

Part A

MANAGEMENT'S DISCUSSION
AND ANALYSIS

Unaudited

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

ABOUT THIS REPORT

The Forest Service, an agency of the U.S. Department of Agriculture (USDA), has chosen to produce a separate Agency Financial Report (AFR) and Annual Performance Report (APR) in accordance with the Office of Management and Budget (OMB) Circulars A-136 and A-11, Section 200.4.

The AFR provides an overview of the agency’s financial performance and results to help Congress, the President, and the public assess our stewardship over the financial resources entrusted to us. The Forest Service’s APR will be published with the fiscal year (FY) 2013 Congressional Budget Justification in February 2012 at <http://www.fs.fed.us>.

The Forest Service anticipates that this approach will improve its performance reporting in the following ways by:

- Eliminating redundancy, especially where actual data can be used in lieu of estimates due to the timing of the report.
- Making the information more meaningful and transparent to the public.
- Providing a more succinct and easily understood analysis of the Forest Service’s accountability over its resources.

The FY 2011 Management’s Discussion and Analysis (MD&A) serves as a high-level overview of the Forest Service’s financial reporting, programmatic performance, and compliance with legal and regulatory requirements. The content of the MD&A is the responsibility of management.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

ABOUT THE AGENCY

MISSION

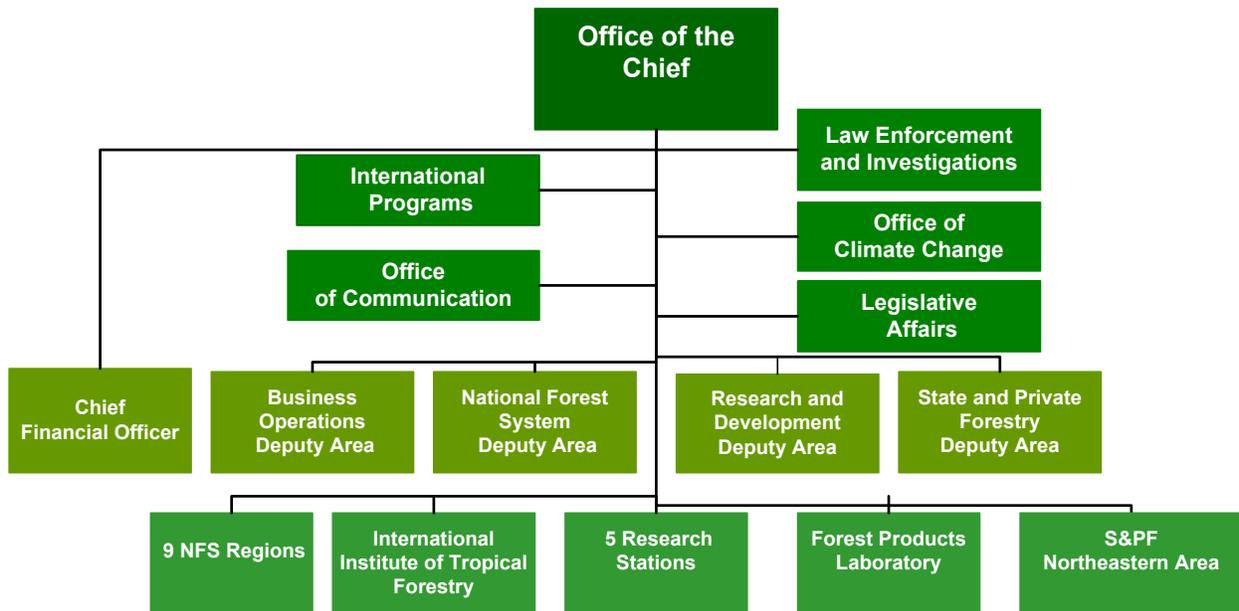
Sustain the health, diversity, and productivity of the Nation's forests and grasslands to meet the needs of present and future generations.

ORGANIZATION

The Forest Service fulfills its mission through the following organizational structure.

The Chief of the Forest Service is a career Federal employee of the Forest Service who reports to the USDA Under Secretary for Natural Resources and Environment.

The Chief Financial Officer (CFO) and four deputy chiefs report to the Chief. The deputy areas are State and Private Forestry (S&PF), Research and Development (R&D), National Forest System (NFS), and Business Operations.



FOREST SERVICE CHIEF FINANCIAL OFFICER AND THE DEPUTY AREAS

Within the CFO and each deputy area (the third tier in the organization chart) are the programmatic areas that enable the Forest Service to achieve its mission.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

**Chief
Financial Officer**

Financial
Management and
Systems

Financial Policy

Financial Reporting
and Reconciliation

Audit and Assurance

Budget and Finance

CHIEF FINANCIAL OFFICER

The CFO supports the agency's mission by providing timely, accurate, and reliable financial and program performance information in compliance with the Chief Financial Officers Act of 1990.

FY 2011 CFO Accomplishments

- Received the 10th consecutive clean audit opinion and had no material weaknesses for the 4th consecutive year.
- Closed open financial statement audits and recommendations and a record number of program audits. The Forest Service's annual evaluation, conducted at all levels throughout the agency, indicated that agency controls are achieving these intended objectives, and internal controls provide reasonable assurance that the objectives have been met.
- Continued the implementation of the Point-of-Sale System (POSS) to improve cash management, including payment of permits and other indebtedness via a Web portal. With the new implementation/training strategy for FY 2012, the agency expects an 8-fold increase in the number of implementations.
- Strengthened financial management controls over payments with improved payment testing in compliance with the Improper Payments Elimination Recovery Act (IPERA) and Improper Payments Information Act (IPIA). The agency enhanced its statistical testing of high-risk programs, completed a review of billings to identify improper payments, and acquired software that will improve internal controls over payments for FY 2012.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

**State and Private
Forestry**

Fire and Aviation
Management

Cooperative Forestry

Conservation
Education

Urban and Community
Forestry

Forest Health
Protection

Office of Tribal
Relations

STATE AND PRIVATE FORESTRY

S&PF's Northeastern Area Office includes three field offices and Grey Towers Historic Site. The area director, like regional foresters, reports directly to the Chief of the Forest Service. The area director leads and helps support sustainable forest management and use across the landscape to provide benefits to the people of the 20 Northeastern and Midwestern States and the District of Columbia. Washington Office Staffs are listed to the left.

FY 2011 S&PF Accomplishments¹

- Protected more than 149,000 acres of at-risk forest from conversion.
- Achieved a 16-percent increase over FY 2010 in the acres treated in the Wildland Urban Interface (WUI) that are identified in Community Wildfire Protection Plans (CWPPs).
- Assisted forest landowners in managing more than 1.8 million acres sustainably under forest stewardship plans.
- Achieved agreements with a total of 23 States to help landowners market ecosystem services.

