
August 1997

FOREST SERVICE

Unauthorized Use of the National Forest Fund





**United States
General Accounting Office
Washington, D.C. 20548**

**Resources, Community, and
Economic Development Division**

B-277560

August 29, 1997

The Honorable Robert F. Smith
Chairman, Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

This report responds to your request for information on the Forest Service's use of its National Forest Fund. You were concerned whether, with the declining receipts from the sale of federal timber, the Forest Service will have sufficient funds available in the future to meet its National Forest Fund obligations, including its required payments to the states. You pointed out that although the Forest Service had historically returned large sums of money from the sale of timber to the U.S. Treasury, it found itself in a deficit position in fiscal year 1996 and had to use appropriated funds to fund the shortfall.

As agreed with your office, we provided information on (1) the timber harvest volumes, the timber receipts for fiscal years 1990 through 1996, and the timber sale funds returned to the Treasury from the National Forest Fund; (2) the actions taken by the Forest Service toward the end of fiscal year 1996 to cover the shortfall in the National Forest Fund; (3) whether the Forest Service has been using the proper funding source for the spotted owl guarantee payment; and (4) the Forest Service's plans for fiscal year 1997 to ensure that the National Forest Fund has sufficient funds to make the payments to the states.

Results in Brief

Our analysis of timber sales activities in fiscal years 1990 through 1996 showed that the key indicators of the timber program—harvested volumes, timber receipts, and amounts available for return to the U.S. Treasury—have dramatically decreased. Harvested volumes decreased 65 percent; timber receipts decreased 55 percent; and the funds available for return to the Treasury decreased 86 percent.

In fiscal year 1996, the Forest Service was faced with having insufficient funds available in the National Forest Fund to make the required payments to the states—including the legislatively required payment to compensate certain counties in California, Oregon, and Washington for the listing of the northern spotted owl as a threatened species (spotted owl guarantee)—and to meet its other required obligations. The Forest Service

took two actions to remedy this problem. First, in August and September 1996, the Forest Service transferred to the National Forest Fund a total of \$56.1 million in timber sale receipts originally intended for deposit in other specific Forest Service funds.¹ However, even with this adjustment, a shortfall of \$17.8 million remained. In mid-September, the Forest Service requested that the Treasury make available \$135 million appropriated under the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66, as amended), for the 1996 payment of the spotted owl guarantee. The Forest Service received approval for the appropriation on November 26, 1996. As of August 12, 1997, the National Forest Fund had a balance of about \$116 million for fiscal year 1996 activities; the Forest Service plans to return this amount to the Treasury's General Fund.

The Forest Service used the National Forest Fund in fiscal years 1994 and 1995 to make the spotted owl guarantee payments to certain counties in California, Oregon, and Washington. This was an unauthorized use of the fund. Instead, the Forest Service was required to use the spotted owl guarantee appropriation specifically enacted for this purpose. In addition, the Forest Service must continue to use this appropriation until fiscal year 2003.

On January 29, 1997, the Forest Service (1) provided initial guidance to its regions on the priority for the distributions of receipts to ensure that funds are available to make the payments to the states and to meet other obligations and (2) required the regions to initiate a review process to ensure that the receipts were managed in accordance with these priorities. In May 1997, the Forest Service established a National Task Force for Trust Funds and Payments to the States. The task force was charged with developing a national policy for the management of receipts and trust funds so that there would be sufficient receipts available in the National Forest Fund to make the payments to the states and to meet other mandatory obligations.

Background

The Forest Service, within the U.S. Department of Agriculture, manages the 192-million-acre national forest system with its 155 national forests. The national forests generate receipts from a variety of resources, including recreation, grazing, and minerals; however, timber sale receipts

¹Timber sale receipts are deposited in the Timber Sale Deposit Fund, and once the timber is harvested and the receipts become "earned," these funds are transferred to the National Forest Fund and other forest funds. Originally, the Forest Service had intended that this \$56.1 million in timber sale receipts be deposited in the Salvage Sale Fund, which is used for preparing and administering future salvage sales, and in the Knutson-Vandenberg Fund, which is used for reforestation activities after the timber has been harvested.

have traditionally generated more than 90 percent of the total receipts. For example, in fiscal year 1996, timber sale receipts totaled about \$576 million of the Forest Service's \$638 million in receipts from all resources.

