	B. Ensure that proper SOD principles are adhered to when assigning roles in EmpowHR (the new Human Capital Management [HRM] personnel system), since this system will ultimately replace EPIC.	Open
	C. Update the "Identifying and Establishing a Separation of Duties and Maintaining Least Privilege for Users" document to include specific segregation of duties guidelines for system administrators and DBAs.	Closed
	D. Update the level of user access for all personnel based on the appropriate segregation of duties principles. If this current level of access is warranted, then mitigating controls must be implemented to appropriately track user actions.	Open
	4. We recommend that U.S. Forest Service management:	
	A. Update its system configuration management baselines, as necessary, to reflect the most recent software versions and patch levels to ensure consistency within the environment, when implementing new systems.	Reissued-Closed
	B. Improve system configuration management practices	

(Continued)

Open Conditions In this Table are Referenced In Exhibit I		
USDA OIG Audit Report No. 08401-8-FM November 2007		
Material Weakness/ Significant Deficiency	**Recommendation**	**Status**
	by raising system administrator awareness of the requirements for maintaining secure system configurations, including software versions, patches, and changing vendor default settings as necessary.	Reissued-Closed
The U.S. Forest Service Needs to Continue to Improve its Financial Management and Reporting Process *[2009 Significant Deficiency; 2008 Significant Deficiency; 2007 Significant Deficiency]*	5. We recommend that the U.S. Forest Service management devote the necessary resources to identify, research, and resolve prior year residual deposits in GL 2400.	Open
The U.S. Forest Service Needs to Refine and Monitor its Expense Accrual *[2008 Significant Deficiency; 2007 Significant Deficiency]*	7. We recommend that U.S. Forest Service management: A. Expand the number of variables to form multiple regression models and/or the types of analysis to include the use of the obligation paid, duration, percentage of time remaining in the obligation and percentage of time passed indexes in order to account for the various changes in the payment patterns by fiscal quarter.	Closed
Accountability for Unliquidated Obligations (ULOs) Needs Continued Improvement *[2009 Control Deficiency; 2008 Significant Deficiency; 2007 Significant Deficiency]*	9. We recommend that U.S. Forest Service management: A. Continue to train its personnel on performing and approving ULO certifications, and B. Consider removing option #4 from Part II of the ULO certification, or C. Follow up on any option #4 responses provided by the administrative units and regions.	Closed Closed Closed
Review of Credit Card Transactions and Controls Over the Programs Need Continued Improvement *[2009 Significant Deficiency; 2008 Significant Deficiency; 2007 Significant Deficiency]*	10. We recommend that U.S. Forest Service management: A. Implement the WO Directive 7130/1430 by providing detailed policies and procedures, adequate training on those policies and procedures, and monitor compliance to ensure appropriate use of the U.S. Forest Service funds. B. Require receipts for all purchases, where feasible, and ensure that they are maintained and reviewed by the Local Fleet Program Coordinator or Area Fleet Program Coordinator.	Reissued-Closed Open

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Open Conditions In this Table are Referenced In Exhibit I		
USDA OIG Audit Report No. 08401-7-FM November 2006		
Material Weakness/ Significant Deficiency	**Recommendation**	**Status**
U.S. Forest Service Needs to Refine and Monitor Its Expense Accrual *[2008 Significant Deficiency; 2007 Significant Deficiency; 2006 Significant Deficiency]*	4. We recommend that U.S. Forest Service management: • Test models with specific additional independent variables in some of the models may help to substantiate and better expose the true nature of the relationships between ULOs and payments in the various types of obligations.	Closed

Open Conditions In this Table are Referenced In Exhibit I		
USDA OIG Audit Report No. 08401-6-FM December 2005 *(Replaced prior Audit Report: USDA OIG Audit Report No. 08401-5-FM)*		
Material Weakness/ Significant Deficiency	**Recommendation**	**Status**
The U.S. Forest Service Needs to Improve its General Controls Environment *[2009 Significant Deficiency; 2008 Significant Deficiency; 2007 Material Weakness; 2006 Material Weakness; 2005 Material Weakness]*	5. We recommend that U.S. Forest Service network audit functions be configured to maintain a history of successful and unsuccessful login attempts and user activity for the U.S. Forest Service network as required by U.S. Forest Service Interim Directive 6680-2005-3, "Technical Controls."	Closed
	7. We recommend that U.S. Forest Service management establish controls to facilitate entity-wide adherence to the U.S. Forest Service Interim Directive 6680-2005-3; including the application of strong passwords to all user accounts identified as having a weak password during the vulnerability assessment, and the removal or disabling of all default, temporary, and guest user accounts; and	Closed
	8. We recommend that U.S. Forest Service system owners, in cooperation with the [Office of the Chief Information Officer] USDA OCIO and in compliance with USDA and U.S. Forest Service information security requirements: • Install the latest software versions, service packs, and security patches (and remove out-dated versions).	Reissued-Closed

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Open Conditions In this Table are Referenced In Exhibit I		
USDA OIG Audit Report No. 08401-4-FM November 2004		
Material Weakness/ Significant Deficiency	**Recommendation**	**Status**
Accountability for Undelivered Orders is Lacking *[2008 Significant Deficiency; 2007 Significant Deficiency; 2006 Reportable Condition; 2005 Material Weakness; 2004 Material Weakness*]	1. We recommend that U.S. Forest Service management: • Require all locations to fully comply with review and certification requirements and follow up to resolve questionable items.	Reissued-Closed
The Review of Purchase Card Transactions Needs Improvement *[2009 Significant Deficiency; 2008 Significant Deficiency; 2007 Significant Deficiency; 2006 Reportable Condition; 2005 Reportable Condition; 2004 Reportable Condition]*	4. We recommend that U.S. Forest Service management reinforce its policies in this area and incorporate procedures to test the reviews of purchased transactions in its AQM reviews.	Reissued-Closed

(Continued)

Open Conditions In this Table are Referenced In Exhibit I		
USDA OIG Audit Report No. 08401-3-FM January 2004		
Material Weakness/ Significant Deficiency	**Recommendation**	**Status**
The U.S. Forest Service Needs to Improve Its General Controls Environment *[2009 Significant Deficiency; 2008 Significant Deficiency; 2007 Material Weakness; 2006 Material Weakness; 2005 Material Weakness; 2004 Material Weakness; 2003 Material Weakness]*	19. [Additionally,] U.S. Forest Service management should review all systems for the presence of outdated software or services, missing critical patches and/or updates, and improperly configured servers or systems. Forest Service should then proceed to update or delete any identified outdated software, test and install applicable patches or updates, configure servers and systems in accordance with Forest Service technical bulletins and federal criteria, and remove any unneeded services.	Reissued-Closed
The Design and/or Implementation of Controls Related to the Accurate Recording of Personal Property Transactions Need Improvement *[2009 Significant Deficiency; 2008 Significant Deficiency; 2007 Significant Deficiency; 2006 Reportable Condition; 2005 Reportable Condition; 2004 Reportable Condition; 2003 Reportable Condition]*	30. We recommend that the U.S. Forest Service WO improve its monitoring of reporting units for compliance with the U.S. Forest Service property transaction recording policies.	Reissued-Closed

COMPLIANCE AND OTHER MATTERS

The U.S. Forest Service's Systems Do Not Comply with FFMIA of 1996 (Repeat Condition)

During our testwork over the FFMIA, we noted that U.S. Forest Service was not compliant with two of three requirements: (1) Financial Management Systems and (2) the USSGL.

Financial Management Systems

As noted in our internal control significant deficiency on the IT controls environment, the U.S. Forest Service had several systems that did not have:

- Adequate SOD, including FFIS PEND1/PEND 2 approvals,
- Access control weakness,
- Change Controls,
- Vulnerability scanning, and
- Proper audit log settings.

We continue to recognize the need for the U.S. Forest Service to address the IT significant deficiency recommendations noted in this report.

Compliance with the USSGL

During our FY 2009 audit, we noted the following deficiencies in the U.S. Forest Service's USSGL posting:

- EMIS is used to manage working capital fund equipment which consists of aircraft and vehicles. The system does not record depreciation at the equipment transaction level using the USSGL. It records depreciation by unit monthly at the summary level in the U.S. Forest Service GL.
- U.S. Forest Service capitalized lease transactions are not recorded in the GL at the transaction level. Instead, they are maintained in off-line spreadsheets and then recorded in the GL quarterly.
- The U.S. Forest Service does not use proper posting logic to record losses on the disposition of real property assets. Losses are not appropriately recorded in account 7210, *Losses on Disposition of Assets – Other*. Instead they are recorded as negative gains in account 7110, *Gains on Disposition of Assets – Other*.
- U.S. Forest Service transfers non-appropriated monies into appropriated funds, fund category "G." This causes a variance in several of the high priority account relationship tests. This variance is corrected when spending occurs and U.S. Forest Service posts a manual adjustment to reverse the unexpended appropriations–used/ expended appropriations (3107/5700) posting. These spending posting models, which contain a 3107/5700 posting, are driven by the appropriated fund category "G." This is inappropriate posting logic for non-appropriated monies. Instead, U.S. Forest Service should transfer the non-appropriated monies into a non fund category "G" fund, so that the related posting logic will not be processed using 3107/5700.