¹ Amounts are considered "year-to-date." Actual amounts will be published in the FY 2011 Annual Performance Report at <http://www.fs.fed.us> in February 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Research and
Development

Environmental
Sciences

Policy Analysis

Resource Use
Sciences

Forest Management
Sciences

Quantitative Sciences

Science Quality
Services

RESEARCH AND DEVELOPMENT

The R&D Deputy Area is comprised of five research stations, the Forest Products Laboratory, and the International Institute of Tropical Forestry (IITF). Directors, like regional foresters, report to the Chief of the Forest Service. The R&D Deputy Area has integrated Washington Office programs that support achievement of the agency's strategic goals with an emphasis in seven strategic program areas (SPAs):

- Wildland Fire and Fuels
- Invasive Species
- Water, Air, and Soil
- Wildlife and Fish
- Resource Management and Use
- Outdoor Recreation
- Inventory and Monitoring

FY 2011 R&D Accomplishments²

- Provided more than 200,000 maps, graphs, and charts on current and future³ fire-weather conditions at high spatial and temporal resolution over the entire continental United States. Products are updated twice a day and delivered through the World Wide Web in real time at <http://FireWeather.info>.
- Developed ICWater for the U.S. Department of Defense to assess movement in Japanese rivers of radioactive contaminants released from the earthquake-damaged Fukushima Daiichi nuclear power plant. ICWater rapidly assesses risk to drinking water during toxic-spill emergencies.
- Produced a Web-based tool, TACCIMO⁴, to bring the best climate-change science to decisionmakers and planners in a simple and usable format.
- Released a new version of the Forest Service and its partners' free software, i-Tree v.4. In Minneapolis, MN, one i-Tree study found that street trees provided \$25 million in benefits, ranging from energy savings to increased property values. In Chattanooga, TN, i-Tree found that urban forests received \$12.18 in benefits for every dollar invested.

² Amounts are considered "year-to-date." Actual amounts will be published in the FY 2011 Annual Performance Report at <http://www.fs.fed.us> in February 2012.

³ "Future" is defined as up to 75 hours in advance.

⁴ TACCIMO is the Template for Assessing Climate Change Impacts and Management Options.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

National Forest System
Engineering
Lands
Wilderness and Wild and Scenic Rivers
Rangeland Management
Recreation, Heritage, and Volunteer Resources
Forest Management
Watershed, Fish, Wildlife, Air, and Rare Plants
Minerals and Geology Management
Ecosystem Management Coordination
National Partnership Office

NATIONAL FOREST SYSTEM

The NFS provides stewardship and management of the 193 million acres of national forests and grasslands. Following U.S. Department of Agriculture Secretary Tom Vilsack’s vision, the Forest Service has placed a focus on improving the health of its watersheds, restoring ecosystem functions, increasing forest resilience to climate change, and contributing to vibrant local economies.

The NFS has nine regions, comprised of national forest and grasslands. Each region is led by a regional forester who reports directly to the Chief of the Forest Service and has broad responsibility for coordinating activities among the various forests and grasslands within the region, for providing overall leadership for regional natural resource and social programs, and for coordinating regional landuse planning. Within the 9 NFS regions are 155 national forests and 20 grasslands. Each administrative unit is typically comprised of several ranger districts, under the overall direction of a forest supervisor. Within the supervisor's office, the staff coordinates activities among districts, allocates the budget, and provides technical support to each district. Forest supervisors are line officers and report to regional foresters.

FY 2011 NFS Accomplishments⁵

- Protected economically vital fish populations by restoring more than 3,800 stream miles and more than 26,000 acres of lake habitat and reconnecting nearly 600 miles of threatened and endangered species habitat.

- Achieved 2,954,842 tons of woody biomass made available from NFS lands for bioenergy generation.

- Achieved a 94-percent visitor satisfaction rating with facilities, services, and settings.

⁵ Amounts are considered “year-to-date.” Actual amounts will be published in the FY 2011 Annual Performance Report at <http://www.fs.fed.us> in February 2012.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

Business Operations
Chief Information Office
Enterprise Program
Strategic Planning, Budget, and Accountability
Human Resource Management
Job Corps Civilian Conservation Centers
Office of Regulatory and Management Services
Office of Safety and Occupations Health
Acquisition Management

BUSINESS OPERATIONS

The Business Operations Deputy Area provides the tools that Forest Service employees rely on to accomplish the agency’s mission. From modernizing an outdated radio system to hiring tomorrow’s workforce, Business Operations’ staff provides critical services to the agency and its employees.

FY 2011 Business Operations Accomplishments

- Fully implemented the Human Resources Redesign.
- Completed the new Forest Service policy and electronic form for telework.
- Exceeded the 80-day staffing goal with the all-time low of 70 days.
- Migrated 100 percent of employees’ email to the Forest Service’s implementation of USDA’s Enterprise Messaging System, or gEMS. The target was 80 percent.
- Identified no system material weaknesses through the financial audit process.
- Completed 8-hour safety training for an estimated 40 percent of all Forest Service personnel.

RESPONSIBILITY SEGMENTS

The Forest Service's mission is dedicated to the principle of multiple-use management of the Nation’s forest resources for sustained yields of wood, water, forage, wildlife, and recreation. Through management of the national forests and grasslands; research; and cooperation with States, tribes, and private forest owners, the agency strives to meet the needs of our Nation. Some of the responsibility segment names are the same as those used for deputy areas, but the terms are not necessarily synonymous for financial management reporting purposes. The mission is divided into four major responsibility segments:

National Forests and Grasslands: This responsibility segment includes protection and management of an estimated 193 million acres of NFS land, which include 36.6 million acres of designated wilderness areas. In addition, the Forest Service partners with other agencies, nations, and organizations to foster global natural resource conservation and sustainable development of the world’s forest resources.

Forest and Rangeland Research: This responsibility segment is accountable for research and development of forestry and rangeland management practices to develop and deliver scientific and