Receipts from all resources, except timber, are deposited directly in the National Forest Fund (NFF),² which is a receipts-holding account from which the Forest Service's obligations are distributed. For timber sale receipts, the Forest Service first distributes a portion of the receipts to two funds that are used for various timber sale activities, such as reforestation or preparing and administering future salvage sales. The remaining timber sale receipts are deposited in the NFF and combined with the receipts from other resources. Each forest has its own sub-NFF account that is accumulated at the regional level, and all regional NFF accounts are accumulated to develop the national NFF. At the end of the fiscal year, any amount not distributed from the NFF is deposited in the General Fund of the U.S. Treasury. (App. I provides additional information about the NFF and its receipts and distributions for fiscal years 1990 through 1996 and the Forest Service's projections for fiscal year 1997.)

The Decline in the Timber Harvests, Timber Receipts, and Returns to the Treasury

For fiscal years 1990 through 1996, the key indicators of the timber program—harvested volumes, timber receipts, and amounts available for return to the Treasury—decreased dramatically. As can be seen in table 1, for timber sales—the largest component of the Forest Service's receipts—harvested volumes decreased by 65 percent, receipts decreased by 55 percent, and the amounts available for return to the Treasury decreased by 86 percent.

²The NFF is an "indefinite appropriation," which is an appropriation of an unspecified amount of money.

Table 1: Harvested Volumes, Timber Receipts, and Amounts Available for Return to the Treasury, Fiscal Years 1990 Through 1996

Dollars in millions; volume in billions of board feet

| Fiscal year | Harvest volume | Timber receipts | Amount distributed to NFF | Amount distributed from NFF ^a | Amount available for return to Treasury |
|---------------|----------------|-----------------|---------------------------|--|---|
| 1990 | 10.5 | \$1,368.8 | \$822.7 | \$410.3 ^b | \$412.4 |
| 1991 | 8.5 | 1,157.2 | 649.8 | 373.6 ^c | 276.2 |
| 1992 | 7.3 | 1,090.8 | 504.6 | 363.7 ^c | 140.9 |
| 1993 | 5.9 | 989.0 | 416.0 | 339.7 ^c | 76.3 |
| 1994 | 4.8 | 910.2 | 420.9 | 340.4 ^c | 80.5 |
| 1995 | 3.9 | 681.1 | 294.2 | 292.7 ^c | 1.5 |
| 1996 | 3.7 | 609.3 | 186.8 ^e | 264.4 | -77.6 ^e |
| 1996 adjusted | 3.7 | 609.3 | 320.5 ^{d,f} | 264.4 ^g | 56.1 ^h |

Note: This table does not reflect the additional funds that may have been available for return to the Treasury in fiscal years 1994 and 1995 had the spotted owl payments been made pursuant to P.L. 103-66, as amended.

^aDistributions from the NFF related to timber normally include the payments to the states, the roads and trails fund, and the purchaser-elect roads account. Any funds remaining are available for return to the Treasury. These receipts relate only to the timber resource and not other receipts.

^bNo spotted owl payment in fiscal year 1990.

^cSpotted owl payment made out of the NFF.

^dIncludes the Knutson-Vandenberg Fund and the Salvage Sale Fund collections of \$20.5 million and \$35.6 million, respectively, from August and September 1996 that were transferred to the NFF.

^eInsufficient funds remaining in the NFF to make the spotted owl payment for timber.

^fIncludes the timber portion of the General Fund Appropriation—\$133.7 million— pursuant to P.L. 103-66, as amended.

^gIncludes the timber portion of the spotted owl payment of \$133.7 million.

^hThis amount is included in the total balance of \$116 million that the Forest Service plans to return to the Treasury. As of August 12, 1997, these funds were still in the NFF.

One of the reasons for the decline in the level of harvests was the listing of the northern spotted owl as a threatened species, which virtually halted all timber sales in the Pacific Northwest. The listing was followed by a decline in timber receipts and returns to the Treasury. However, the decline in the amounts available for return to the Treasury was even more severe because the Forest Service chose to make the payments for the spotted owl guarantee from the NFF during fiscal years 1994 and 1995. In fiscal year 1995, the amount available for return to the Treasury from the timber program dropped to a low of \$1.5 million. In fiscal year 1996, the

NFF lacked sufficient funds to meet its obligations—including the spotted owl payments—by a deficit of \$77.6 million. Therefore, the Forest Service exercised its authority to use the General Fund Appropriation—Northern Spotted Owl Guarantee—provided for by P.L. 103-66, as amended.