We continue to recognize the need for the U.S. Forest Service to implement a new financial management system in 2011 that would ensure compliance with the USSGL at the transaction level as noted in prior year Recommendation 12 of Audit Report No. 08401-6-FM.

STATUS OF PRIOR YEAR'S NONCOMPLIANCE FINDINGS AND OTHER MATTERS

Open Conditions In this Table are Referenced In Exhibit III		
USDA OIG Audit Report No. 08401-6-FM December 2005 *(Replaced prior Audit Report: USDA OIG Audit Report No. 08401-5-FM)*		
Reported Condition	**Recommendation**	**Status**
The U.S. Forest Service's Systems Do Not Comply with the Federal Financial Management Improvement Act (FFMIA) *(2009 Non-compliance; 2008 Non-compliance; 2007 Non-compliance; 2006 Non-compliance)*	12. We recommend that the U.S. Forest Service comply with Recommendation 1 of this report as well as develop systems and methodologies that comply with the SGL at the transactional level.	Open

Open Conditions In this Table are Referenced In Exhibit III		
USDA OIG Audit Report No. 08401-4-FM November 2004		
Reported Condition	**Recommendation**	**Status**
The U.S. Forest Service Does not Obligate All Transactions as Required by Appropriation Law *(2009 control deficiency; 2008 non-compliance; 2007 non-compliance; 2006 non-compliance; 2005 non-compliance; 2004 non-compliance)*	8. We recommend that the U.S. Forest Service management develop policies and procedures to obligate funds for transactions as required by Appropriations Law.	Closed

United States Department of Agriculture
Forest Service
Washington Office
1400 Independence Avenue, SW
Washington, DC 20250

File Code: 1430/6500
Date: NOV 12 2009

Mr. Brian J. Grega
Partner
KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway NE
Albuquerque, NM 87110

Dear Mr. Grega,

We have reviewed KPMG's Independent Auditor's Report dated the day of this letter, and generally agree with its contents. The U.S. Forest Service will develop an implementation plan to address the findings and recommendations identified during the audit. As we consider the required corrective actions, we will continue to work with KPMG and the Office of the Inspector General in identifying the specific actions that will assist us in successfully addressing the recommendations.

If you have questions or require additional information, please contact me at 202-205-1321.

Sincerely,

Donna M. Carmical

DONNA M. CARMICAL
Chief Financial Officer

cc: Steve Boozell, Office of the Inspector General

U.S. Department of Agriculture
Forest Service
CONSOLIDATED BALANCE SHEETS
As of September 30, 2009 and 2008
(in millions)

	2009	2008
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 5,146	$ 4,066
Investments (Note 3)	6	9
Accounts Receivable, Net (Note 4)	45	59
Total Intragovernmental	5,197	4,134
Cash and Other Monetary Assets	1	1
Accounts Receivable, Net (Note 4)	165	244
General Property, Plant, and Equipment (PP&E), Net (Note 5)	1,359	1,375
Other (Note 1D)	40	21
Total Assets	$ 6,762	$ 5,775
Stewardship PP&E (Note 6)		
Liabilities:		
Intragovernmental:		
Federal Employee Benefits (Notes 7 & 8)	$ 72	$ 67
Other (Note 10)	107	85
Total Intragovernmental	179	152
Accounts Payable	64	52
Federal Employee Benefits (Notes 7 & 8)	349	339
Environmental and Disposal Liabilities (Notes 7 & 9)	1	18
Other (Note 10)	1,545	1,522
Total Liabilities (Note 7)	2,138	2,083
Commitments and Contingencies (Note 10)		
Net Position:		
Unexpended Appropriations - earmarked funds (Note 12)	-	1
Unexpended Appropriations - other funds	2,966	1,969
Cumulative Results of Operations - earmarked funds (Note 12)	907	1,179
Cumulative Results of Operations - other funds	751	543
Total Net Position	4,624	3,692
Total Liabilities and Net Position	$ 6,762	$ 5,775

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Forest Service
CONSOLIDATED STATEMENTS OF NET COST
For the years ended September 30, 2009 and 2008
(in millions)

	2009	2008
Program Costs (Note 13):		
Total Gross Costs	$ 6,589	$ 6,711
Total Earned Revenue	679	865
Net Cost of Operations	$ 5,910	$ 5,846

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Forest Service
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the years ended September 30, 2009 and 2008
(in millions)

	FY 2009			FY 2008		
	Earmarked Funds (Note 12)	All Other Funds	Consolidated Total	Earmarked Funds (Note 12)	All Other Funds	Consolidated Total
Cumulative Results of Operations:						
Beginning Balance	$ 1,179	$ 543	$ 1,722	$ 1,111	$ 775	$ 1,886
Budgetary Financing Sources:						
Appropriations Used	1	5,391	5,392	-	5,172	5,172
Non-Exchange Revenue	-	1	1	-	-	-
Donations and Forfeitures of Cash	1	-	1	1	-	1
Transfers - In/Out without Reimbursement	259	(130)	129	160	(36)	124
Other Financing Sources (Non-Exchange):						
Transfers without Reimbursement	(70)	71	1	(32)	33	1
Imputed Financing		344	344	-	331	331
Other	48	(70)	(22)	85	(32)	53
Total Financing Sources	239	5,607	5,846	214	5,468	5,682
Net Cost of Operations	(511)	(5,399)	(5,910)	(146)	(5,700)	(5,846)
Net Change	(272)	208	(64)	68	(232)	(164)
Cumulative Results of Operations	**907**	**751**	**1,658**	**1,179**	**543**	**1,722**
Unexpended Appropriations:						
Beginning Balance	1	1,969	1,970	-	1,307	1,307
Budgetary Financing Sources:						
Appropriations Received	-	6,405	6,405	-	5,790	5,790
Appropriations Transferred - In/Out	-	(1)	(1)	1	(3)	(2)
Other Adjustments (rescissions, etc.)	-	(16)	(16)	-	47	47
Appropriations Used	(1)	(5,391)	(5,392)	-	(5,172)	(5,172)
Total Budgetary Financing Sources	(1)	997	996	1	662	663
Total Unexpended Appropriations	**-**	**2,966**	**2,966**	**1**	**1,969**	**1,970**
Net Position	**$ 907**	**$ 3,717**	**$ 4,624**	**$ 1,180**	**$ 2,512**	**$ 3,692**

The accompanying notes are an integral part of these statements.

U. S. Department of Agriculture
Forest Service
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 2009 and 2008
(in millions)

	2009	2008
Budgetary Resources:		
Unobligated Balance, Brought Forward, October 1	$ 2,170	$ 1,671
Recoveries of Prior Year Unpaid Obligations	38	78
Budget Authority:		
Appropriations	7,107	6,310
Spending Authority from Offsetting Collections:		
Earned:		
Collected	535	561
Change in Receivables from Federal Sources	(23)	38
Change in Unfilled Customer Orders:		
Advance Received	1	(7)
Without Advance from Federal Sources	(51)	3
Expenditure Transfers from Trust Funds	-	4
Subtotal	7,569	6,909
Nonexpenditure Transfers, net	-	(2)
Permanently Not Available	(5)	(71)
Total Budgetary Resources (Note 16)	$ 9,772	$ 8,585
Status of Budgetary Resources:		
Obligations Incurred: (Note 15)		
Direct	$ 6,545	$ 6,055
Reimbursable	482	360
Subtotal	7,027	6,415
Unobligated Balance-Apportioned (Note 2)	2,031	982
Unobligated Balance Not Available (Note 2)	714	1,188
Total Status of Budgetary Resources (Note 16)	$ 9,772	$ 8,585
Change in Obligated Balance:		
Obligated Balance, net		
Unpaid Obligations, Brought Forward, October 1	$ 2,132	$ 2,243
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(425)	(384)
Total Unpaid Obligated Balance, net	1,707	1,859
Obligations Incurred, net	7,027	6,415
Less: Gross Outlays	(6,480)	(6,448)
Less: Recoveries of Prior Year Unpaid Obligations, actual	(38)	(78)
Change in Uncollected Customer Payments from Federal Sources	74	(41)
Obligated Balance, net, End of Period		
Unpaid Obligations (Note 17)	2,641	2,132
Less: Uncollected Customer Payments from Federal Sources	(351)	(425)
Total, Unpaid Obligated Balance, net, End of Period (Note 2)	$ 2,290	$ 1,707
Net Outlays:		
Net Outlays:		
Gross Outlays	$ 6,480	$ 6,448
Less: Offsetting Collections	(536)	(558)
Less: Distributed Offsetting Receipts	(574)	(514)
Net Outlays	$ 5,370	$ 5,376

The accompanying notes are an integral part of these statements.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

A: REPORTING ENTITY

The U.S. Department of Agriculture (USDA) Forest Service (Forest Service) was established on February 1, 1905, as an agency of the United States Federal Government within the Department of Agriculture, for the purpose of maintaining and managing the Nation's forest reserves. It operates under the guidance of the Under Secretary for Natural Resources and Environment. Forest Service policy is implemented through nine regional National Forest System (NFS) offices, one State and Private Forestry (S&PF) area office, five research (R&D) offices, the Forest Products Laboratory (FPL) and the International Institute of Tropical Forestry (IITF), functioning in nearly all States, Puerto Rico, and the Virgin Islands.