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

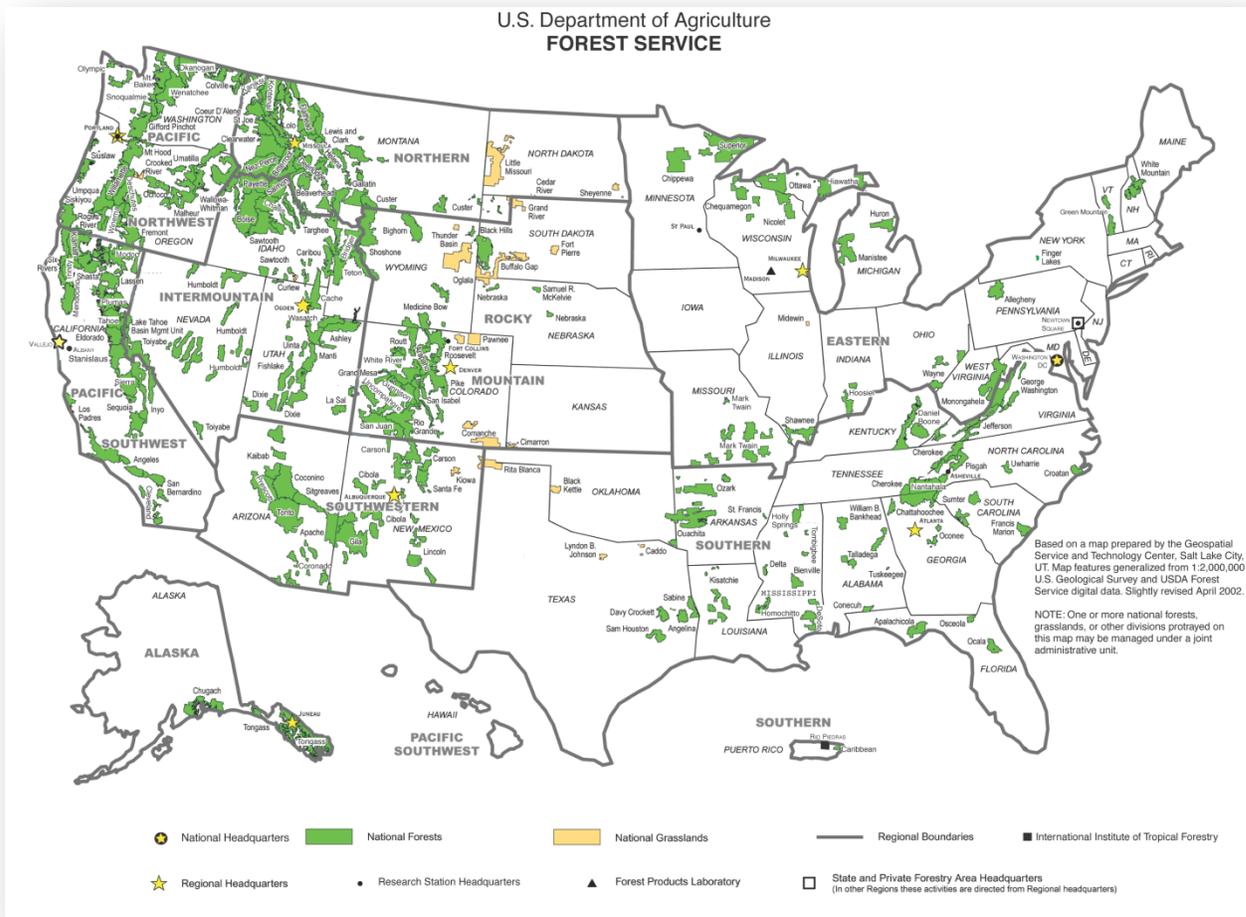
technical knowledge for enhancing and protecting the economic productivity and environmental quality of the estimated 1.3 billion acres of forests and associated rangelands in the United States.

State and Private Forestry: This responsibility segment reaches across the boundaries of national forests and uses cooperative agreements with State and local governments, tribal governments, forest industries, and private landowners to provide technical and financial assistance that helps protect and manage non-Federal forests and associated rangeland and watershed areas.

Wildland Fire Management: This responsibility segment is responsible for protection of life, property, and natural resources on an estimated 193 million acres of NFS lands and the estimated 20 million acres of adjacent State and private lands.

Locations of Forest Service Administrative Units

The map illustrates the 155 national forests and 20 national grasslands that collectively make up the NFS of the Forest Service.



**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

DEMANDS, RISKS, CONDITIONS, AND TRENDS

THE FOREST SERVICE’S SAFETY JOURNEY

Forest Service employees are passionate about their work and make an incredible difference in caring for the land and serving people. However, no employee should get hurt on behalf of the agency. Each employee has inherent value as a person that touches and enriches the lives of many others.

Unfortunately, many of our colleagues are hurt or killed each year. That is unacceptable. The Forest Service is committed to dramatically different safety outcomes but recognizes that commitment is not enough. In a spirit of humility we have magnified our focus and engaged in a “journey” to discover what else it will take. Although we know there is much we do not know, we are confident that it is indeed a journey more than a destination – one that will require our sustained effort.

The Forest Service is also confident that each employee must be part of that journey, and that together we can make a big difference in the safety outcomes we experience. In the coming months, we will have meaningful discussions about reducing hazards and improving safety. Therefore, we ask all Forest Service employees to join us on this journey to ensure we are not only the world’s premier conservation agency but also world-class in being safe.

In FY 2011, the Chief of the Forest Service shared the National Leadership Council’s (NLC’s) intention to engage every employee in a meaningful dialogue as part of an agencywide initiative—the Forest Service *Safety Journey*. Senior and middle leaders with the support of "Safety Catalysts" were trained as cadre members during 2.5-day sessions. Cadre members are, in turn, convening mandatory 1-day safety engagement sessions for all employees. The NLC’s goal for this initiative is 100 percent of Forest Service employees by the end of calendar year 2011.



To mitigate the safety risk even further, a subgroup of NLC members reached out to internal and external experts and employees to help design a continuously improving safety system based on learning rather than compliance. The Forest Service is currently benchmarking existing efforts and approaches to ensure the agency captures and retains what is working well as part of our corporate approach.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Learning objectives for the 1-day safety engagement session for all employees included:

1. Stimulate different thinking about safety.
2. Introduce some basic tools to improve employee risk management skills.
3. Help build a safety learning culture.

Hundreds of employees have been asked to share their ideas on the most strategic investments the agency could make to dramatically improve safety. More than 80 unique suggestions were identified. The NLC recommended several high-leverage investments for FYs 2011 and 2012 to the Executive Leadership Team (ELT). The ELT intends to make strategic investments that will make a difference in employee and public safety.

RESTORATION AND WILDLAND FIRE

Climate change poses a significant threat to America's forests and grasslands and jeopardizes the Nation's fresh water supply, recreational opportunities, and wildlife habitat. Problems caused by wildfires, changing rain patterns, and expanding forest insect infestations have been driven in part by a changing climate; future impacts are projected to be more severe.

Across the United States, wildfire seasons have been getting worse with an annual average of 6.7 million acres burned between 2001 and 2011. In 2011 alone, 8.2 million acres were burned; the Wallow Fire broke the record with more than 500,000 acres burned. Also, from 1999 through October 2011, nearly 34,000 homes, businesses, and outbuildings burned in wildfires.



What are we doing to address these problems? The Forest Service's *Cohesive Wildfire Management Strategy* has three main goals:

1. First, restoring fire-adapted ecosystems on a landscape scale by reducing fuels and reintroducing fire.
2. Second, building fire-adapted human communities.
3. Third, responding appropriately to wildfire; using fires where we can; and suppressing them where they threaten lives, homes, and critical natural resources.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

IMPROVE FOREST HEALTH AND REDUCE FIREFIGHTING COSTS

In USDA Management Challenges (August 2011), the Office of Inspector General (OIG) found that the Forest Service needed to improve forest health and reduce firefighting costs. The Forest Service spends significant funds to reduce hazardous fuels in forests to protect people and property from wildfires, yet fuels accumulate three times faster than the agency can reduce them. The overall cost of wildland fire management is more than 40 percent of the agency’s budget.

The OIG recommended the Forest Service focus not only on managing natural resources but also on ensuring that it approaches complex budgetary and human resource management issues with the same dedication. In FY 2011, the Forest Service:

- Hired a contractor to conduct an indepth analysis to determine how the agency should proceed with determining future firefighting-crew needs and costs.
- Developed performance standards to assess whether the tactics employed are cost effective.
- Revamped the Working Capital Fund program and developed the “Aerial Firefighting Aircraft Replacement Action Plan” in an effort to strengthen the agency’s aerial firefighting acquisition process.

The OIG also recommended that the Forest Service needs a cohesive strategy to effectively combat invasive species. In FY 2011, the Forest Service conducted an overall review of the agency’s information systems for the invasive species program and took steps to ensure that the systems are adequate. In FY 2012, the agency plans to develop new NFS invasive species management policy and an adequate, cohesive internal control environment for managing the program.