Actions Taken by the Forest Service to Maintain a Positive NFF Balance in Fiscal Year 1996

In fiscal year 1996, the Forest Service was faced with having insufficient funds available in the NFF to make its payments to the states—including the spotted owl guarantee—and to meet its other required obligations. The Forest Service took two actions to remedy this problem. First, the Forest Service transferred to the NFF a total of \$56.1 million originally intended to be deposited in the Salvage Sale Fund and the Knutson-Vandenberg Fund. However, even with this additional money, a shortfall of \$17.8 million still remained in the NFF. The Forest Service's next action was to request the appropriation of about \$135 million for the 1996 payments for the spotted owl guarantee authorized by the Omnibus Budget and Reconciliation Act of 1993 (P.L. 103-66, as amended).

Forest Service Transferred \$56.1 Million to the NFF

The Forest Service's first analysis—performed in May 1996—of the estimated receipts for fiscal year 1996 showed that the NFF's anticipated receipts were dangerously low. The analysis, generally performed to estimate the payments to the states, resulted in the Forest Service's beginning a series of internal discussions to identify why the receipts were so low. While the Forest Service estimated that it would be able to cover the payments to the states, it also estimated that only \$33.6 million would be available in the NFF to cover all other needs.

Even though the Forest Service was aware as early as May 1996 that the NFF was projected to be dangerously low at the end of 1996, and informally discussed the potential shortage internally between April and August, it did not formally initiate procedures to activate the spotted owl guarantee appropriation until September 1996. Instead, on August 27, 1996, the Forest Service instructed its regions to transfer the funds to the NFF that had been originally intended for deposit in the Salvage Sale Fund and Knutson-Vandenberg Fund for the remainder of the fiscal year to make up for the shortfall. The memorandum pointed out that the problem was occurring for several reasons, including the reduction in total receipts, the requirement for the spotted owl guarantee payments to some states, the

setting aside of funding for tripartite land exchanges³ by the national forests covered by the spotted owl guarantee, and the deposit of receipts in both the Salvage Sale Fund and the Knutson-Vandenberg Fund. The memorandum pointed out that the regions needed to review the balances in their NFF, Salvage Sale Fund, and Knutson-Vandenberg Fund and stressed that if the regions had a deficit in their NFF accounts, it should be offset by a transfer of funds from one of the other accounts. These adjustments resulted in a total of \$56.1 million being transferred to the NFF—\$35.6 million that would have been deposited in the Salvage Sale Fund and \$20.5 million that would have been deposited in the Knutson-Vandenberg Fund. According to the Forest Service's records, the regions used a variety of approaches to make these accounting adjustments. While most regions made the adjustments at the regional level, some were made at the forest level, and one region was granted permission to make no adjustments at all.

Although the regions and forests were told that the August and September accounting adjustments would be reversed, thus allowing them to deposit the funds into the Salvage Sale Fund and the Knutson-Vandenberg Fund as originally intended, this was not possible because the balance in the NFF is unavailable for disbursement after the close of the fiscal year. These funds must be returned to the Treasury, and therefore, the Forest Service's Salvage Sale Fund and the Knutson-Vandenberg Fund lost this amount for fiscal year 1996.

Forest Service Received \$135 Million Spotted Owl Guarantee Appropriation

According to Forest Service officials, several situations arose after the initial analysis of the NFF shortfall. In early summer, the Pacific Northwest Region sharply curtailed its timber harvesting program because of the extensive fire season it was experiencing, which reduced the estimated receipts from that region. In addition, several internal deliberations raised concerns about the budget implications of requesting the spotted owl guarantee appropriation, which necessitated additional discussions with congressional committees. Also, according to Forest Service officials, external concerns arose about the interpretation of the statutory amounts allowed under the legislation—that is, Office of Management and Budget (OMB) attorneys questioned whether the Forest Service was entitled to the

³Tripartite land exchanges are authorized by the General Exchange Act of 1922 and the Weeks Act of 1911. A tripartite land exchange involves three parties: the landowner, the Forest Service, and the purchaser of the timber. Under these authorities, the Forest Service can make timber sales contracts that contribute a portion of receipts to a suspense account to fund the land exchanges. Because these amounts are captured before any distributions to the NFF they are, in effect, a direct deduction from any amount otherwise being deposited into the NFF. The Forest Service instructed its regional offices not to initiate these exchanges in fiscal year 1996.

entire spotted owl guarantee or just the shortfall.⁴ Because of the uncertainty about whether the Forest Service would receive the appropriation, the Forest Service needed to assure the U.S. Department of Agriculture that all external parties would agree to the request before it could be submitted.