The Forest Service's mission includes the following four major segments:

National Forests and Grasslands - Protection and management of an estimated 193 million acres (unaudited) of NFS land that includes 35.5 million acres (unaudited) of designated wilderness areas. In addition, the Forest Service partners with other nations and organizations to foster global natural resource conservation and sustainable development of the world’s forest resources;

Forest and Rangeland Research - Research and development of forest and rangeland management practices to provide scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the 1.6 billion acres (unaudited) of forests and associated rangelands in the United States;

State and Private Forestry – Cooperation with and assistance to State and local governments, Tribal governments, forest industries, and private landowners to help protect and manage non-Federal forests and associated rangeland and watershed areas; and

Wildland Fire Management – Protection of life, property, and natural resources on NFS lands, extending to an estimated additional 20 million acres (unaudited) of adjacent State and private lands.

The accompanying consolidated and combined financial statements of the Forest Service account for all funds under the Forest Service's control. Substantially all assets are considered “entity assets” and are available for use in the Forest Service’s operations.

B: BASIS OF PRESENTATION AND ACCOUNTING

The Consolidated Balance Sheets (BS), Consolidated Statements of Net Cost (SNC), Consolidated Statements of Changes in Net Position (SCNP), and the Combined Statements of Budgetary Resources (SBR) (hereinafter referred to as the “financial statements”) were prepared to report the financial position, net costs, changes in net position, and budgetary resources of the Forest Service. The financial statements have been prepared from the books and records of the Forest Service in accordance with accounting principles generally accepted in the United States of America and in accordance with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised June 10, 2009. All material intra-agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the SBR is presented on a combined basis in accordance with OMB Circular A-136.

These financial statements present proprietary and budgetary information. The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

The Forest Service recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through the U.S. Department of the Treasury (Treasury) General Fund warrants and other transfers. In addition to appropriated funds, the Forest Service is authorized by law to retain specific earned revenues primarily from sales of forest products and services and to spend these monies on resource management activities identified in the governing legislation. Some examples of the Forest Service's earned revenues are monies collected from timber sales or recreation fees.

C: FUND BALANCE WITH THE U.S. TREASURY

The Treasury processes cash receipts and disbursements on behalf of the Forest Service. Funds on deposit with the Treasury are primarily appropriated, trust and other fund types such as special funds that are available to pay current liabilities and finance authorized purchase commitments.

D: OTHER ASSETS

Payments made by the Forest Service in advance of the receipt of goods and services are recorded as advances at the time of payment and recognized as expenditures/expenses when the related goods and services are received.

E: GENERAL PROPERTY, PLANT, AND EQUIPMENT

General property, plant, and equipment (PP&E) includes real and personal property used in normal business operations. Real and personal property is recorded at cost or estimated fair value and must have an estimated useful life of 2 years or more. The Forest Service capitalization threshold for real and personal property is $25 thousand or more. Internal use software is capitalized in accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 10, *Accounting for Internal Use Software*, if the fair value meets or exceeds $100 thousand. The Forest Service recognizes liabilities for capital leases in accordance with SFFAS No. 6 *Accounting for Property, Plant and Equipment*. Under SFFAS No. 6 the cost of general PP&E acquired under a capital lease is equal to the amount recognized as a liability for the capital lease at its inception (net present value of the lease payments) unless the net present value exceeds the fair value of the asset. There are no restrictions on the use or convertibility of general PP&E.

See Note 6 for specific disclosures related to multi-use Heritage Assets.

F: STEWARDSHIP PP&E

Stewardship PP&E includes assets such as heritage assets and stewardship land, which due to their unique nature would be difficult to value. In accordance with SFFAS No. 29, *Heritage Asset and Stewardship Land*, all heritage assets and stewardship land information has been reclassified as basic, except for condition information, which is reclassified as required supplementary information (RSI).

See Note 6 for specific disclosures related to Stewardship PP&E.

G: LIABILITIES

Liabilities represent the amount of monies or other resources that are likely to be paid by the Forest Service as a result of a transaction or event that has occurred. However, the Forest Service cannot satisfy a liability without an appropriation. Liabilities for which there is no appropriation and for which there is no certainty that an appropriation will be enacted, are classified as unfunded liabilities. The U.S. Government, acting in its sovereign capacity, can abrogate liabilities.

H: ENVIRONMENTAL AND DISPOSAL LIABILITIES

The Forest Service's estimated government-related and government-acknowledged environmental liabilities are principally associated with the future remediation of certain landfills, buildings, and other related sites in accordance with all applicable Federal, State and local laws.

See Note 9 for specific disclosures related to cleanup costs for ongoing operations.

I: COMMITMENTS AND CONTINGENCIES

The Forest Service is a party in various administrative proceedings, legal actions, environmental lawsuits, and claims. In the opinion of the Forest Service management and its legal counsel, the ultimate resolution of most of these proceedings is currently indeterminable. Where probable and reasonably estimable, the full value of amounts related to unsettled litigation and other claims against the Forest Service is recognized as a liability and expense. Expected amounts related to litigation and other claims include amounts to be paid by Treasury on behalf of the Forest Service from a permanent appropriation for judgments and from other appropriations.

J: WORKERS' COMPENSATION LIABILITY

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to Federal civilian employees injured on the job, employees who have incurred a work related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Benefit claims incurred for the Forest Service's employees under FECA are administered by the U.S. Department of Labor (DOL). The USDA uses Forest Service funds to reimburse the DOL for FECA claims. Consequently, the Forest Service recognizes a liability for this compensation comprised of: (1) an accrued liability that represents money owed for claims paid by the DOL through the current fiscal year and (2) an actuarial liability that represents the expected liability for Forest Service approved compensation cases to be paid beyond the current fiscal year.

K: EMPLOYEE ANNUAL, SICK, AND OTHER LEAVE

Annual and other vested leave such as compensatory, credit hours, and restored leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each quarter, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Sick leave is generally nonvested. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Sick leave and other types of nonvested leave are expensed when used.

L: PENSION AND OTHER RETIREMENT BENEFITS

Forest Service employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The employees who participate in CSRS are beneficiaries of the Forest Service's matching contribution, equal to 7.0 percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987, pursuant to Public Law 99-335. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect to join FERS and Social Security, or to remain in CSRS. FERS offers a savings plan to which the

Forest Service automatically contributes 1.0 percent of pay and matches any employee contribution up to an additional 4.0 percent of pay. For FERS participants, the Forest Service also contributes the employer's matching share for Social Security.

The Forest Service recognizes the imputed cost of pension and other health and life insurance retirement benefits during the employees' active years of service. Office of Personnel Management (OPM) actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors and information regarding the full cost of health and life insurance benefits to the Forest Service for current period expense reporting.

M: REVENUES AND OTHER FINANCING SOURCES

The Forest Service is funded principally through Congressional appropriations and other authorizations in the Budget of the United States. The Forest Service receives annual, multi-year, and no-year appropriations that are used, within statutory limits, for operating and capital expenditures. Other funding sources are derived through reimbursements for services performed for other Federal and non-Federal entities, sale of goods to the public, gifts from donors, cost-share contributions and interest on invested amounts.

Appropriations are used at the time the related program or administrative expenses are incurred or when the appropriations are expended for capital property and equipment. Other revenues are recognized as earned when goods have been delivered or services rendered.

In accordance with Federal Government accounting guidance, the Forest Service classifies revenue as either "exchange revenue" or "non-exchange revenue." Exchange revenue arises from transactions that occur when each party to the transaction sacrifices value and receives value in return. An example of exchange revenue is the income from the sale of forest products. In some cases, the Forest Service is required to remit exchange revenue receipts to the Treasury. In other instances, the Forest Service is authorized to use all, or a portion, of its exchange revenues for specific purposes. Non-exchange revenue is revenue the Federal Government is able to demand or receive because of its sovereign powers. Penalties and cash donations received from private citizens and organizations are examples of non-exchange revenue.

The Forest Service reports the full cost of products and services generated from the consumption of resources. Full cost is the total amount of resources used to produce a product or provide a service unless otherwise noted. In accordance with SFFAS No.7, *Accounting for Revenue and Other Financing Sources*, the Forest Service's pricing policies are set to recover full cost except where mandated by law or for the public good, such as in the case of grazing fees. Also, costs and exchange revenue are disclosed in Note 13 as intragovernmental or with the public based on the related source or customer, respectively.

N: IMPUTED FINANCING

The Forest Service recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the OPM. Amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against the Forest Service are also recognized as imputed financing. Imputed financing for the years ended September 30, 2009 and 2008 was $344 million and $331 million, respectively.

O: PARENT/CHILD REPORTING REQUIREMENTS

The Forest Service is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Effective October 1, 2006, in accordance with OMB Circular A-136, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. The Forest Service allocates funds, as the parent, to the Department of Transportation, Department of the Interior, Department of the Army, Department of the Navy, Department of the Air Force, and the Corps of Engineers, Civil. The Forest Service receives allocation transfers, as the child, from the Department of Labor, Department of Transportation, and Department of the Interior.

P: USE OF ESTIMATES

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statements include the majority of accrued liabilities and federal employee benefits liabilities.

Q: EARMARKED FUNDS

The Forest Service reports the earmarked funds for which it has program management responsibility, using the following three criteria:

- A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits, or purposes;

- Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and

- A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Federal Government's general revenues.