The OIG identified workforce succession planning for firefighters as an emerging issue that may develop into a management challenge. With many employees approaching retirement, the Forest Service’s firefighting workforce is particularly vulnerable. Since firefighter trainees take an average of 23 years to qualify for critical firefighting positions, this situation becomes more urgent. The agency is responding by developing a new firefighting business model and approaching workforce issues through strategic planning and multiagency coordination.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

The Forest Service is committed to using performance management to ensure effective policy outcomes and promote greater accountability. Performance management is used to develop strategic goals, monitor program activities, measure progress toward goals, and influence program and resource allocation decisionmaking.

Performance accountability is integral to Forest Service operating standards. Senior management assigns accomplishment targets to Washington Office staff, regions, stations, and the Northeastern Area based on Forest Service strategic goals and objectives and input from executive leaders as to on-the-ground capability. Each unit within the agency develops a program of work consisting of specific projects to achieve objectives based on congressional direction, the departmental and agency strategic plans, resource management plans, and budget allocations. Project plans are reviewed and updated throughout the fiscal year to reflect changed conditions.

FOREST SERVICE STRATEGIC GOALS AND PROGRAM PERFORMANCE

The *USDA Forest Service Strategic Plan 2007–2012* has seven strategic goals to which the agency aligns its efforts in support of the mission:

Goal 1: Restore, Sustain, and Enhance the Nation’s Forests and Grasslands.

Goal 2: Provide and Sustain Benefits to the American People.

Goal 3: Conserve Open Space.

Goal 4: Sustain and Enhance Outdoor Recreation Opportunities.

Goal 5: Maintain Basic Management Capabilities of the Forest Service.

Goal 6: Engage Urban America with Forest Service Programs.

Goal 7: Provide Science-Based Applications and Tools for Sustainable Natural Resources Management.

Forest Service performance results reported in the MD&A are FY 2011 year-to-date (YTD) actual performance reported as of November 7, 2011. Final performance accomplishments for these strategic measures will be published in the FY 2011 APR in February 2012. Final resources by strategic goal—identified as “Estimated”—will also be available in the APR.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

STRATEGIC GOAL 1: RESTORE, SUSTAIN, AND ENHANCE THE NATION’S FORESTS AND GRASSLANDS

Goal 1 Resources by Fiscal Year (in millions)		
2009	2010	Estimated 2011
\$4,620	\$4,240	\$4,138

The national forests and grasslands were established to protect land, secure favorable waterflows, and provide a sustainable supply of goods and services to the American people. In addition to managing these lands, the Forest Service provides technical and financial assistance to the States and private forest landowners. During the past century, the agency has achieved a balance between providing land

stewardship services and meeting public demands for various uses of the NFS. Despite past successes, challenges persist. In recent years, people have become more aware of forest disturbance. The increasing extent and frequency of uncharacteristically severe wildland fires and insect and disease outbreaks have caused particular concern. The Forest Service works to restore, sustain, and enhance the land through an integrated approach that includes programs such as Watershed Management, Invasive Species Management, and Management of Aquatic and Terrestrial Habitats.

Reduce the risk to communities and natural resources from wildfire.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Moved toward desired conditions (acres and percentage)	991,000 39%	799,215 27%	693,957 24%	960,000 40%	516,310 30%	54% 75%	1,600,000 40%
Maintained in desired conditions (acres and percentage)	830,000 33%	1,146,720 38%	1,231,800 42%	1,200,000 50%	586,318 34%	49% 68%	2,000,000 50%
Brought into stewardship contracts (acres)	57,500	88,304	152,834	250,000	100,577	40%	300,000

Build community capacity to suppress and reduce losses from wildfires.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Treated in the WUI that have been identified in CWPPs ⁶ or equivalent plans (percentage of acres)	17%	41%	44.8%	75%	51.8%	69%	75%

⁶ CWPPs are Community Wildfire Protection Plans.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

Restore and maintain healthy watersheds and diverse habitats.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Watersheds in class 1 condition (percentage of all)	30%	30%	26%	30%	52.3%	171.6%	32%
Terrestrial habitat restored (acres, in thousands)	642	2,154	2,037	1,725	1,876	120%	3,973,000
Stream habitat restored (miles)	4,600	3,498	3,577	2,312	2,350	87%	2,670
Lake habitat restored (acres)	18,000	23,570	27,779	16,437	18,269	111%	23,600
Acres needing reforestation or timber stand improvement that were treated (percentage)	13%	18%	23%	15.5%	13.8%	89.3%	17%

STRATEGIC GOAL 2: PROVIDE AND SUSTAIN BENEFITS TO THE AMERICAN PEOPLE

Goal 2 Resources by Fiscal Year (in millions)		
2009	2010	Estimated 2011
\$572	\$394	\$355

America’s forests and grasslands contain abundant natural resources and opportunities that help meet the demands and needs of the American people. Sustainable management of these resources ensures that the availability of goods and services continues into the future and that land productivity is maintained. National forest management provides a variety of opportunities for use and provides for wildlife diversity, supplies of wood products, energy sources and transmission infrastructure, wildlife and domestic livestock forage, water supplies, and other goods and services.

Primarily through S&PF programs, the Forest Service provides technical and financial assistance for natural resource management and the sustainable use of resources on non-Federal lands in the United States.

The Forest Service also provides international technical assistance, which not only advances the sustainability of forest resources abroad but also improves conditions here at home. Our research provides a solid scientific foundation for the sustainable management of forests and grasslands and improvements in the use and marketing of forest products and services.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

Provide a reliable supply of forest products over time that (1) is consistent with achieving desired conditions on NFS lands and (2) helps maintain or create processing capacity and infrastructure in local communities.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Wood fiber provided to meet demand ⁷ (CCF ⁸)	5,400,000	4,829,254	5,020,841	4,916,781	4,845,059	98.5%	5,232,000
Green tons and/or volume of woody biomass available through permits, contracts, grants, agreements, or the equivalent ⁹ (number)	N/A	2,331,989	3,306,138	2,700,000	2,954,842	109%	2,700,000

Provide a reliable supply of rangeland products over time that (1) is consistent with achieving desired conditions on NFS lands and (2) helps support ranching in local communities.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
National forests and grasslands under grazing permit that are sustainably managed for all rangeland products (acres, in thousands)	81,560	79,097	76,154	81,560	75,387	92.4%	81,560

⁷ Actual measure is “Wood fiber provided to meet the Nation’s demand for forest products in an environmentally sustainable manner.”

⁸ CCF=Hundred cubic feet

⁹ Actual measure is “Number of green tons and/or volume of woody biomass from hazardous fuel reduction and restoration treatments on Federal land that are made available through permits, contracts, grants, agreements, or the equivalent.”