Thus, in early September 1996, the Forest Service started working with OMB to obtain its concurrence with the request for the spotted owl guarantee appropriation from the Treasury because of the \$17.8 million shortfall in the NFF. In a letter dated September 19, 1996, the Forest Service requested that the Treasury provide the spotted owl guarantee appropriation for fiscal year 1996 of \$135 million as authorized by P.L. 103-66, as amended. In its request, the Forest Service stated that its national forest receipts had declined significantly in fiscal year 1996 and would not be sufficient to cover the full payments due the states, including the spotted owl guarantee.

On October 3, 1996, the Treasury advised the Forest Service that while the Forest Service had the authority to obtain the spotted owl guarantee appropriation, funds could not be deposited directly into the NFF as requested and that the request must be resubmitted for a new General Fund expenditure account.⁵ Five weeks later, on November 7, 1996, the Forest Service resubmitted its request to the Treasury for a new General Fund expenditure account entitled “Payments to the States, Northern Spotted Owl Guarantee, Forest Service.” According to a Forest Service official, this delay in resubmitting the request to Treasury resulted from higher-priority tasks of year-end closings. Because they were assured that they would be receiving the appropriation and that the moneys would be received in fiscal year 1997 for the fiscal year 1996 payments, the Forest Service considered the year-end closings a higher priority.

On November 26, 1996, the Treasury—with the concurrence of OMB—approved the request and provided a warrant of \$135 million to the Forest Service to make the spotted owl guarantee payments. Because the deficit in the NFF was only \$17.8 million, when the Forest Service placed the \$135 million into the NFF, it created a balance of \$115.9 million after final adjustments. Forest Service officials told us that they will return this

⁴According to Forest Service officials, the Treasury made the determination that the entire \$135 million should be requested and agreed that any balance remaining should be returned to the Treasury.

⁵According to the Treasury, the spotted owl guarantee appropriation comes from the General Fund of the Treasury and as such, is not a receipt and therefore could not be deposited into the NFF, which is a receipt account. This appropriation had to be deposited into its own account, from which disbursements could be made.

amount to the Treasury; however, as of August 12, 1997, the Forest Service still retained the money in the NFF.

Poor Financial Management Contributed to the NFF Shortfall in Fiscal Year 1996

Our review of the fiscal year 1996 timber balances in the NFF revealed that many forests—especially in the Pacific Northwest Region—had negative year-end balances in their NFF accounts. According to the Forest Service’s records, the negative balances at the forest level resulted when these forests transferred funds from the NFF to the Salvage Sale Fund and the Knutson-Vandenberg Fund during the year, even if sufficient receipts had not been received on the particular sale in the current fiscal year. According to a Forest Service official, the forests and regions were not aware that the NFF is closed out annually. The Salvage Sale Fund and the Knutson-Vandenberg Fund, however, remain open.

A negative balance in the NFF is very similar to writing a check without any money in the bank. The forests with negative NFF balances were forests that relied on the fact that other forests would have sufficiently large positive balances to counteract their negative amounts.⁶ For example, while 10 of the 19 forests in the Pacific Northwest Region had negative balances of about \$37 million, the overall region had a positive balance of about \$24 million.

While we do not know the extent of all of these types of adjustments nationwide, we have reason to believe that their total amount would exceed \$37 million. However, even if the amount was only \$37 million, it still would mean, in effect, that over 10 forests in the Pacific Northwest Region deposited nothing in the NFF for the entire fiscal year. We believe that these adjustments contributed to the overall shortfall in the NFF and portray a lack of sound financial management by the Forest Service. It is our view that such adjustments, if permitted, should be limited to the current year’s receipts.

⁶When these negative balances were rolled up to the regional level, however, each region had a positive balance at the year’s end. According to the Forest Service, only a positive national NFF balance is required—each region’s and each forest’s balance need not be positive.

Unauthorized Use of the NFF to Make Spotted Owl Guarantee Payments in Fiscal Years 1994 and 1995

The Forest Service used the NFF in fiscal years 1994 and 1995 for the required spotted owl guarantee payments to certain counties in California, Oregon, and Washington. This was an unauthorized use of the fund. Instead, the Forest Service was required to use the appropriations specifically made available by the Congress by the Omnibus Budget and Reconciliation Act of 1993 (P.L. 103-66, as amended) for the spotted owl guarantee and should continue to use this appropriation until fiscal year 2003, when it expires.