NOTE 2: FUND BALANCE WITH TREASURY

Funds with the Treasury are primarily appropriated (general and special funds), revolving (working capital fund), and trust funds that are available to pay current liabilities and finance authorized purchase commitments. The category of other fund types includes deposit and suspense accounts. It is the Forest Service's policy to ensure the Fund Balance with Treasury (FBWT) reported on the balance sheets is consistent with the records of the Treasury.

The Forest Service has known discrepancies with Treasury in FBWT, suspense accounts 12F3875 and 12F3885, as of September 30, 2009. These accounts were discontinued effective July 31, 2008. The USDA has elected not to obtain a waiver, which would permit the Forest Service to continue using suspense accounts. In addition, Treasury has stopped accepting new activity in these suspense accounts from entities without the required waiver, but certain intragovernmental activity is still mapped to 12F3875 and 12F3885, resulting in balances recorded to the general ledger. Per Treasury guidance the balances are not reported to Treasury. The difference between the FBWT balance and Treasury as of September 30, 2009, is approximately $6 million.

Fund Balance with Treasury as of September 30, 2009 and 2008 consisted of the following:

	(in millions) 2009	2008
A. Fund Balances:		
(1) Trust Funds	$ 406	$ 313
(2) Special Funds	875	908
(3) Revolving Funds	178	146
(4) General Funds	3,620	2,628
(5) Other Fund Types	67	71
Total	$ 5,146	$ 4,066
B. Status of Funds:		
(1) Unobligated Balance		
(a) Available	$ 2,031	$ 982
(b) Unavailable	714	1,188
(2) Obligated Balance not yet Disbursed	2,290	1,707
(3) Non-Budgetary FBWT Accounts	111	189
Total	$ 5,146	$ 4,066

NOTE 3: INVESTMENTS

Investments are associated with earmarked funds. The Federal Government does not set aside assets to pay future expenditures associated with earmarked funds. The cash generated from earmarked funds is used by the U.S. Treasury for general Government purposes. Treasury securities are issued to the earmarked fund as evidence of earmarked receipts. These securities are an asset to the earmarked fund and are presented as Investments in Note 12 – Earmarked Funds. Treasury securities are a liability of the U.S. Treasury and are eliminated in the consolidation of the U.S. Government-wide financial statements. Treasury will finance any future redemption of the securities by an earmarked fund in the same manner that all other Government expenditures are financed.

Investments
As of and for the year ended September 30, 2009
(in millions)

	Amortization Method	Cost	Net Amortized (Premium)	Investments, Net	Market Value Disclosure
(3) Non-Marketable:					
Market-Based	Straight-Line	$ 6	$ -	$ 6	$ 6
Total	N/A	$ 6	$ -	$ 6	$ 6

Investments
As of and for the year ended September 30, 2008
(in millions)

	Amortization Method	Cost	Net Amortized (Premium) Discount	Investments, Net	Market Value Disclosure
(3) Non-Marketable:					
Market-Based	Straight-Line	$ 9	$ -	$ 9	$ 9
Total	N/A	$ 9	$ -	$ 9	$ 9

NOTE 4: ACCOUNTS RECEIVABLE, NET

Intragovernmental Accounts Receivable represent amounts due under reimbursable and cooperative agreements with Federal entities for services provided by the Forest Service. An Allowance for Uncollectible Accounts is not established for these amounts because monies due from other Federal entities are considered fully collectible. As of September 30, 2009 and 2008, the Intragovernmental Accounts Receivable balances were $45 million and $59 million, respectively.

Non-Intragovernmental Accounts Receivable are comprised primarily of timber harvest and reimbursements and refunds owed to the Forest Service for fire prevention and suppression activities. An Allowance for Uncollectible Accounts is established against outstanding non-Federal accounts receivable, based on historical experience. The historical percentage is calculated by comparing the ending fiscal year balance in GL 1318 (the write-off account) against the previous ending fiscal year balance of open accounts receivable. The historical percentage is then applied to the ending balance of open accounts receivable. This approach is used to estimate the allowance for uncollectible accounts and recording receivables at net realizable value.

Non-Intragovernmental Accounts Receivable as of September 30, 2009 and 2008 consisted of the following:

	(in millions)	
	2009	2008
Accounts Receivable	$ 169	$ 254
Allowance for Uncollectible Accounts	(4)	(10)
Accounts Receivable, Net	$ 165	$ 244

NOTE 5: GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

Depreciation of General PP&E for the Forest Service is recorded on the straight-line method based on the estimated useful lives listed below. Capitalization thresholds are provided in Note 1, Section E.

As of September 30, 2009 and 2008 the Forest Service's General PP&E consisted of the following:

September 30, 2009
(in millions)

Property Class	Estimated Useful Life (Years)	Cost	Accumulated Depreciation	Book Value
Personal Property				
Equipment	5 - 20	$ 723	$ (527)	$ 196
Internal Use Software	5	187	(157)	30
Internal Use Software in Development	n/a	30	-	30
Total Personal Property		**940**	**(684)**	**256**
Real Property				
Land and Land Rights	n/a	51	-	51
Improvements to Land	10	700	(604)	96
Construction in Progress	n/a	121	-	121
Buildings, Improvements, and Renovations	30	945	(568)	377
Other Structures and Facilities	15 - 50	1,680	(1,259)	421
Assets Under Capital Lease	5 - 30	63	(35)	28
Leasehold Improvements	10	14	(5)	9
Total Real Property		**3,574**	**(2,471)**	**1,103**
Total		**$ 4,514**	**$ (3,155)**	**$ 1,359**

September 30, 2008
(in millions)

Property Class	Estimated Useful Life (Years)	Cost	Accumulated Depreciation	Book Value
Personal Property				
Equipment	5 - 20	$ 710	$ (524)	$ 186
Internal Use Software	5	186	(142)	44
Internal Use Software in Development	n/a	11	-	11
Total Personal Property		**907**	**(666)**	**241**
Real Property				
Land and Land Rights	n/a	51	-	51
Improvements to Land	10	690	(582)	108
Construction in Progress	n/a	170	-	170
Buildings, Improvements, and Renovations	30	890	(547)	343
Other Structures and Facilities	15 - 50	1,632	(1,211)	421
Assets Under Capital Lease	5 - 30	63	(32)	31
Leasehold Improvements	10	14	(4)	10
Total Real Property		**3,510**	**(2,376)**	**1,134**
Total		**$ 4,417**	**$ (3,042)**	**$ 1,375**

NOTE 6: STEWARDSHIP PP&E

This note provides information on certain resources entrusted to and stewardship responsibilities assumed by the Forest Service. These resources and responsibilities are referenced in accordance with SFFAS No. 29, *Heritage Assets and Stewardship Land* on the Forest Service's Balance Sheet.

Stewardship Property, Plant, and Equipment (PP&E)

Stewardship PP&E are assets whose physical properties resemble those of the General PP&E that are traditionally capitalized in the financial statements. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful. Stewardship PP&E includes heritage assets and stewardship land. The Forest Service reports its physical units of Stewardship PP&E by site. Sites include National Forests, National Grasslands, other Forest Service-managed sites, and non Forest Service-managed sites such as museums and university laboratories. The protection of these lands and resources is a fundamental Forest Service responsibility.

The mission of the Forest Service is to sustain the health, diversity, and productivity of the Nation's forests and grasslands to meet the needs of present and future generations. The Forest Service strives to achieve quality land management under the sustainable multiple-use management concept to deliver the necessary products and services that are essential for enhancing natural resource stewardship and to meet the diverse needs of people.

The preservation and management of heritage assets is guided through the enactment of many laws and regulations including the Organic Act of 1897 (16 U.S.C. 473-478, 479-482, 551), the Antiquities Act of 1906 (16 U.S.C. 431), the National Historic Preservation Act of 1966 (16 U.S.C. 470), the Archaeological Resources Protection Act of 1979 (16 U.S.C. 470aa *et seq*.), the Native American Graves Protection and Repatriation Act of 1990 (25 U.S.C. 3001), Executive Order 13287 – Preserve America, issued March 3, 2003, National Register of Historic Places (36 CFR, part 60), Protection of Archaeological Resources Uniform Regulations (36 CFR part 296), and the Curation of Federally-owned and Administered Archaeological Collections (36 CFR part 79), as well as many others.

The predominant laws governing the management of stewardship land are the Transfer Act of 1905 (16 U.S.C. 472, 478, 495, 551, 554a, 615b, 554, 524), the Multiple Use-Sustained Yield Act of 1960 (16 U.S.C. 528-531, 528 note), the Forest and Rangeland Renewable Resources Planning Act of 1974 (16 U.S.C. 1600 note, 1600-1614), and the National Forest Management Act of 1976 (16 U.S.C. 472a).

These laws and regulations are implemented through Forest Service policy and guidance. Program management evaluations and technical reviews are performed to ensure compliance.

Heritage Assets

Heritage assets, as defined in SFFAS 29, are PP&E that are unique for one or more of the following reasons:

- Historical or natural significance
- Cultural, educational, or artistic (e.g. aesthetic) importance
- Significant architectural characteristics

Heritage assets can include non-collection type assets, such as historic or prehistoric sites, monuments, and buildings, or collection type assets, such as objects gathered and maintained for exhibition.