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

Help meet energy resource needs.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Land Special Use Permit applications for energy-related facilities that are completed within prescribed timeframes (percentage)	50%	100%	100%	100%	100%	100%	100%
Energy-mineral applications that are processed within prescribed timeframes (percentage)	45%	8%	5%	45%	43.5%	97%	10%

STRATEGIC GOAL 3: CONSERVE OPEN SPACE

Goal 3 Resources by Fiscal Year (in millions)		
2009	2010	Estimated 2011
\$165	\$210	\$177

Open space provides many environmental, social, and economic benefits to rural and urban communities. Undeveloped forests and grasslands—including working farms, ranches, and timber lands—help protect water quality, conserve native wildlife, and provide renewable timber and nontimber products, recreation opportunities, and scenic beauty. Conservation of these open spaces is essential to maintaining

the multitude of public benefits we all need and enjoy. These “green spaces” also increase home values and generate jobs and economic vitality. Current population growth trends show a steady loss of vital open spaces to developed uses.

The Forest Service addresses the issue of open space by acquiring land and collaborating with States and private landowners to protect these areas. For example, the Forest Legacy Program protects environmentally important forest areas that are threatened by development and other nonforest uses. The Forest Stewardship Program develops and delivers appropriate technical and planning assistance to enable active, informed, long-term forest management. Forest Stewardship management plans provide landowners with practical guidance for achieving their own unique objectives in a way that also maximizes public goods and services provided by those forests, such as clean drinking water, clean air, carbon sequestration, wood fiber, recreation, and scenic landscapes. Forest Stewardship management plans place landowners in a much better position to participate in certification programs and access emerging markets, such as those for ecosystem services and carbon credits.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

Protect forests and grasslands from conversion to other uses.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Environmentally important forests and grasslands protected from conversion (acres, cumulative and annual)	1,360,000 (0)	1,897,809 176,471	2,056,107 136,960	2,174,107 118,000	2,210,563 149,720	102% 127%	2,601,809 (301,000)

STRATEGIC GOAL 4: SUSTAIN AND ENHANCE OUTDOOR RECREATION OPPORTUNITIES

Goal 4 Resources by Fiscal Year (in millions)		
2009	2010	Estimated 2011
\$851	\$677	\$650

The Forest Service is challenged with sustaining adequate high-quality outdoor recreation opportunities to meet the Nation’s needs while maintaining the ecological integrity of national forests and grasslands. The combination of increasing populations and the continued decline of public access to privately owned forest land creates extensive pressure on public lands to supply more recreation opportunities. The Forest Service’s recreation programs provide jobs not only for the maintenance of infrastructure such as trails and lodges, but also by attracting tourism that supports rural businesses.

If public lands are to provide additional recreational benefits without damaging the landscape, management must be based on a strong scientific foundation, which is provided in part by Forest Service researchers. Preserving high-quality recreation opportunities also requires maintaining the lands and the buildings, roads, and trails on those lands. This infrastructure makes it possible for visitors to view wildlife, explore wilderness and cultural heritage areas, participate in educational activities, and access off-highway vehicle trails. The agency continues to work with its partner volunteers, nongovernmental organizations, other agencies, and the private sector to achieve acceptable results.

Improve the quality and availability of outdoor recreation experiences.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Recreation sites maintained to standard (percentage)	65%	67%	68%	70%	71.2%	100.7%	70%
Total recreation capacity at developed recreation sites that meets accessibility standards (percentage)	10%	23%	19%	27%	23.1%	84.7%	30%
Trails that meet national quality standards (percentage)	60%	26%	41%	35%	25.3%	72.2%	50%

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Customers who are satisfied with recreation facilities, services, and settings (percentage)	80%	91%	94%	90%	93.8%	104%	90%
Road system intended for passenger-car use that is suitable for passenger-car use (percentage)	29%	89%	90%	89%	89.9%	101%	75%

Secure legal entry to national forest lands and waters.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
High-priority access rights-of-way acquired (percentage)	90%	74%	106%	85%	N/A ¹⁰	N/A	95%

Improve the management of off-highway vehicle use.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
NFS lands covered by new motor vehicle use maps reflecting a designated-use system of roads, trails, and areas (percentage)	0%	44%	66.7%	100%	76.7%	76.7%	100%

STRATEGIC GOAL 5: MAINTAIN BASIC MANAGEMENT CAPABILITIES OF THE FOREST SERVICE

Goal 5 Resources by Fiscal Year (in millions)		
2009	2010	Estimated 2011
\$663	\$440	\$414

Natural resources are affected by a wide range of forces, including natural events, overuse, and various management and law enforcement activities. The Forest Service maintains a workforce with the skills and capabilities to deal with the impacts of these events. Effectively managing its natural resources and ensuring the safety of the land and its users requires quality data from agency information systems, current strategic unit plans, prepared law enforcement officials, and facility maintenance. The Forest Service strives to improve the administration of national forest lands and facilities “for present and future generations.”

¹⁰ Actual accomplishment for this performance measure will be available in the FY 2013 Budget Justification, available at <http://www.fs.fed.us> in February 2012.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

Improve the administration of national forest lands and facilities in support of the agency’s mission.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Administrative facilities that are being maintained to standard (percentage)	64%	66%	64%	63%	63%	100%	65%
Newly reported encroachments and title claims administered to standard ¹¹ (percentage)	60%	5%	34%	20%	N/A ¹²	N/A	35%

STRATEGIC GOAL 6: ENGAGE URBAN AMERICA WITH FOREST SERVICE PROGRAMS

Goal 6 Resources by Fiscal Year (in millions)		
2009	2010	Estimated 2011
\$35	\$37	\$34

The Forest Service has an integrated program of natural resources stewardship to better connect urban residents to public and private forested lands as a way of improving quality of life. The agency works to promote understanding and beneficial management of the urban forest through conservation education, community “greening” efforts, and youth programs. Partners at the Federal, State, and local levels improve the Forest Service’s understanding of what urban residents think of their local parks, nearby woodlands, and national forests and what they want from them. Through these partnerships, the agency builds connections between rural and urban communities.

Improve the management of urban and community forests to provide a wide range of public benefits.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Communities with developing or established urban and community forestry programs resulting from Forest Service assistance (number)	6,564	6,853	7,102	7,200	14,263	198%	10,000

¹¹Efforts are underway to develop a new performance measure and associated targets for this activity.

¹² Actual accomplishment for this performance measure will be available in the FY 2013 Budget Justification, available at <http://www.fs.fed.us> in February 2012.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

STRATEGIC GOAL 7: PROVIDE SCIENCE-BASED APPLICATIONS AND TOOLS FOR SUSTAINABLE NATURAL RESOURCES MANAGEMENT

Goal 7 Resources by Fiscal Year (in millions)		
2009	2010	Estimated 2011
\$99	\$127	\$118

The Forest Service conducts research and produces technologies to improve the health and use of our Nation’s forests and grasslands. Science informs policy and land management decisions to help achieve desired outcomes. Science and the knowledge generated by the Forest Service is transferred to many organizations, including policymakers, wildland fire managers, and communities.

Increase the use of applications and tools developed by Forest Service R&D and Technology and Development Centers.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Customer satisfaction with R&D products and services (ACSI ¹³ score)	72	75	72	75	75	100%	75
Patent applications filed (number)	10	6	6	6	4	66%	8

¹³ American Customer Satisfaction Index (ACSI), an economic indicator that measures the satisfaction of consumers across the U.S. economy.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

FOREST SERVICE CONTRIBUTIONS TO THE USDA STRATEGIC PLAN

The Forest Service contributes to USDA’s accomplishments for the following strategic and high-priority performance measures.

