



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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COMMUNITY AND ECONOMIC  
DEVELOPMENT DIVISION

AUG 13 1980

Mr. R. Max Peterson  
Chief, Forest Service  
Department of Agriculture



Dear Mr. Peterson:

Subject: [Problems in Collecting and Setting Aside  
Adequate Knutson-Vandenburg Funds To Do  
Planned Work]

We have made a limited review at 16 district and 6 national forest offices in Region 6 of the collection and setting aside of funds authorized by section 3 of the Knutson-Vandenburg (K-V) Act of 1930 (16 U.S.C. 576b). We discussed our findings with Region 6 and headquarters officials. Their comments are included below.

In a previous report, <sup>1/</sup> we pointed out that the Forest Service was having difficulty in collecting and setting aside enough money under the K-V act to finance the reforestation and timber stand improvement work needed in harvest areas. We said that to provide more funds for such work, the Congress could (1) increase regular appropriations from general funds of the Treasury, (2) enact legislation to provide for using a portion of timber sale receipts remaining in the National Forest Fund after other distribution requirements have been met, or (3) amend the K-V act to provide for setting aside, on a sale-by-sale basis, enough K-V funds to fully cover the cost of reforestation and timber stand improvement work needed in harvest areas.

In commenting for the Department, the former Chief of the Forest Service said that of the three alternatives, increasing the regular appropriations would be the most appropriate if it was within the national priorities. He said that deficiencies in K-V funds were more the result of procedural errors than of legal and administrative limitations. He believed it would not be wise or necessary to

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<sup>1/</sup>"More Intensive Reforestation and Timber Stand Improvement Programs Could Help Meet Timber Demand" (B-125053, Feb. 14, 1974).

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amend the K-V act to provide more funds because in most cases adequate K-V funds could be collected to pay for needed work if collection guidelines and improved management procedures were followed.

Despite the former Chief's comment that adequate K-V funds could be collected in most cases, the Forest Service continues to have some problems in collecting and setting aside enough K-V funds to cover the cost of the work planned to be done to restore harvest areas after timber sales. The problems are due primarily to

--inadequate consideration of the effects of inflation on the cost of K-V work and

--failure to revise K-V plans and cost estimates on a timely basis and procedures limiting timber sale receipts that can be set aside for K-V work.

Also, the Forest Service is having difficulty in determining a K-V fund balance which accurately reflects the cost of the work to be done and the availability of funds to do it.

EFFECTS OF INFLATION ON THE COST OF  
K-V WORK ARE NOT ADEQUATELY CONSIDERED

Some Forest Service officials are not adequately considering the expected impact of inflation when making K-V estimates. In some cases they do not use any inflation factor. In other cases they use an inadequate inflation factor or an unrealistic estimate of when work will be done. As a result, their cost estimates may understate the actual future cost of the work.

Although Forest Service K-V plan instructions specify using the best estimate of what the costs will be at the time the work will be done, no specific guidance is given for estimating the effect of inflation on these costs. Some forests use current costs only; others try to adjust the costs for inflation. Even the forests which try to use an inflation factor have difficulties in deciding the rate of inflation to assume and the years to which the inflation factor should be applied. Some officials in these forests told us that the inflation factor they use is probably too low.

At some districts preparing K-V estimates based on current costs, officials believed that (1) the regional office wanted the estimates on a current cost basis, (2) the Forest Service's responsibility is not to "fuel inflation" by including high inflation rates in project costs,

and/or (3) accurate inflation estimates are impossible because future inflation rates and the time of doing the work are not known. The districts which were attempting to adjust for inflation used different inflation rates ranging from 6 to 12 percent and different methods of applying these rates. One district official said that guidance was needed on what inflation rate to assume to avoid forcing the forester to be an economist.