The Forest Service is required to pay the states 25 percent of the gross receipts earned on national forests for the use by the counties in which the receipts were earned.⁷ For specific counties in California, Oregon, and Washington, the listing of the northern spotted owl as a threatened species accounted for a substantial drop in the size of timber harvests—and therefore a substantial drop in the receipts that the counties would have received. To reduce this fiscal impact, the Congress included the “safety net” spotted owl guarantee legislation in the yearly appropriations for fiscal years 1991, 1992, and 1993, and provided that the payments to the states be made out of the NFF—an indefinite appropriation. The Omnibus Budget Reconciliation Act of 1993 provided appropriations to make such payments to these states beginning in fiscal year 1994 through fiscal year 2003 and established the formulas for calculating the payments. The Forest Service did not use this authority in 1994 and 1995; rather, it elected to make the spotted owl guarantee payments from the NFF as it made its normal payments to the states.⁸ The Forest Service chose this method of payment because ample receipts were available in the NFF, which, if not used for the payment, would have been returned to the Treasury. The Forest Service also told us that its decision not to use the spotted owl appropriation was articulated in its budget explanatory notes approved by OMB and submitted to the House and Senate Committees on Appropriations.

The Forest Service should have used the spotted owl appropriation rather than the NFF to make the spotted owl guarantee payment for fiscal years 1994 and 1995. This specific appropriation was enacted in lieu of the Congress’s prior practice in fiscal years 1991, 1992, and 1993 of providing annual appropriations from the Forest Service’s receipts for this purpose.

⁷Gross receipts are defined as the amount of moneys deposited in the Salvage Sale Fund and the Knutson-Vandenberg Fund, the amount of Purchaser Road Credits used, and deposits to the NFF from all resources.

⁸P.L. 103-66, as amended, also authorized the spotted owl guarantee appropriation for the Bureau of Land Management, which has been using its authority since fiscal year 1994.

Using the specific appropriation is in keeping with 31 U.S.C. 1301(a), which provides that public funds may be used only for the purpose or purposes for which they were appropriated. This provision prohibits charging authorized items to the wrong appropriation and unauthorized items to any appropriation. Moreover, the Forest Service's disclosure in its budget submission to the Congress is not a substitute for legislation and, therefore, did not authorize continued payments from the NFF.

The Forest Service's Actions in Fiscal Year 1997 to Improve the NFF's Management

On January 29, 1997, the Deputy Chief, National Forest System, issued initial guidance to the regions on the actions they should take in the short term and discussed the long-term actions needed to more effectively manage these funds. In the short term, the regions were asked to implement a series of distribution priorities for timber sale receipts to ensure that funds are available to make the payments to the states and to meet other obligations, as well as to support critical elements of the reforestation and salvage sale programs.⁹ The guidance also required that each region initiate a sale review process within the region to ensure that the trust funds and timber sale accounts are being managed in accordance with these priorities. According to Forest Management and Financial Management officials, the intent of the guidance was not to dictate a specific priority or action for each individual timber sale. Rather, the guidance was intended to establish a framework for managing overall receipts and to make the regions and the forests aware of their obligations and of the need to manage their programs to meet these obligations.

For the long term, the January 29, 1997, guidance pointed out that solutions to the problem will require changes in both work processes and patterns of behavior and that effective controls will also require changes in accounting procedures. The Deputy's memorandum concluded that, clearly, actions are needed at all levels to tackle the problem. At the national level, an improved process is needed for program-level decisions to cover the required payments. To make progress in these areas, the Deputy said that he would appoint a task force in early 1997 to focus on the long-term solutions that would ensure that sufficient money is available to make the 25-percent payments to the states.

We contacted each of the regions to gain an understanding of how they were implementing the short-term actions discussed in the January 29, 1997, guidance. All of the regions told us that they would manage the

⁹Historically, regions and forests did not consider the obligations for the payments to the states and other NFF obligations as part of their funds management requirements.

timber receipts and corresponding deposits to the NFF from a forest or regional perspective rather than on a sale-by-sale basis. Most of the regions have instituted monitoring procedures, such as developing a spreadsheet showing projected total receipts and balances for each forest's NFF after required obligations are met. However, four regions said that because they had not experienced any problems in the past, they had instituted no special procedures.

On May 2, 1997, the Forest Service provided additional guidance to the regions on how to correct some of the accounting adjustments made in August and September 1996. As pointed out earlier, these adjustments created a multitude of problems. For example, some of the regional and forest adjustments resulted in overpayments to the states of about \$730,000 in fiscal year 1996. According to the Forest Service, these overpayments will be adjusted in the states' fiscal year 1997 payments.