USDA PERFORMANCE MEASURE	FY 2009 ACTUAL	FY 2010 ACTUAL	FY 2011		FY 2012 TARGET	FY 2015 TARGET
			TARGET	YEAR-END PROJECTION		
Acres on which high-impact targeted practices are implemented on National Forest System and private lands in priority landscapes to accelerate the protection of clean, abundant water (millions of acres)	0	.410	.600 ¹⁴	.330	1.5	N/A ¹⁵
Annual economic contribution of recreation on national forests and grasslands (thousands of jobs)	238	238	238	238	N/A	247
Percentage of acres treated in the wildland-urban interface that have been identified in Community Wildfire Protection Plans	41%	44.8%	75%	51.8%	75%	55%
Cumulative acres in the National Forest System that are in a desired condition relative to fire regime (millions of acres)	58.5	58.8	59.6	59.185	60.1	61.5
Protected from conversion through easements and fee-simple purchases (thousands of acres)	1,924	2,225	2,494	2,245	2,828	2,860

¹⁴ The target of .600 acres is the Forest Service target and only a portion of the overall target for USDA. USDA’s target is supported by multiple agencies and is still expected to be met.

¹⁵ N/A is not applicable.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

**SUMMARY ANALYSIS OF FINANCIAL STATEMENTS AND
STEWARDSHIP INFORMATION**

The Forest Service produces a series of financial statements on a quarterly basis to summarize the activity and associated financial position of the agency. These statements are:

- Consolidated Balance Sheets*
- Consolidated Statements of Net Cost*
- Consolidated Statements of Changes in Net Position*
- Combined Statements of Budgetary Resources*

In producing these statements, the agency seeks to provide relevant, reliable, and accurate financial information related to Forest Service activities. An analysis of the agency’s September 30, 2011, financial statements provides the following highlights and exhibits, reflecting the comparative amounts for FY 2011 and FY 2010.

CONSOLIDATED BALANCE SHEETS

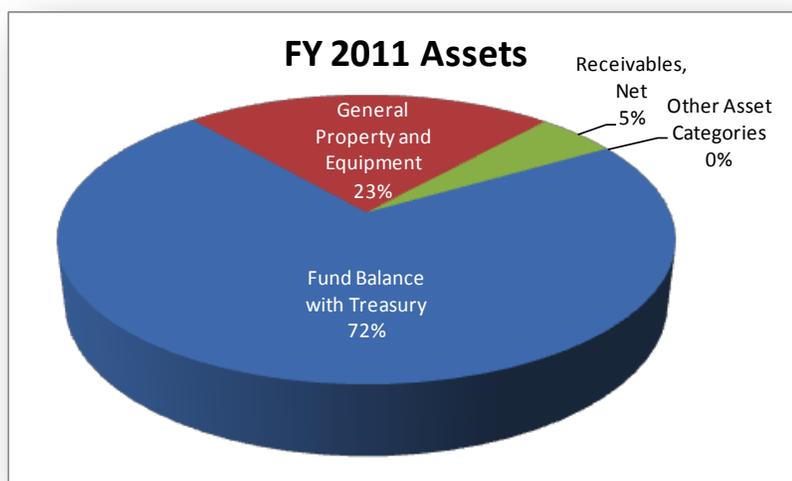
The Balance Sheet is a presentation of the Forest Service’s financial condition at the end of the fiscal year. It shows the resources Forest Service holds to meet its statutory requirements (Assets), the amounts it owes that will require payment from these resources (Liabilities), and the difference between them (Net Position).

ASSETS

As of September 30, 2011, Forest Service reports \$6.1 billion in assets, representing a decrease of 11 percent from FY 2010 amounts.

ASSETS (in millions)				
ASSET	FY 2011	FY 2010	DIFFERENCES	
			DOLLARS	PERCENTAGES
Fund Balance with Treasury	\$4,379	\$5,252	(\$873)	(17%)
General Property and Equipment	1,400	1,383	17	1%
Receivables, Net	276	139	137	99%
Total of Major Categories	\$6,055	\$6,774	(\$719)	(11%)
Other Asset Categories	24	51	(27)	(53%)
Grand Total Assets	\$6,079	\$6,825	(\$746)	(11%)

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**



Fund Balance with Treasury (FBWT)

FBWT (72 percent of assets) decreased \$873 million (17 percent) from FY 2010, primarily due to recissions (cancellations) of prior-year balances as well as increased disbursements of American Recovery and Reinvestment Act (ARRA) funds. FBWT is the amount in the Forest Service's accounts with the U.S. Department of Treasury that are available only for the purposes for which the funds were appropriated. These accounts include general funds, revolving funds, special funds, trust funds, deposit funds, clearing accounts, and miscellaneous receipt accounts.

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

General PP&E (23 percent of assets) consists primarily of forest road-surface improvements, bridges, campgrounds, administrative buildings, other structures, and equipment. General PP&E also includes assets acquired by the Forest Service for conducting business activities, such as providing goods or services. General PP&E does not include the value of heritage assets or stewardship assets, which are categorized as Stewardship PP&E.

Stewardship PP&E

Stewardship PP&E assets—both heritage and stewardship assets—do not have a readily identifiable financial value as do the general PP&E assets, so are not recorded within the Forest Service financial statements.

Heritage assets are assets that are historical or significant for their natural, cultural, aesthetic, or other important attributes and that are expected to be preserved indefinitely. Stewardship assets are primarily land, held by the Forest Service as part of the NFS and not acquired for, or in connection with, other general PP&E.

For an in-depth discussion of heritage and stewardship assets, see the Financial Statement Note 6—Stewardship PP&E and the Required Supplementary Information (RSI) section.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

Receivables, Net

Accounts Receivable, Net (5 percent of assets) increased \$137 million (99 percent) from FY 2010, primarily due to an increase in wildfire activity, primarily in the State of Texas, with associated reimbursable revenue to be paid by the State.

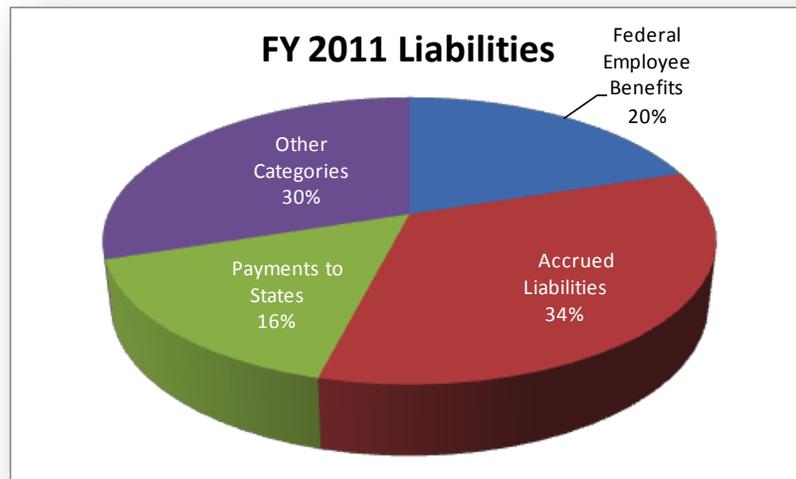
Other Assets

Other assets (less than 1 percent of assets) decreased \$27 million (53 percent) from FY 2010, primarily due to reductions in advances and prepayments for goods and services provided to the Forest Service, as well as redemption of Treasury securities in the first quarter of FY 2011.