In addition to the varying inflation rates, the method of determining the years to which the rates should apply varied among the districts visited and had a substantial effect on the estimated costs of future work. The most realistic cost estimate should result when the inflation factor is applied to the cost of each activity for the year (or years) in which each activity is planned to occur. However, other methods were being used, such as applying the inflation factor to the year of sale closure or to the mid-year of several years over which planned activities were scheduled to occur. These methods, which appear to be short cuts, resulted in lower estimates of costs.

Both Region 6 and headquarters officials said that Forest Service instructions now require those preparing K-V plans to use the best estimate of what the work will cost considering the type of work and the time and place it will be done. They believed that if the instructions were followed, the effects of inflation on the cost of K-V work will be adequately considered.

Headquarters officials said that administrative reviews of K-V planning by headquarters and regional officials could be used to obtain compliance with the existing instructions. They said that inflation rates would vary by region and could not be prescribed by the headquarters office, but that possibly each region or forest could determine an appropriate rate to use in its K-V plans.

A Region 6 official suggested that the region could develop inflation factors and a format for those preparing K-V plans to follow in adjusting current cost estimates to give adequate consideration to the effects of inflation on the costs. He believed this would free the district-level officials from having to determine which inflation rates to use and how they should be applied to the various planned activities.

We believe that K-V plan cost estimates and related collection targets could be improved by assuring that those

preparing K-V plans adequately consider the effects of inflation and the timing of the work on the estimated cost of the work.

### Recommendations

We recommend that you revise Forest Service instructions to specifically require that

--the regions determine appropriate inflation rates for their areas and require the districts to use the rates when preparing K-V plans and

--the K-V plans identify the time period in which the planned work is expected to occur so that appropriate inflation rates can be applied.

We recommend also that you review the rates periodically to ensure that they continue to be appropriate and that each region's rate is equitable as compared with the rates in other regions. Further, we recommend that you require headquarters and regional officials to include in their administrative reviews an assessment of the regions' and districts' applications of the inflation rates.

### K-V PLANS ARE NOT ALWAYS REVISED ON A TIMELY BASIS AND ADEQUATE FUNDS ARE NOT SET ASIDE

Forest Service officials have inherent difficulties in estimating the K-V work needed to be done and the cost of doing the work because K-V plans are required before a timber sale is advertised and the actual work may not be done for 5 years or longer after the original estimate is made. In the meantime many unforeseen developments relating to such things as weather, harvesting conditions, and changes in regulations and inflation rates can occur which may affect the type, quantity, or cost of work. Because these developments and their effects are difficult to accurately predict, the Forest Service provides for revising K-V plans when it is considered necessary.

However, K-V plans have not always been revised on a timely basis and the amount of monies that can be deposited

in the K-V fund 1/ to cover any upward revisions has been administratively limited to the total receipts to be collected from the volume of unharvested timber under a contract. This is referred to as the volume limitation as outlined in Forest Service Manual 2477.22. If not for the limitation, receipts already collected under a contract would be available to cover the upward cost revision for K-V work.

The volume limitation has created some problems in setting aside the full amount of needed K-V funds. Region 6 officials said that K-V plans are sometimes revised during a sale to correct for underestimated costs. However, the full amount for these additional costs cannot always be deposited in the K-V fund because the revisions are made too late and remaining timber sale receipts are insufficient to cover the additional costs. We also found that in some cases needed revisions in K-V plans were simply not made at all, thereby resulting in insufficient funds being set aside for K-V work.

Headquarters officials said that the administrative limitation was imposed to force better K-V planning with more timely revisions of K-V plans. They believed that removing the limitation entirely would encourage poor planning. They suggested that perhaps the limitation could be revised to allow for end-of-sale updating of the K-V plans. They believed that such a revision might provide enough flexibility to allow for all needed K-V funds to be set aside without discouraging good planning. They also said that a requirement to review and revise K-V plans yearly could be a part of any revision.

Region 6 officials said that monies deposited in the K-V fund would more closely match the needs if K-V plans could be updated when harvesting was completed and if the administrative limitation was removed making available timber sale receipts already collected. They did not believe this would result in a serious decline in the K-V planning efforts.