In addition, this guidance formally advised the regions that the amounts transferred to the NFF in fiscal year 1996 that had originally been intended for deposit in the Salvage Sale Fund and the Knutson-Vandenberg Fund would not be returned to each forest but instead would be returned to the Treasury. However, the guidance permitted each region to recover these funds out of fiscal year 1997 receipts to the extent that the region was able to meet all of its NFF requirements. In other words, if a forest earned fiscal year 1997 receipts beyond those needed for the payments to the states and for other NFF obligations that normally would have been deposited in the NFF, the forest could deposit that excess into the Salvage Sale Fund and the Knutson-Vandenberg Fund to the extent that it had transferred funds originally intended for those accounts in fiscal year 1996. Forest Service officials told us that the regions had sufficient receipts in fiscal year 1997 to recover the \$56.1 million they had transferred to the NFF in fiscal year 1996. The Forest Service is also projecting that there will be a balance in the NFF at the end of the fiscal year of \$127.5 million to be returned to the Treasury.

The Forest Service also told us that in early October 1997, it would request the fiscal year 1997 spotted owl guarantee appropriation amounting to \$129.9 million. According to Forest Service officials, because the Treasury account is already established, they should not experience the same types of problems for fiscal year 1997.

A final long-term action involved establishing, in late May 1997, the National Task Force for Trust Funds and Payments to the

States—composed of regional and headquarters fiscal, accounting, and forest management representatives. The task force was charged with developing a national policy on the management of receipts and trust funds so that sufficient receipts would be available in the NFF to make the payments to the states along with meeting the Forest Service's other mandatory obligations. According to the task force leader, the task force plans to provide definitive guidance on periodic monitoring of NFF balances; adjustments among the NFF, the Salvage Sale Fund, and the Knutson-Vandenberg Fund; and the allowable uses of excess NFF balances. The task force estimates that it will issue its final report in August 1997. In addition, the Forest Service told us that it eventually plans to incorporate the results of the task force's report into the Forest Service's Manual and its fiscal and timber management handbooks.

Observations

Traditionally, the Forest Service has had a large timber program that returned hundreds of millions of dollars to the U.S. Treasury. However, the magnitude of receipts returned to the Treasury masked some of the Forest Service's underlying financial management weaknesses. Only in recent years, with the drastic reduction in timber sales and corresponding decreases in receipts, has it become more apparent that the Forest Service's financial management of its receipts and trust funds is in need of improvement.

Lured into a false sense of security by the historically large returns to the Treasury, the Forest Service was unprepared to handle the crises it faced in fiscal year 1996. The problems of insufficient funds in its NFF and the loss of \$56.1 million to other timber-related funds could have been lessened, if not mitigated, if the Forest Service had better financial controls over the adjustments made among the Salvage Sale Fund, the Knutson-Vandenberg Fund, and the NFF and more oversight of its funds' management practices. The inability of the Forest Service to initiate the spotted owl guarantee appropriation in a timely manner greatly contributed to the problems experienced at the forest, regional, and national levels. However, the fiscal year 1996 occurrences are an illustration of the much larger fiscal accountability problems facing the Forest Service.

In short, because the Forest Service does not now have the benefit of hundreds of millions of dollars as a cushion, it is now incumbent on the Forest Service to establish sound financial management controls. We have pointed out some of these weaknesses in two of our recent reports on the

Knutson-Vandenberg Fund.¹⁰ On balance, while we believe that the establishment of the task force to review the management of the trust funds is a good first step, we also believe that the Forest Service has a long way to go toward solving its fiscal and accountability problems.

Recommendations

Because the Forest Service inappropriately made the spotted owl guarantee payments out of the National Forest Fund in fiscal years 1994 and 1995, its accounting records do not properly reflect the operations of the National Forest Fund for these years. Therefore, we recommend that the Secretary of Agriculture request that the Secretary of the Treasury establish the spotted owl appropriations account for fiscal years 1994 and 1995, pursuant to P.L. 103-66, as amended, and continue to use this authority until the termination of the statute in fiscal year 2003.

We also recommend that the Secretary of Agriculture direct the Chief of the Forest Service to make the necessary accounting adjustments to properly reflect the use of the spotted owl appropriation in lieu of the National Forest Fund to make the spotted owl payments in fiscal years 1994 and 1995.