LIABILITIES

As of September 30, 2011, the Forest Service reports \$2.3 billion in liabilities, representing an increase of 6 percent from FY 2010 amounts.

LIABILITIES (in millions)				
LIABILITY	FY 2011	FY 2010	DIFFERENCES	
			DOLLARS	PERCENTAGES
Federal Employee Benefits	\$454	\$443	\$11	2%
Other Liabilities (non-Federal)				
Accrued Liabilities	782	734	48	7%
Payments to States	357	409	(52)	(13%)
Other Categories	669	551	118	21%
Grand Total Liabilities	\$2,262	\$2,137	\$125	6%



**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

Federal Employee Benefits

Federal Employee Benefits (20 percent of liabilities) had an increase of \$11 million (2 percent) from FY 2010. The Federal Employees' Compensation Act (FECA) liability is accrued workers' compensation benefits, not yet paid by the Forest Service. FECA benefits include the current and expected future liability for death, disability, medical, and other approved workers' compensation costs. By law, Federal agencies cannot make these payments until Congress appropriates and OMB apportions the funds, and they are liabilities on the balance sheet.

Accrued Liabilities

Accrued Liabilities (34 percent of liabilities) had an increase of \$48 million (7 percent) from FY 2010. 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.

Payments to States

The liability for Payments to States (16 percent of liabilities) decreased \$52 million (13 percent) from FY 2010 primarily due to legislative mandates calling for a declining scale in payment calculation of approximately 90 percent of the full funding amount for the preceding fiscal year.

The Payments to States legislation authorizes annual revenue-sharing payments to States in which national forests are located. The intent of the program is to offset the property taxes not collected on Federal lands by providing funding to counties for their public schools and roads. A portion of funding comes from agency receipts; the balance is an unfunded liability on the Forest Service's balance sheet.

Other Categories

Other Categories (30 percent of liabilities) increased \$118 million (21 percent) from FY 2010. Other categories of liabilities include deposit liabilities and annual leave liabilities. Deposit liabilities consist of collections deposited in clearing accounts awaiting disposition or reclassification.

NET POSITION

As reported in the Consolidated Statements of Changes in Net Position section, the Forest Service reported unexpended appropriations of \$2.1 billion and cumulative results of operations of \$1.8 billion. The total net position decreased by \$871 million (19 percent) from FY 2010.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

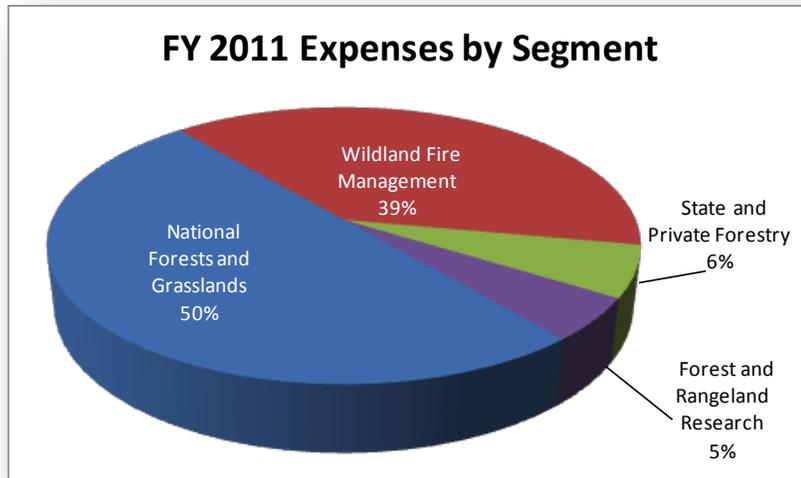
CONSOLIDATED STATEMENTS OF NET COST

The Consolidated Statements of Net Cost report the difference of two amounts: total gross costs minus total gross revenue for the year. The Forest Service’s net cost of operations was \$6.3 billion, representing an increase of 4 percent from FY 2010 amounts.

NET COST OF OPERATIONS (in millions)				
DESCRIPTION	FY 2011	FY 2010	DIFFERENCES	
			DOLLARS	PERCENTAGES
Program Cost by Segment:				
National Forests and Grasslands	\$3,603	\$3,808	(\$205)	(5%)
Wildland Fire Management	2,817	2,078	739	36%
State and Private Forestry	390	448	(58)	(13%)
Forest and Rangeland Research	350	368	(18)	(5%)
Total Program Costs	7,160	6,702	458	7%
Less: Total Earned Revenue	\$833	\$623	\$210	34%
Net Cost of Operations	\$6,327	\$6,079	\$248	4%

Expenses

Forest Service program costs are \$7.2 billion for FY 2011, representing an increase of 7 percent from FY 2010. The increase is primarily due to increased Wildland Fire Management costs (39 percent of program costs) as a result of increased wildfire activity in the State of Texas.



Revenue

The Forest Service’s earned revenue—from both the public and intragovernmental—is \$833 million for FY 2011 and \$623 million for FY 2010, resulting in an increase of \$210 million. The increase of revenue is primarily attributed to reimbursable services provided to the State of Texas for fire suppression.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

Earned revenue from the public includes such items as the sale of forest products (timber and firewood); recreational opportunities (campgrounds); mineral resources; livestock grazing; and special land use fees for power generation, resorts, and other business activities conducted on NFS lands.

The Forest Service also performs reimbursable activities, such as reimbursable activities for fire and work completed for other Federal agencies, in accordance with the Economy Act and other authorities.

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

The Statements of Changes in Net Position report the change in net position during the reporting period. Net position is affected by changes to its two components: Unexpended Appropriations and Cumulative Results of Operations.

NET POSITION (in millions)				
NET POSITION	FY 2011	FY 2010	DIFFERENCES	
			DOLLARS	PERCENTAGES
Unexpended Appropriations	\$2,056	\$2,991	(\$935)	(31%)
Cumulative Results of Operations	1,761	1,697	64	4%
Total Net Position	\$3,817	\$4,688	(\$871)	(19%)

Unexpended Appropriations

The Unexpended Appropriations balance is \$2.1 billion for FY 2011, representing a decrease of 31 percent from FY 2010. The decrease is primarily due to FY 2011 Treasury Recissions, reductions in appropriations received in FY 2011, and an increase in appropriations used in FY 2011, which causes the unexpended balance to decrease as reflected by the increase in total program costs.

Unexpended Appropriations reflect the spending authority made available by congressional appropriation, but not used.

Cumulative Results of Operations

The Cumulative Results of Operations amount reflects the cumulative effect of financing in excess of expenditures and includes earmarked funds. It is the earmarked funds that predominately finance the enhancement and maintenance of NFS lands, including reforestation. Earmarked funds are presented separately on the Statements of Changes in Net Position, in accordance with the Statement of Federal Financial Accounting Standard 27—Identifying and Reporting Earmarked Funds. For a detailed description of each earmarked fund, see Note 12: Earmarked Funds in Part B. Financial Section of this AFR.

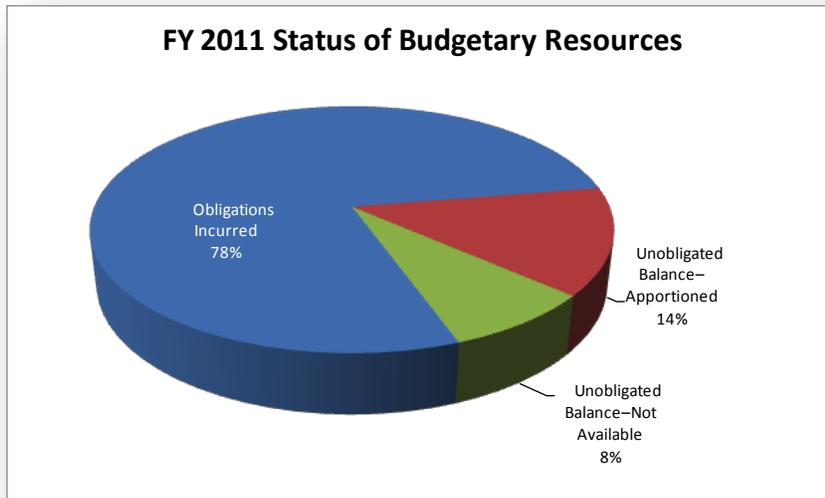
COMBINED STATEMENTS OF BUDGETARY RESOURCES

In accordance with Federal statutes and implementing guidance from OMB, the Forest Service may incur obligations and make payments to the extent it has budgetary resources to cover such items. The Combined Statements of Budgetary Resources presents the sources of these budgetary resources, the status of the funds at yearend, and the relationship between its budgetary resources and the outlays made against them.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

Forest Service's total budgetary resources were \$8.6 billion in FY 2011 and \$9.3 billion in FY 2010, representing a decrease of 8 percent from FY 2010.

STATEMENT OF BUDGETARY RESOURCES (in millions)				
STATEMENT OF BUDGETARY RESOURCES	FY 2011	FY 2010	DIFFERENCES	
			DOLLARS	PERCENTAGES
Total Budgetary Resources	\$8,585	\$9,339	(\$754)	(8%)
Status of Budgetary Resources				
Obligations Incurred	6,678	6,980	(302)	(4%)
Unobligated Balance—Apportioned	1,194	1,361	(167)	(12%)
Unobligated Balance—Not Available	713	998	(285)	(29%)
Total Status of Budgetary Resources	\$8,585	\$9,339	(\$754)	(8%)



Unobligated Balance—Apportioned

The Unobligated Balance—Apportioned decreased \$167 million (12 percent) in FY 2011, primarily due to a decrease in the balances in FY 2011 for Wildland Fire Management. The need to obligate funds for increased fire-related activities caused the reduction in unobligated balances.

Unobligated Balance—Not Available

The Unobligated Balance—Not Available decreased \$285 million (29 percent) in FY 2011, primarily due to transfers out of budget authority from the FLAME Act Fund. The transfers were needed to cover the increased wildfire activity. This reduction was offset by fewer apportionments in FY 2011 for the Recreation Fee Demonstration Program and an increase in appropriations received for the Cooperative Work Trust Fund.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

FEDERAL MANAGERS’ FINANCIAL INTEGRITY ACT (FMFIA)

The management control objectives under FMFIA, or the Integrity Act of 1982, are listed in the “*What’s FMFIA?*” box, below. Deficiencies that seriously affect an agency’s ability to meet these management control objectives are deemed “material weaknesses.”

What is *FMFIA*?

The *Federal Managers’ Financial Integrity Act*, or FMFIA, requires agency managers to reasonably assure Congress and the American public that all financial information meets the following control objectives:

Programs achieve their intended results.

Resources are used consistent with overall mission.

Programs and resources are free from waste, fraud, and mismanagement.

Laws and regulations are followed.

Controls are sufficient to minimize any improper or erroneous payments.

Performance information is reliable.

System security is in substantial compliance with all relevant requirements.

Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels.

FMFIA Assertions

Forest Service management conducted its annual evaluations of internal control (FMFIA, Section 2) and financial systems (FMFIA, Section 4), effective for the period ending September 30, 2011.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

FFMIA mandates that agencies “...implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level.” FFMIA also requires any agency unable to report substantial compliance with these requirements to develop remediation plans.

FFMIA Assertions

Forest Service management evaluated its financial management systems under FFMIA for the period ending September 30, 2011.

1. Federal financial management system requirements.
2. Applicable Federal Accounting Standards.
3. The USSGL at the transaction level.

FY 2011 Results

Based on the results of our evaluation, Forest Service is substantially compliant with the Sections listed above.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

The FISMA provides the framework for securing the Federal Government's information technology (IT). Departments covered by the Paperwork Reduction Act must implement the requirements of FISMA, reporting annually to OMB and Congress on the effectiveness of the agency's security programs and independent OIG evaluations.

FY 2011 Results

No IT material weaknesses were noted for Assurance Year 2011.

INTERNAL CONTROLS OVER FINANCIAL REPORTING (CIRCULAR A-123, APPENDIX A)

Forest Service management recognizes its responsibility for monitoring and correcting all internal control deficiencies.

To identify potential deficiencies, the agency conducted an assessment of the effectiveness of internal control over financial reporting for the 2011 Assurance Year (ending June 30, 2011), in accordance with USDA's Implementation Guide for OMB Circular A-123, Internal Control over Financial Reporting, Appendix A.

The Forest Service prepares risk assessments to evaluate program vulnerabilities for internal controls and then tests the controls to assess the level of internal control at the agency level. The agency uses the following procedures in this process:

- Process descriptions and flowcharts are used to evaluate workflow and internal control from beginning to end of program responsibility.
- Documentation and design of key controls are reviewed with management and key staff.
- The operating effectiveness of properly designed controls is tested by recalculating and verifying compliance with policy and procedures.
- Corrective action plans are developed for control and significant deficiencies.

Based on the results of the assessment, the Forest Service can provide qualified reasonable assurance that controls over the financial reporting area are operating effectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

ARRA

In FY 2011, [ARRA](#)¹⁶ funds enabled the Forest Service to treat more than 510,670 acres of NFS land to reduce wildfire risk and create or retain more than 3,751 jobs each quarter. For more information, go to http://usda.gov/wps/portal/arra?navid=USDA_ARRA_PLAN.

Seven out of nine [Fast Reports](#)¹⁷ issued by OIG in FY 2011 were completed and corrective actions were implemented. The Forest Service continues to work on mitigating the remaining two Fast Reports. The OIG commended the Forest Service for working proficiently to ensure that the agency was accountable for the efficient and effective disbursement of ARRA funds.

LIMITATIONS OF FINANCIAL STATEMENTS

The Forest Service's principal financial statements have been prepared to report the financial position and results of operations of the agency, pursuant to the requirements of 31 U.S.C. 3515 (b).

The Forest Service statements have been prepared from its books and records in accordance with Generally Accepted Accounting Principles for Federal entities and the formats prescribed by OMB. The statements, however, are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

¹⁶ For more information on ARRA, go to http://usda.gov/wps/portal/arra?navid=USDA_ARRA_PLAN.

¹⁷ Fast Reports are OIG findings reported to Forest Service management that require a response within 5 days on (1) the factual accuracy of the finding, and (2) any proposed corrective action to remediate the issue.