We believe that funds set aside for K-V work would more closely match the amounts needed to do the work if the K-V

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1/Timber purchaser payments generally include the estimated costs of K-V work. As timber receipts are collected, a portion based on the ratio of total estimated costs for K-V work to total estimated timber receipts is deposited in the K-V fund.

plans were updated annually as harvesting occurs and after harvesting is completed but before the sale is closed. In addition, we believe the volume limitation should be eliminated or at least revised to provide enough flexibility to allow for all needed K-V funds to be set aside.

#### Recommendations

We recommend that you change Forest Service instructions to

--require that K-V plans and funds needed to be set aside be updated once harvesting begins and annually thereafter until harvesting is completed and then once after harvesting but before formal sale closure and

--remove or revise the volume limitation to allow for all needed K-V funds to be set aside.

#### K-V BALANCES MAY NOT BE ACCURATE

The K-V act requires that deposits in excess of the costs of K-V work shall be transferred to miscellaneous receipts. Forest Service instructions require that each forest determine the status of its K-V fund balance annually as of September 30 and transfer any projected surplus over \$100 to the National Forest Fund. Instructions state that this determination should be based on the K-V plans.

In Region 6 as of September 30, 1979, 13 forests reported a total K-V deficit of \$46.7 million while 6 forests reported a total surplus of \$9.8 million. K-V balances are determined by comparing the estimated cost of planned K-V work with the K-V account balance plus planned deposits.

The K-V balances may not be accurate. Region 6 officials question the accuracy of the surplus balances because all Region 6 forests for the 4 years prior to 1979 had reported deficits. Also, a 1979 Region 6 study indicated that managers at the forest level did not have confidence in the accuracy of the annual K-V balances. The study also concluded that the K-V deficits may be on paper only because of problems in developing work plans and cost estimates and the fact that procedures permit K-V plans to be updated and some additional funds to be deposited in the K-V account thus reducing the deficit.

We believe the K-V balances may be overstated or understated because officials of the six forests visited were using

a variety of methods to determine the cost of work to be done and the planned monies to be set aside for K-V work. For example:

- One forest based the cost of the remaining work to be done on current costs, rather than using the latest estimate of inflated costs for the work to be done in the future. This would understate both the cost of the remaining work and any K-V deficit.
- One forest's deficit was computed before adjustments were made to K-V plans which increased future amounts to be set aside. This would understate the amount of planned monies to be set aside and overstate the K-V fund deficit.

We believe the accuracy of K-V fund balances could be improved if the annual K-V fund balance determinations were coordinated more closely with the updating of K-V plans and funds needed to be set aside as recommended on page 6. Accurate K-V balances are not only needed so the Forest Service can comply with the K-V act requirement that excess deposits be transferred to miscellaneous receipts, but such balances could also be used as a management tool for determining if adequate planning and cost estimates for K-V work are being carried out.

Region 6 and headquarters officials generally agreed that coordinating the annual K-V balance determinations with the updating of K-V plans would provide more accurate figures. Headquarters officials said it might be possible to revise Forest Service instructions to allow more time to determine the status of K-V fund balances. This would permit forest- and district-level officials to better schedule the time needed to carry out and coordinate these activities.

#### Recommendations

We recommend that you emphasize to all forests the importance of coordinating the annual K-V fund balance determinations with the updating of K-V plans and funds needed to be set aside as recommended on page 6. We also recommend that you determine the feasibility of allowing more time after the end of the fiscal year for determining the annual K-V fund balances.

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We would appreciate receiving your comments and advice as to the action taken or planned on our recommendations.

If you desire, we will be happy to discuss these matters in more detail with you.

A copy of this letter is being furnished to the Inspector General. We wish to acknowledge the cooperation and courtesies which were extended to our representatives during this review.

Sincerely yours,

*Donald J. Vandenberg*

*for* Oliver W. Krueger  
Senior Group Director