Some heritage assets may also be classified as multi-use heritage assets if they serve two purposes—a heritage function and a general government operations function, such as a forest guard station building. The building may be listed on the National Register of Historic Places, but it serves primarily as an administrative site; hence, it is considered a "multi-use" heritage asset. Multi-use heritage assets are capitalized as General PP&E. Physical units of multi-use heritage assets are reported as Stewardship PP&E.

Heritage Asset categories can include the following:

Priority Heritage Assets (PHA): Heritage assets of distinct public value that are, or should be, actively maintained, and meet one or more of the following criteria:

- The property is recognized through an official designation; such as a listing on the National Register of Historic Places, State register, etc.
- The property is recognized through prior investment in preservation, interpretation, and use. Any improvement to a PHA that meets real property designation criteria is considered as real property.
- The property is recognized in an agency-approved management plan.
- The property exhibits critical deferred maintenance needs, and those needs have been documented.

Other Heritage Assets (OHA): Assets that may have potential important historical or cultural significance, but lack formal listing and the demonstrated need for active maintenance.

Assemblage Assets: Any grouping of artifacts or archival materials aggregated through donation, agency events, site-specific or other field collection, other acquisition method, or combination therein. This would include materials donated to the Forest Service; artifact or archival materials collected from a single site, Forest Service administrative unit, or event; or any combination thereof.

Acquisition and Withdrawal of Heritage Assets

The Forest Service generally does not construct heritage assets, although in some circumstances important site-structural components may be rehabilitated or reconstructed into viable historic properties to provide forest visitors with use and interpretation. Heritage assets may be acquired through the procurement process, but this rarely occurs. Normally, heritage assets are part of the land acquisition and inventory process. Withdrawal occurs through land exchange or natural disasters. Most additions occur through inventory activities where previously undocumented sites are discovered and added to the total. Although not technically additions—they already existed on NFS lands—they do represent an increased management responsibility commensurate with the spirit of "additions." The non Forest Service area sites increased in FY 2009 by 113; the increase is due to comprehensive site inventories.

The Heritage Asset Sites (Units) reported by management area as of September 30, 2009, are as follows:

HERITAGE ASSET SITES (Units) BY MANAGEMENT AREA	FY 2008 Final Sites	Additions	Deletions	FY 2009 Final Sites
National Forests				
Region 1 - Northern Region	15	-	-	15
Region 2 - Rocky Mountain Region	17	-	-	17
Region 3 - Southwestern Region	12	-	-	12
Region 4 - Intermountain Region	18	-	-	18
Region 5 - Pacific Southwest Region	18	-	-	18
Region 6 - Pacific Northwest Region	21	-	-	21
Region 8 - Southern Region	35	-	-	35
Region 9 - Eastern Region	17	-	-	17
Region 10 - Alaska Region	2	-	-	2
Subtotal	155			155
National Grasslands				
Region 1 - Northern Region	4	-	-	4
Region 2 - Rocky Mountain Region	7	-	-	7
Region 3 - Southwestern Region	4	-	-	4
Region 4 - Intermountain Region	1	-	-	1
Region 5 - Pacific Southwest Region	1	-	-	1
Region 6 - Pacific Northwest Region	1	-	-	1
Region 8 - Southern Region	2	-	-	2
Subtotal	20			20
Non Forest Service Sites	22	113	-	135
TOTAL SITES	**197**	**113**	-	**310**

Region 1 - Montana, North Dakota, Northern Idaho, and Northwestern South Dakota
Region 2 - Colorado, Kansas, Nebraska, South Dakota, and Wyoming
Region 3 - Arizona and New Mexico
Region 4 - Southern Idaho, Nevada, Utah, and Western Wyoming
Region 5 - California, Hawaii, Guam, and Trust Territories of the Pacific Islands
Region 6 - Oregon and Washington
Region 8 - Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, Virgin Islands, and Virginia
Region 9 - Delaware, Illinois, Indiana, Iowa, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, West Virginia, and Wisconsin
Region 10 - Alaska

Stewardship Land

Stewardship land consists primarily of the national forests and grasslands owned by the Forest Service. Stewardship land is valued for its environmental resources, recreational and scenic value, cultural and paleontological resources, vast open spaces, and resource commodities and revenue provided to the Federal Government, States, and counties.

National Forests
The national forests are formally established and permanently set aside and reserved for national forest purposes. The following categories of NFS lands have been set aside for specific purposes in designated areas:

- National Wilderness Areas. Areas designated by Congress as part of the National Wilderness Preservation System.
- National Primitive Areas. Areas designated by the Chief of the Forest Service as primitive areas. They are administered in the same manner as wilderness areas, pending studies to determine sustainability as a component of the National Wilderness Preservation System.
- National Wild and Scenic River Areas. Areas designated by Congress as part of the National Wild and Scenic River System.
- National Recreation Areas. Areas established by Congress for the purpose of assuring and implementing the protection and management of public outdoor recreation opportunities.
- National Scenic Research Areas. Areas established by Congress to provide use and enjoyment of certain ocean headlands and to ensure protection and encourage the study of the areas for research and scientific purposes.
- National Game Refuges and Wildlife Preserve Areas. Areas designated by Presidential proclamation or Congress for the protection of wildlife.
- National Monument Areas. Areas including historic landmarks, historic and prehistoric structures, and other objects for historic or scientific interest, declared by Presidential proclamation or Congress.

National Grasslands
National grasslands are designated by the Secretary of Agriculture and permanently held by the USDA under Title III of the Bankhead-Jones Farm Tenant Act.

Research and Experimental Areas
Research and experimental areas are reserved and dedicated by the Secretary of Agriculture for forest and range research experimentation. Areas reported are located outside the exterior boundaries of a National Forest or National Grassland.

National Preserves and Other Areas
National preserves are units established to protect and preserve scientific, scenic, geologic, watershed, fish, wildlife, historic, cultural, and recreational values; and provide for multiple use and sustained yield of its renewable resources. Other areas include areas administered by the Forest Service that are not included in one of the above groups.

Acquisition and Withdrawal of Stewardship Lands

The Land and Water Conservation Fund (L&WCF) Land Acquisition Program acquires land for the Forest Service NFS. The program coordinates with a variety of partners, including State, local, and Tribal governments, and private landowners through statewide planning for development of a land-adjustment strategy.

The Land Acquisition Program preserves, develops, and maintains access to NFS lands and waters for the public and provides permanent access to public lands for recreation, commodity production, resource management, public safety, and community economic viability.

The L&WCF statutory authority specifically defines the purpose to also include protecting the quality of scientific, scenic, historical, ecological, environmental, air and atmospheric, water resource, archeological values, as well as food and habitat for fish and wildlife, and managing the public lands for minerals, food, timber and fiber.

From these several allowable uses of program funding, the program concentrates on protecting habitat for priority species identified in the national forest and grassland's Land Management Plans (LMPs) and enhancing recreational opportunities for areas with high demand for recreation. The program focuses acquisitions on inholdings and areas adjacent to existing NFS lands.

The NFS sites reported by major category as of September 30, 2009, are as follows:

STEWARDSHIP LAND ASSET SITES	FY 2008 Final Sites	Additions	Deletions	FY 2009 Final Sites
National Forests	155	-	-	155
National Grasslands	20	-	-	20
Research and Experiment Areas	3	-	-	3
National Preserves and Other Areas	3	-	-	3
TOTAL SITES	**181**	-	-	**181**

NOTE 7: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources as of September 30, 2009 and 2008 consisted of the following:

	(in millions)	
	2009	**2008**
Intragovernmental:		
Treasury Judgment Fund	$ 18	$ 17
Other Unfunded Employment Related Liability	15	-
Federal Employee Benefits (Note 8)	72	67
Total Intragovernmental Not Covered by Budgetary Resources	105	84
Federal Employee Benefits (Note 8)	349	339
Annual Leave Liability	206	199
Contingent Liabilities	16	14
Accrued Liability for Payments to States	442	531
Environmental and Disposal Liabilities (Note 9)	1	10
Total Liabilities Not Covered by Budgetary Resources	1,119	1,177
Total Liabilities Covered by Budgetary Resources	1,019	906
Total Liabilities	$ 2,138	$2,083

Other Unfunded Employment Related Liability consists of the Forest Service portion of the unemployment compensation unfunded liability as established in § 909 of the Social Security Act, approved, August 14, 1935.

NOTE 8: FEDERAL EMPLOYEE BENEFITS

Liabilities under the Federal Employees' Compensation Act (FECA) are incurred as a result of accrued workers' compensation benefits not yet paid by the Forest Service.

Workers' compensation benefits include the current and expected future liability for death, disability, medical, and other approved costs. The U.S. Department of Labor (DOL) actuarially determines the expected future liability for the USDA as a whole, including the Forest Service. The Forest Service is billed annually as its claims are paid by the DOL. Payments to the DOL are deferred for two years so that the bills may be funded through the budget. The amounts of unpaid FECA billings constitute the accrued FECA payable.

The total components of accrued FECA payable as of September 30, 2009 and 2008 consisted of the following:

	(in millions)	
	2009	**2008**
Intragovernmental Federal Employee Benefits (Note 7)	$ 72	$ 67
Federal Employee Benefits (Note 7)	349	339
Total	$ 421	$ 406

NOTE 9: ENVIRONMENTAL AND DISPOSAL LIABILITIES

Forest Service discloses information related to cleanup costs for environmental hazards, in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government,* and SFFAS No. 6*, Accounting for Property, Plant and Equipment.* SFFAS No. 5 addresses liabilities associated with government-related events and government-acknowledged events.