Agency Comments

We provided a draft of this report to the Forest Service for review and comment. We met with Forest Service officials, including the Deputy Director, Forest Management; the Director, Financial Management; the Director, Program Development and Budget Staff; the Acting Associate Deputy Chief, Operations; and a representative of the U.S. Department of Agriculture's Office of General Counsel. The Forest Service said that the information in our report accurately presented the operations of the National Forest Fund during fiscal years 1990 through 1997. The Forest Service acknowledged that it should have used the spotted owl guarantee appropriation instead of the NFF during fiscal years 1994 and 1995, and agreed with the recommendations for corrective action.

We conducted our review at the Forest Service's headquarters and each of its regional offices. We interviewed officials and reviewed and analyzed records of the Forest Service's headquarters fiscal, budget, and forest management staffs. We also interviewed and obtained information from the Division of Funds Management, U.S. Treasury; and the Agriculture

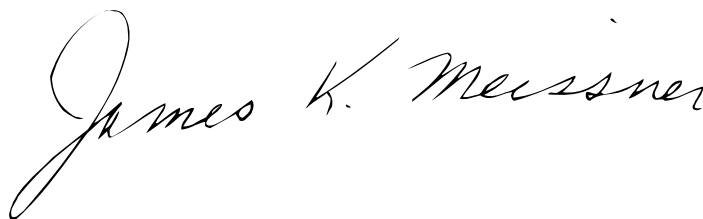
¹⁰Forest Service: Management of Reforestation Program Has Improved, but Problems Continue (GAO/RCED-94-257, Sept. 15, 1994); Forest Service's Reforestation Funding: Financial Sources, Uses, and Condition of the Knutson-Vandenberg Fund (GAO/RCED-96-15, June 21, 1996).

Branch of the Office of Management and Budget. We did not independently verify the reliability of the data provided nor of the systems from which they came. In addition, we did not attempt to determine what the results would have been if the Forest Service had used the proper appropriation to make the spotted owl guarantee payments in fiscal years 1994 and 1995 because we were specifically asked to provide a historical view of what actually occurred in fiscal years 1990 through 1996. We conducted our review from May 1997 through August 1997 in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after the date of this letter. We will then send copies to the Secretary of Agriculture and the Chief of the Forest Service. We will also make copies available to others on request.

If you or your staff have any questions about this report, please call me at (206) 287-4810. Major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in cursive script that reads "James K. Meissner". The signature is written in black ink and is positioned above the typed name and title.

James K. Meissner
Associate Director, Energy, Resources,
and Science Issues

The National Forest Fund and Its Distributions, Fiscal Years 1990 Through 1996

The National Forest Fund (NFF)—an indefinite appropriation—was established pursuant to the Act of March 4, 1907 (P.L. 59-242, as amended, 16 U.S.C. 499). This act provides that all moneys received from the national forests are deposited into a Department of the Treasury miscellaneous receipts account—the NFF. For timber sale receipts, the Forest Service first distributes a portion of the receipts into two funds that are used for various timber sale activities, such as reforestation or preparing and administering future salvage sales. The remaining timber sale receipts are deposited into the NFF and combined with the receipts from other resources. Moneys from the NFF are transferred to other specified Treasury accounts or funds to satisfy various legal obligations. Moneys remaining after meeting these obligations must be transferred to the Treasury at year-end. Basically, the NFF serves as a holding account for national forest receipts from such resources as grazing, mining, recreation, and timber—after payments are made to the Salvage Sale Fund and the Knutson-Vandenberg Fund from the timber receipts—and are available for use by the Forest Service. The statutes listed below provide the authority for making the distributions:

- Payments to the States (Act of May 23, 1908, P.L. 60-136, as amended, 16 U.S.C. 500). This act requires that 25 percent of all receipts from each national forest be paid to the state in which the forest is located to be used to benefit roads and schools in the counties where the receipts were earned. This payment was established as a substitute for property taxes on national forest lands because the federal government cannot be taxed by state or local governments. For purposes of calculating the payments to the states, receipts are defined as the amount of receipts deposited in the Salvage Sale Fund, the Knutson-Vandenberg Fund, the amount of Purchaser Road Credits used, and the amount deposited in the NFF from all resources.
- Payments to States Concerning Northern Spotted Owl (Department of the Interior and Related Agencies Appropriations Acts, 1991, 1992, and 1993, P.L. 101-512, P.L. 102-154, and P.L. 102-381, respectively). The Forest Service's appropriations acts for fiscal years 1991 through 1993 provided for payments to California, Oregon, and Washington, for counties that had lost portions of the 25-percent payments to the states because of the listing of the northern spotted owl as a threatened species. These payments, which are in lieu of the 25-percent payments to the states, are based on an average of the receipts from prior years. The Forest Service continued to make these payments from the NFF in fiscal years 1994 and 1995. The Forest Service was not authorized to make these payments from the NFF

Appendix I
The National Forest Fund and Its
Distributions, Fiscal Years 1990 Through
1996

and should have used the spotted owl guarantee appropriation established specifically for that purpose by the Congress in the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66, as amended).

- Payments to Minnesota (Act of June 22, 1948, 16 U.S.C. 577g). This act provides a special payment to the state of Minnesota for lands in the Boundary Waters Canoe Area in St. Louis, Cook, and Lake counties. Under the act, the Secretary of Agriculture pays 0.75 percent of the appraised value of certain Superior National Forest lands for distribution to the counties.
- Roads and Trails Fund (Act of March 4, 1913, as amended, 16 U.S.C. 501). This provision specifies that 10 percent of all moneys received—except salvage sale receipts—from the national forests during each fiscal year are to be expended for the construction and maintenance of roads and trails within the national forests in the states where the receipts were collected. Since fiscal year 1982, the amount deposited into the Roads and Trails Fund has been transferred to the General Fund of the Treasury to offset annual appropriations for road and trail construction and maintenance.
- Purchaser-Elect Roads (National Forest Management Act of 1976, P.L. 94-588, 16 U.S.C. 472a(i)). This act allows certain timber purchasers—designated as small business concerns—to elect to have the Forest Service build the roads required by the timber sale contracts. If the purchaser makes the election, the price paid for the timber will include the estimated cost of the roads. The Forest Service transfers this amount from the NFF to the purchaser-elect account.
- Acquisition of National Forest Lands Under Special Acts (Act of June 11, 1940, 54 Stat. 297; Act of June 11, 1940, 54 Stat. 299, Act of May 26, 1944, 58 Stat 227; and Act of Dec. 4, 1967, P.L. 90-171, 81 Stat. 531, 16 U.S.C. 484a). The first three acts provide for a special fund to acquire lands within critical watersheds to provide soil stabilization and the restoration of vegetation. The funds are available only for certain national forests in Utah, Nevada, and southern California. The final act provides for the replacement of National Forest System lands acquired by state, county, or municipal governments or public school authorities in land exchanges.
- Range Betterment Fund (Federal Land Policy and Management Act of 1976, P.L. 94-579, as amended by the Public Rangelands Improvement Act of 1978, P.L. 95-514, 43 U.S.C. 1751). This act provides that 50 percent of all moneys received as fees for grazing domestic livestock on national forest

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lands in the 16 western states is to be credited to a separate account in the Treasury. These funds are authorized to be appropriated and made available for use for on-the-ground rehabilitation, protection, and improvements of such lands.

- Recreation Fee Collection Costs (Land and Water Conservation Fund Act of 1965, P.L. 88-578, 78 Stat. 897, as amended by the Omnibus Budget Reconciliation Act of 1993, P.L. 103-66, 16 U.S.C. 4601-6a(i)(1)). These acts authorize the Secretary of Agriculture in any fiscal year to withhold from certain fees collected an amount equal to the cost of collecting such fees, but not more than 15 percent of the fees collected. Such amounts shall be retained by the Secretary and shall be available for expenditure without further appropriation to cover such fee collection costs.
- Tongass Timber Supply Fund (Alaska National Interest Lands Conservation Act of 1980, P.L. 96-487, 94 Stat. 1761, as amended). This act was intended to maintain the timber supply from the Tongass National Forest to the dependent industry at a rate of 4.5 billion board feet per decade and to protect the existing timber industry in southeast Alaska from possible reductions in the timber sale program as a result of wilderness and national monument designations in the Tongass National Forest. This fund was eliminated by the Tongass Timber Reform Act (P.L. 101-626), enacted in November 1990.
- Timber Sales Pipeline Restoration Fund (Omnibus Consolidated Rescissions and Appropriations Act of 1996, P.L. 104-134). This act created a fund to receive a portion of the receipts from certain timber sales released under the fiscal year 1995 Supplemental Appropriations for Disaster Assistance and Rescissions Act, to be used for the preparation of additional timber sales that are not funded by annual appropriations and for the backlog of recreation projects.

In fiscal years 1990 through 1996, the Forest Service received almost \$3.9 billion in national forest fund receipts and distributed about \$2.6 billion to these various funds or accounts. The remaining \$1.3 billion was returned to the U.S. Treasury. In addition, the \$378 million deposited in the Roads and Trails Fund was also returned to the U.S. Treasury. