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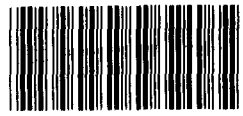

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Forest Service Timber Sale Program Information Reporting System

Statement of
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Before the
Subcommittee on Forests, Family Farms
and Energy
Committee on Agriculture
House of Representatives

Mr. Chairman and Members of the Subcommittee,

I appreciate the opportunity to appear before you today to outline the cost reporting system developed by the Forest Service in consultation with GAO. The purpose of the system is to provide the Service and the Congress with improved financial management information on the revenues and costs relating to the sale of government owned timber.

BACKGROUND

In 1984, we reviewed over 3,200 timber sales to determine whether or not they recovered all of the costs involved in selling timber. These reviews were conducted because both public and private sectors were expressing concern that the Service had been losing money on timber sales. Based on that work, we reported to the Congress that the Service did not identify and accumulate its sales costs, and that this hampered its ability to take timely action to reduce cost.[1] The Congress was also concerned about the issue, and in the Service's 1985 appropriation (enacted in 1984) directed the Service to develop a cost accounting system to determine the cost of selling timber.

That effort led to the Service's June 1986 publication of a draft proposal calling for the accumulation and reporting of revenue and cost[2] related to the timber sales program. At the request of the Subcommittee on Interior and Related Agencies, Committee on Appropriations, we analyzed that proposal and

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[1] Congress Needs Better Information on Forest Service's Below-Cost Timber Sales, GAO/RCED-84-96, June 28, 1984.

[2] Timber Sale Program Information Reporting System, Draft Report to Congress, U.S. Department of Agriculture, Forest Service, June 1986 (Revised).

reported that it would be of limited use because the Service had omitted some costs, and the existing accounting system distributed some costs on an estimated, as opposed to an actual, basis.[3] We testified before the Subcommittee regarding our report, and in May 1986, were asked to outline a system structure which we believed would meet the needs of the Service and the Congress.

In April 1987, we and the Forest Service concurrently reported to the Subcommittee on the results of this effort,[4] and during 1987 and 1988, the Service tested and implemented the system. The cost reporting system which we outlined with the Service is a part of a broader information reporting system, the Timber Sale Program Information Reporting System (TSPIRS). TSPIRS was adopted in 1989 for use on all forests in the National Forest system, and the first annual report based on its implementation Servicewide is expected to be released in February 1990.

HOW THE SYSTEM WORKS

I would now like to discuss the key features of TSPIRS. TSPIRS is based at the forest level and reports the results of the year's timber harvest activities in terms of (1) an accounting cost reporting module, (2) an economic calculation of the net present value of the benefits anticipated from the harvest, and (3) a calculation of the socio-economic benefits the Service believes occur as a result of the harvest, expressed in jobs and income to the communities.

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[3]Timber Sale Accounting: Analysis of Forest Service's Proposed Timber Program Information Reporting System, GAO/AFMD-86-42, April 4, 1986.

[4]Timber Program: A Cost Accounting System Design for Timber Sales in National Forests, GAO/AFMD-87-33, April 27, 1987.

The cost reporting module tracks three distinct types of cost covering the growth, sale, and harvest of government timber. Costs are assigned to revenues received in a period in the following manner:

1. Growth costs, such as the costs of pre-commercial thinning or fertilization, occur over the life of the forest. Therefore, these costs are matched with revenues based on the amount harvested in one year in relation to the total timber to be harvested from the forest. Since system roads are built to harvest all timber as well as to provide access for future growth activity, they have been included in the growth cost pool.

2. Sales costs typically occur over several years and represent amounts incurred to market the timber. They would include such items as the cost of estimating timber volume, preparing notices of bid, and advertising the sale. These costs are matched with the timber revenue based on the timber harvested in one year in proportion to the total timber under contract.

3. Harvest administration costs are an annual cost and relate directly to the timber harvested in that year; they are treated as an annual cost.

Several controversial issues have arisen since the Service instituted the cost reporting module--including (1) the treatment

of permanent road costs and (2) the methodology used to allocate the timber growth costs.

--Permanent road costs are added to the growth cost pool in the design implemented by the Service. Critics have argued that this allocates too little cost to the annual harvest and have stated their belief that timber roads are designed to have a life much shorter than the average time it takes to grow the forest. The Service hired a certified public accounting firm to evaluate its system, and in a September 29, 1989, report, the consultant recommended changing this aspect of the system as follows. Some part of the cost of roads would be permanently capitalized and not allocated as a cost of operations. This part would represent those costs that have a life which exceeds the life of the road, such as basic engineering costs. The road surface, bridges, and culverts would be capitalized and allocated as a cost of sales based on their useful life as determined by an engineering estimate. As you will recall, the original design allocated all of these costs over the total timber to be harvested from the forest. We believe that the suggestion meets generally accepted accounting principles because of its treatment of a portion of road costs as permanent additions to land, and that the proposal may have considerable merit.

--The methodology used to allocate growth costs was identified as a problem from the outset

of implementation of TSPIRS. In our 1986 report, we recommended that the costs be allocated to the total timber to be removed from the harvest area. The Service believed that the value which would represent the inventory of harvestable timber was its TVORP calculation (Total Volume Over the Rotation Period). Since TVORP is a theoretical calculation, it does not relate harvest to actual experience, and many Service personnel believe that it has the effect of overstating the amount of timber which can be harvested. At the request of the Service, the consultant also reviewed this aspect and has recommended using an experience based calculation which uses the results of past harvests to forecast the total to be harvested. We believe that using an estimate based on historical experience would yield a more reasonable approximation of the amount to be harvested.

As with any new system, refinements are to be expected. We testified on our review of the TSPIRS system on November 16, 1989, before the Subcommittee on Environment, Energy, and Natural Resources, Committee on Government Operations.[5] Overall, we found that all significant costs had been included in TSPIRS and agreed that refinements would be needed to better match costs with revenues generated by the timber sale program. Finally, we have also reviewed TSPIRS as part of our audit of the financial statements of Forest Service's 1988 operations. We will issue this report in the coming months.

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[5]Forest Service Cost Accounting For Timber Sales, GAO/T-AFMD-90-4, November 16, 1989.

TSPIRS ECONOMIC REPORT

To assist in the explanation of the results of its timber sales progam, the Service, on its own initiative, developed economic indices for the net present value of the benefits anticipated from harvest and for the socio-economic benefits of that harvest. As part of our recent review for the Subcommittee, we evaluated the net present value index; however, we did not consider the socio-economic data.

The net present value economic information is calculated annually based on the number of acres of timber harvested and the relationship between the production of timber on those acres and other desirable products such as fish and wildlife levels, recreation, and rangeland grazing. The system design allows for specific forest input of assumed economic values, and some assumptions are not consistent between forests. This occurs for example, when one forest has studied its wildlife and has a value for its output that is different from the average value established by the region. As a result, the net present value information may be most useful at the forest level.

We believe the economic information can be useful in managing forests. Further, we believe that the Service's approach to economic reporting is consistent with normal reporting of economic estimates. We caution that because the calculation includes assumptions about the future, the results would necessarily be uncertain.

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In the past several years, the Forest Service has worked to establish a cost reporting system and develop reports that can be used in evaluating program operations. We are hopeful that its

progress will continue, and we plan to continue to oversee the improvements made in this important area.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions which you or members of the Subcommittee may have at this time.