Government-related events are non-transaction based events that involve interaction between the Forest Service and the environment; damages caused by such factors as ongoing operations or natural forces. The resulting liability is considered probable based on Forest Service's responsibility for cleanup of government related events and is recognized in the period the event occurs or as soon as it becomes measurable.

Government-acknowledged events are non-transaction events that are of financial consequence to the Forest Service because it chooses to respond to the event, and the primary responsible party cannot be located. Clean up costs associated with events such as toxic waste damage caused by non-Federal entities or natural disasters, may ultimately become the responsibility of the Forest Service. However these costs do not meet the definition of a "liability" until, and to the extent that financial responsibility is acknowledged by the Forest Service, Congress has appropriated resources, and an exchange or non-exchange transaction has occurred.

The Forest Service is subject to environmental laws and regulations regarding air, water, and land use, the storage and disposal of hazardous materials, and the operation and closure of facilities at which environmental contamination may be present. Forest Service project managers confer with the appropriate States, the Office of General Counsel (OGC), and occasionally, Environmental Protection Agency (EPA) and local governments. The agency follows cleanup requirements from the legislative sources in Appendix I of Federal Financial Accounting and Auditing, Technical Release No. 2, including the Comprehensive Environmental Response Compensation and Liability Act of 1980 (CERCLA), the Resource Conservation and Recovery Act (RCRA), other Federal or State regulations and USDA or Forest Service policy, as necessary. Estimated environmental and disposal liabilities include expected future cleanup costs, and the cost of studies necessary to evaluate response requirements for those sites where future liability is unknown.

PP&E cleanup cost estimates—usually immaterial to the total project cost for the majority of demolitions, deconstructions, or renovations—are included in PP&E operations and maintenance costs (O&M). When contamination occurs that is not addressed under regular O&M, the agency develops a cost estimate for the total cleanup and, to the extent it is probable and reasonable to estimate, records the cost to cleanup any contaminated PP&E. Professional judgment and prior experience is often the basis for cost estimates. If the agency has no previous similar experience, the staff performs other comparable technical reviews or derives estimates using standard cost estimating guides.

Exceptions occur when a *previous* activity results in release or potential release of a hazardous substance, and if contamination migrates offsite from a *current* operation. In these instances, the total reasonably estimable costs are recognized when the exception is discovered.

Forest Service cleanup cost estimates are based on the current total cost for a contaminated site according to laws, technology and inflation/deflation. Forest Service updates cost estimates, including changes relating to prior period operations, for government-related liabilities at least annually, to reflect changes in laws or regulations, technology, and inflation or deflation.

NOTE 10: OTHER LIABILITIES

(in millions)

	2009			2008		
	Non-Current	Current	Total	Non-Current	Current	Total
Intragovernmental						
Employer Contributions & Payroll Tax	$ -	$ 28	28	$ -	$ 24	$ 24
Accrued Liabilities	18	22	40	17	27	44
Advances from Others	-	21	21	-	19	19
Deposit Liabilities	-	(6)	(6)	-	(11)	(11)
Custodial Liabilities	-	9	9	-	9	9
Other (Note 7)	-	15	15	-	-	-
Total Intragovernmental	$ 18	$ 89	$ 107	$ 17	$ 68	$ 85
Other						
Accrued Liabilities	$ -	$ 721	$ 721	$ -	$ 567	$ 567
Grant Liabilities	-	-	-	-	5	5
Advances from Others	-	46	46	-	47	47
Deposit Liabilities	-	85	85	-	124	124
Purchaser Road Credits	-	1	1	-	1	1
Accrued Liability for Payments to States & Counties	-	442	442	-	531	531
Annual Leave Liability		206	206	-	199	199
Contingent Liabilities	16	-	16	14	-	14
Custodial Liabilities	-	-	0	-	3	3
Capital Leases (Note 11)	25	3	28	28	3	31
Total Other	$ 41	$ 1,504	$1,545	$ 42	$ 1,480	$1,522
Total Other and Intragovernmental Liabilities	$ 59	$ 1,593	$1,652	$ 59	$ 1,548	$1,607

As of September 30, 2009 and 2008, the Forest Service's major components of other liabilities are as follows:

Accrued Liabilities: Accrued liabilities consist primarily of accruals for payroll and for receipt of goods and services. Accrued liabilities for occupancy agreements between U.S. General Services Administration (GSA) and the Forest Service are also included. A portion of the accrued liabilities total is calculated by a mathematical model based on a regression between open obligation balances and subsequent payments.

Accrued Liability for Payments to States and Counties: The Twenty-Five Percent Fund Act of May 23, 1908, as amended (16 U.S.C. 500), authorized the Payments to States Program. This program requires revenue generated by the sale of goods and services on the national forests to be shared with the States for public schools and public roads in the county or counties in which the national forests are located. The Secure Rural School and Community Self Determination Act of 2000, (P.L. 106-393) as amended by § 601 of The Emergency Economic Stabilization Act of 2008, (H.R. 1424) (P.L. 110-343) also provides for roads and schools, Forest Service projects and emergency services. In addition, the Payments to Counties, Bankhead-Jones Farm Tenant Act of 1937 requires 25.0 percent of the net revenues from each national grassland or land utilization project to be paid to the counties in which such lands are located.

Annual Leave Liability: Annual and other vested leave such as compensatory, credit hours, and restored leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each quarter, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken.

Contingent Liabilities and Commitments: As of September 30, 2009, the Forest Service had several legal actions pending. Based on information provided by legal counsel, management has accrued liabilities for some adverse actions determined to be probable in occurrence and reasonably estimable. The Forest Service discloses potential liabilities related to claims where the probability of occurrence is at least reasonably possible. There are no estimated obligations related to cancelled appropriations for which there is a contractual commitment for payment. In addition, there are no contractual arrangements which may require future financial obligations.

The accrued and potential contingent liabilities as of September 30, 2009, and 2008 are summarized as follows:

FY 2009		**Estimated Range of Loss**	
(in millions)	**Accrued Liabilities**	**Lower End**	**Upper End**
Contingent Liabilities			
Probable	$ 16	$ 16	$ 30
Reasonably Possible		$ 2	$ 192

FY 2008		**Estimated Range of Loss**	
(in millions)	**Accrued Liabilities**	**Lower End**	**Upper End**
Contingent Liabilities			
Probable	$ 14	$ 14	$ 14
Reasonably Possible		$ 1	$ 101

NOTE 11: LEASE LIABILITIES

The Forest Service enters into leasing agreements through leasing authority delegated by GSA for general facilities (buildings and office space), equipment, and land. Leases may include renewal options for periods of one or more years. Most leases are subject to cancellation upon certain funding conditions. The Forest Service's assets under capital leases as of September 30, 2009 and 2008 and future capital and operating lease agreement payments as of September 30, 2009 consisted of the following:

		(in millions)	
Capital Leases:		**2009**	**2008**
Summary of Assets Under Capital Leases			
Land, Buildings, Machinery, & Equipment		$ 63	$ 63
Accumulated Amortization		(35)	(32)
Total		$ 28	$ 31
Future Payments Due:			
		Machinery & Equipment	
	Year 1 (2010)	10	
	Year 2 (2011)	10	
	Year 3 (2012)	9	
	Year 4 (2013)	9	
	Year 5 (2014)	9	
	After 5 Years	40	
Total Future Lease Payments		$ 87	
Less: Imputed Interest		42	
Less: Executory Costs		17	
Subtotal		28	
Lease Liabilities Covered by Budgetary Resources		$ 28	

Operating Leases:		**(in millions)**
Future Payments Due:		
	Fiscal Year	Machinery & Equipment
	Year 1 (2010)	$ 44
	Year 2 (2011)	41
	Year 3 (2012)	38
	Year 4 (2013)	36
	Year 5 (2014)	35
	After 5 Years	266
Total Future Lease Payments		$ 460

NOTE 12: EARMARKED FUNDS

In accordance with SFFAS 27, *Identifying and Reporting Earmarked Funds*, the Forest Service administers certain earmarked funds, which are specifically identified revenues, often supplemented by other financing sources that remain available over time. These funds predominately finance the enhancement and maintenance of NFS lands, including reforestation. Donations are handled on a cash basis and all other collections are accounted for on an accrual basis. The following is a list of earmarked funds and their base Treasury symbols for which the Forest Service has program management responsibility. Those with an asterisk are authorized by specific legislative acts as permanent indefinite appropriations.

Treasury Account Symbols and Titles

5004 Land Acquisition
5008 National Forest Fund Receipts
5010 Recreation Fees for Collection Costs
5072 Fees, Operation and Maintenance of Recreation Facilities
5201 Payments to States, National Forest Fund
*5202 Timber Roads Purchaser Election
*5203 Roads and Trails for States, National Forest Funds
*5204 Timber Salvage Sales
*5206 Expenses, Brush Disposal
5207 Range Betterment Fund
5208 Acquisition of Lands for National Forests, Special Acts
5212 Construction of Facilities or Land Acquisition
*5213 Payments to Minnesota (Cook, Lake and St. Louis Counties), National Forest Funds
*5214 Licensee Program
*5215 Restoration of Forest Lands and Improvements
5216 Acquisition of Lands to Complete Land Exchanges (Funds EXSL and EXSC)
5217 Tongass Timber Supply Fund
*5219 Operation and Maintenance of Quarters
*5220 Resource Management Timber Receipts
*5223 Quinault Special Management Area
*5224 Strawberry Valley Land Transfer
*5225 Pacific Yew, Forest Service
*5264 Timber Sales Pipeline Restoration Fund
*5268 Recreation Fee Demonstration Program
*5277 MNP Rental Fee Account
*5278 Midewin National Tallgrass Prairie Restoration Fund
*5360 Land Between the Lakes Management Fund
*5361 Administration of Rights-of-Way and Other Land Uses Fund
*5363 Valles Caldera Fund
5367 State, Private and International Forestry Land and Water Conservation Fund
*5462 Hardwood Technology Transfer and Applied Research Fund
*5540 Stewardship Contracting Product Sales, Funds Retained
*5896 Payments to Counties, National Grasslands
*8028 Cooperative Work, Forest Service
8029 Mount Saint Helens Highway
8034 Gifts, Donations, and Bequests for Forest and Rangeland Research
8039 Land Between the Lakes Trust Fund
8046 Reforestation Trust Fund
*8203 Gifts and Bequests, Department of Agriculture

Financial information for all earmarked funds is included, and significant funds are specifically identified as shown below:

Earmarked Funds
As of and for the year ended September 30, 2009
(in millions)

	Cooperative Work	Restoration of Forest Lands and Improvements	Payments to States National Forests Fund	Recreation Fee Demonstration Program	State, Private, & International Forestry Land & Water Conservation Fund	Other Funds	Total
ASSETS							
Fund Balance with Treasury	$ 388	$ 150	$ 150	$ 130	$ 105	$ 358	$ 1,281
Investments	-	-	-	-	-	6	6
Accounts Receivable, Net	3	26	-	-	-	15	44
Advances To Others	-	-	1	-	6	1	8
General Property, Plant & Equipment, Net	19	-	3	3	-	93	118
TOTAL ASSETS	$ 410	$ 176	$ 154	$ 133	$ 111	$ 473	$ 1,457
LIABILITIES							
Accounts Payable	$ 2	$ 1	$ 1	$ 1	$ -	$ 1	$ 6
Other Liabilities	49	-	424	4	32	35	544
TOTAL LIABILITIES	51	1	425	5	32	36	550
Total Net Position	359	175	(271)	128	79	437	907
TOTAL LIABILITIES AND NET POSITION	$ 410	$ 176	$ 154	$ 133	$ 111	$ 473	$ 1,457
CHANGE IN NET POSITION							
Beginning Balances, as adjusted	$ 263	$ 153	$ (34)	$ 147	$ 106	$ 545	$ 1,180
Budgetary Financing Sources:							
Donations and Forfeitures of Cash	1	-	-	-	-	-	1
Transfers -in/out without Reimbursement	130	-	-	-	49	80	259
Other Financing Sources:							
Transfers-in/out without Reimbursement	-	-	-	-	-	(70)	(70)
Other	-	-	-	-	-	48	48
Total Financing Sources	131	-	-	-	49	58	238
Revenue	91	31	162	67	-	41	392
Expenses	(126)	(9)	(399)	(86)	(76)	(207)	(903)
Net Cost of Operations	(35)	22	(237)	(19)	(76)	(166)	(511)
ENDING BALANCES	$ 359	$ 175	$ (271)	$ 128	$ 79	$ 437	$ 907

Earmarked Funds
As of and for the year ended September 30, 2008
(in millions)

	Cooperative Work	Restoration of Forest Lands and Improvements	Recreation Fee Demonstration Program	Private, & International Forestry Land & Water Conservation Fund	Other Funds	Total
ASSETS						
Fund Balance with Treasury	$ 296	$ 113	$ 147	$ 107	$ 557	$ 1,220
Investments	-	-	-	-	9	9
Accounts Receivable, Net	3	41	1	-	17	62
Advances To Others	-	-	-	4	1	5
General Property, Plant & Equipment, Net	17	-	3	-	88	108
TOTAL ASSETS	$ 316	$ 154	$ 151	$ 111	$ 672	$ 1,404
LIABILITIES						
Accounts Payable	$ 3	$ -	$ 1	$ -	$ 2	$ 6
Other Liabilities	50	-	3	5	160	218
TOTAL LIABILITIES	53	-	4	5	162	224
Total Net Position	263	154	147	106	510	1,180
TOTAL LIABILITIES AND NET POSITION	$ 316	$ 154	$ 151	$ 111	$ 672	$ 1,404
CHANGE IN NET POSITION						
Beginning Balances, as adjusted	$ 301	$ 51	$ 151	$ 100	$ 508	$ 1,111
Budgetary Financing Sources:						
Appropriations Transfer - in/out	-	-	-	1	-	1
Donations and Forfeitures of Cash	-	-	-	-	1	1
Transfers -in/out without Reimbursement	(4)	-	-	52	112	160
Other Financing Sources:						
Transfers-in/out without Reimbursement	-	-	-	-	(32)	(32)
Other	-	-	-	-	85	85
Total Financing Sources	(4)	-	-	53	166	215
Revenue	105	108	61	-	210	484
Expenses	(139)	(5)	(65)	(47)	(374)	(630)
Net Cost of Operations	(34)	103	(4)	(47)	(164)	(146)
ENDING BALANCES	$ 263	$ 154	$ 147	$ 106	$ 510	$ 1,180

Descriptions of the significant earmarked funds are as follows:

Cooperative Work
Cooperative contributions are deposited into Treasury account 12X8028 for disbursement in compliance with the terms and provisions of the agreement between the cooperator and the Forest Service. Cooperators include timber purchasers, not-for-profit organizations, and local hunting and fishing clubs. The governing authorities are the Cooperative Funds Act of June 30, 1914 (16 U.S.C. 498), and the Knutson-Vandenberg Act.

Restoration of Forest Lands and Improvements
The Restoration of Forest Lands and Improvements Acts (16 U.S.C. 579c) states, any monies received by the United States with respect to lands under the administration of the Forest Service (a) as a result of the forfeiture of a bond or deposit by a permittee or timber purchaser for failure to complete performance of improvement,

protection, or rehabilitation work required under the permit or timber sale contract or (b) as a result of a judgment, compromise, or settlement of any claim, involving present or potential damage to lands or improvements, shall be deposited into the Restoration of Forest Lands and Improvements Account – 12X5215 and made available until expended to cover the cost of any improvement, protection, or rehabilitation work on lands under the administration of the Forest Service rendered necessary by the action which led to the forfeiture, judgment, compromise, or settlement, provided that any portion of the monies so received in excess of the amount expended in performing the work necessitated by the action which led to their receipt shall be transferred to miscellaneous receipts.

Payments to States, National Forests Fund

The Act of May 23, 1908, as amended (16 U.S.C. 500), commonly known as "Payments to States", requires with a few exceptions, that 25.0 percent of all monies received from the national forests and deposited into the National Forest Fund (Treasury Symbol 125008) during a fiscal year from timber, grazing, special-use permits, power and mineral leases, and admission and user fees be paid to the States in which the national forests are located, for public schools and public roads in the county or counties in which the national forests are situated. The Secure Rural Schools and Community Self-Determination Act of 2000 (P.L. 106-393) as amended by § 601 of The Emergency Economic Stabilization Act of 2008, (H.R. 1424) (P.L. 110-343), provides stabilized education and road maintenance funding through predictable payments to counties, job creation in those counties, and other opportunities associated with the restoration, maintenance, and stewardship of Federal lands.

Recreation Fee Demonstration Program

The Recreation Fee Demonstration Program Treasury account 12X5268 receives deposits of recreation fees collected from projects that are part of the Recreation Fee Demonstration program. These monies are retained and used for backlog repair and maintenance of recreation areas, sites or projects. These funds are also used for interpretation, signage, habitat or facility enhancement, resource preservation, annual operation, maintenance, and law enforcement related to public use of recreation areas and sites. The Recreation Fee Demonstration Program is authorized by § 315 of Title III General Provisions of Public Law 104-134: Recreation Fee Demonstration Program 16 U.S.C. 4601-6a.

State, Private, and International Forestry, Land and Water Conservation Fund

The Fiscal Year 2004 Department of Interior and Related Agencies Appropriation Act (Public Law 108-108) authorizes the Forest Service to receive a transfer of receipts from Department of Interior's Land and Water Conservation Fund to finance the existing Forest Legacy Program, funded previously by State and Private Forestry general appropriation, 12X1105. To accommodate the new financing arrangement and at OMB's request, the Department of Treasury established a new special fund, 12X5367, "State, Private and International Forestry Land and Water Conservation Fund". The program expenditures include grants and an occasional land purchase but no real property will be procured or constructed.

NOTE 13: SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

The Forest Service reflects costs through four primary responsibility segments: National Forests and Grasslands, Forest and Rangeland Research, State and Private Forestry, and Wildland Fire Management. National Forests and Grasslands is a principle contributor to accomplishing Forest Service Strategic Goals 2, 4, and 5; Forest and Rangeland Research is a principle contributor to accomplishing Goal 7; State and Private Forestry is a principle contributor to accomplishing Goals 3 and 6; and Wildland Fire Management is a principle contributor to accomplishing Goal 1.

The following tables illustrate program costs by segment for the years ended September 30, 2009 and 2008.

Program Costs by Segment
For the year ended September 30, 2009
(in millions)

	National Forests and Grasslands	Forest and Rangeland Research	State and Private Forestry	Wildland Fire Management	Total
Intragovernmental Gross Costs:					
Benefit Program Costs	$ 570	$ 1	$ -	$ 12	$ 583
Imputed Costs	344	-	-	-	344
Reimbursable Costs	143	20	9	150	322
Total Intragovernmental Gross Costs	1,057	21	9	162	1,249
Less: Intragovernmental Earned Revenue	49	30	20	29	128
Intragovernmental Net Costs	1,008	(9)	(11)	133	1,121
Gross Costs With the Public:					
Grants and Indemnities	417	17	269	85	788
Stewardship Land Acquisition (Note 14)	63	-	-	-	63
Other:					
Operating Costs	1,609	284	117	1,944	3,954
Depreciation Expense	131	3	-	29	163
Reimbursable Costs	157	32	17	166	372
Total Other	1,897	319	134	2,139	4,489
Total Gross Costs with the Public	2,377	336	403	2,224	5,340
Less: Earned Revenues from the Public	452	5	-	94	551
Net Costs with the Public	1,925	331	403	2,130	4,789
Net Cost of Operations	$ 2,933	$ 322	$ 392	$ 2,263	$ 5,910

Program Costs by Segment
For the year ended September 30, 2008
(in millions)

	National Forests and Grasslands	Forest and Rangeland Research	State and Private Forestry	Wildland Fire Management	Total
Intragovernmental Gross Costs:					
Benefit Program Costs	$ 534	$ 1	$ -	$ 12	$ 547
Imputed Costs	331	-	-	-	331
Reimbursable Costs	138	21	12	175	346
Total Intragovernmental Gross Costs	1,003	22	12	187	1,224
Less: Intragovernmental Earned Revenue	50	26	23	150	249
Intragovernmental Net Costs	953	(4)	(11)	37	975
Gross Costs With the Public:					
Grants and Indemnities	550	8	275	22	855
Stewardship Land Acquisition (Note 14)	42	-	-	-	42
Other:					
Operating Costs	1,499	276	100	2,206	4,081
Depreciation Expense	132	2	-	34	168
Reimbursable Costs	83	26	20	212	341
Total Other	1,714	304	120	2,452	4,590
Total Gross Costs with the Public	2,306	312	395	2,474	5,487
Less: Earned Revenues from the Public	531	3	1	81	616
Net Costs with the Public	1,775	309	394	2,393	4,871
Net Cost of Operations	$ 2,728	$ 305	$ 383	$ 2,430	$ 5,846

NOTE 14: COST OF STEWARDSHIP PP&E

Stewardship PP&E acquired in FYs 2009 and 2008 amounted to $63 and $42 million, respectively. Cost of Stewardship PP&E includes purchases of lands, easements, and rights-of-way. Stewardship land is land and land rights owned by the Federal Government and is excluded from General PP&E. Examples of stewardship land include land used for forests, grazing, and wildlife.

Costs for stewardship land include all costs to acquire and prepare the land for its intended use.

NOTE 15: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

The Office of Management and Budget (OMB) usually distributes budgetary resources in an account or fund by specific time periods, activities, projects, objects or a combination of these categories by a process called apportionments. Apportionments by fiscal quarters are classified as category A and all other apportionments are classified as category B. The funds on quarterly apportionment are National Forest System (12X1106) and Wildland Fire Management (12X1115). Presented below is the amount of direct and reimbursable obligations incurred by apportionment category for FY 2009 and 2008.

For the year ended September 30, 2009
(in millions)

	Apportionment Category A	Apportionment Category B	Total
Obligations Incurred - Direct	$ 4,031	$ 2,514	$ 6,545
Obligations Incurred - Reimbursable	176	306	482
Total Obligations Incurred	**$ 4,207**	**$ 2,820**	**$ 7,027**

For the year ended September 30, 2008
(in millions)

	Apportionment Category A	Apportionment Category B	Total
Obligations Incurred - Direct	$ 3,900	$ 2,155	$ 6,055
Obligations Incurred - Reimbursable	285	75	360
Total Obligations Incurred	**$ 4,185**	**$ 2,230**	**$ 6,415**

NOTE 16: EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

The differences between the fiscal 2008 Statement of Budgetary Resources (SBR) and the fiscal 2008 actual numbers presented in the fiscal 2010 Budget of the United States Government (Budget) are summarized in the table below. No further explanation is included, as the variances do not exceed the Departmental threshold of $25 million and 10%.

(in millions)

SBR Line Description	SBR Amount	Budget Amount	Dollar Variance	Percentage Variance
Total Budgetary Resources/Status of Resources	$ 8,585	$ 8,576	$ 9	0%
Total Status of Resources	8,585	8,576	9	0%
Unobligated Balance-Beginning of Year	1,671	1,666	5	0%
Recoveries of Prior Year Obligations	78	75	3	4%
New Budget Authority	6,310	6,308	2	0%
Spending Authority from Offsetting Collections	599	600	(1)	0%
Non Expenditure Transfers	(73)	(72)	(1)	1%
Total New Obligations	6,415	6,416	(1)	0%
Unobligated Balance & Unobligated Balance not Available	2,170	2,160	10	0%
Obligated Balance - Beginning of Year	1,859	1,858	1	0%
Obligated Balance - End of Year	1,707	1,709	(2)	0%
Net Outlays	5,376	5,375	1	0%
Offsetting Receipts	514	514	-	0%

NOTE 17: UNDELIVERED ORDERS AT THE END OF THE PERIOD

The unpaid obligations of $2,641 and $2,132 million as of September 30, 2009 and 2008 included undelivered orders of $1,825 and $1,458 million, respectively.

NOTE 18: SEIZED PROPERTY

A seizure is the act of taking possession of goods in consequence of a violation of public law. Seized property may consist of monetary instruments, real property, tangible personal property and evidence. Until judicially or administratively forfeited, the Forest Service does not legally own such property. Seized evidence includes cash, weapons, illegal drugs and non-monetary valuables.

Pursuant to Federal Financial Accounting and Auditing Technical Release No. 4, *Reporting on Non-Valued Seized and Forfeited Property* (Release No. 4), property that is seized but not forfeited (e.g., weapons, chemicals, drug paraphernalia, gambling devices) is not included on the balance sheet.

The Forest Service has custody of illegal drugs and weapons seized as evidence for legal proceedings. Illegal drugs and weapons have no saleable value to the Federal Government and are destroyed upon resolution of legal proceedings. Marijuana represents the most significant seized drug for the Forest Service. As of September 30, 2009 and 2008, the amount of marijuana on hand was 32,382 (kg) and 32,627 (kg), respectively. Since the amount of seized property is deemed to be immaterial, a schedule of brought forward balances, additions, deletions and adjustments is not presented.

NOTE 19: RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)

Budgetary Resources Obligated:		
Obligations Incurred	$ 7,027	$ 6,415
Less: Spending Authority from Offsetting Collections and Recoveries	500	677
Obligations Net of Offsetting Collections and Recoveries	6,527	5,738
Less: Offsetting Receipts	574	514
Net Obligations	5,953	5,224
Other Resources:		
Transfers in/out Without Reimbursement	1	1
Imputed Financing from Costs Absorbed by Others	344	331
Other	(22)	53
Net Other Resources Used to Finance Activities	323	385
Total resources used to finance activities	**6,276**	**5,609**
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But not Yet Provided	(370)	16
Resources that Fund Expenses Recognized in Prior Periods	(74)	(84)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations		
Change in Unfilled Orders	(49)	26
Decrease in Exchange Revenue Receivable from the Public	15	-
Other	178	(30)
Resources that Finance the Acquisition of Assets	(142)	(101)
Other Resources or Adjustments to Net Obligated Resources that do not Affect the Net Cost of Operations	(99)	29
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(541)	(144)
Total Resources Used to Finance the Net Cost of Operations	**5,735**	**5,465**
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	7	6
Increase in Exchange Revenue Receivable from the Public	-	(18)
Increase in Accrued Liability for Payments to States	-	137
Other	-	76
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	7	201
Components not Requiring or Generating Resources:		
Depreciation and Amortization	163	168
Revaluation of Assets or Liabilities	1	5
Other Components not Requiring or Generating Resources		
Bad Debt Expense	22	6
Other	(18)	1
Total Components of Net Cost of Operations that will not Require or Generate Resources	168	180
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	175	381
Net Cost of Operations	**$ 5,910**	**$ 5,846**

This note is intended to be a bridge between the entity's budgetary and financial (proprietary) accounting. This reconciliation first identifies total resources used by an entity during the period (budgetary and other) and then makes adjustments to the resources based upon how they were used to finance net obligations or cost. The budgetary information used to calculate net obligations (the first four lines) must be presented on a combined basis to enable a direct tie to the Statement of Budgetary Resources. The reconciliation then explains the difference between the budgetary net obligations and the proprietary net cost of operations by setting forth the items that reconcile the two amounts. The budgetary net obligations and the proprietary net cost of operations are different in that (1) the net cost of operations may be financed by non-budgetary resources; (2) the budgetary and non-budgetary resources used by an agency may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the period.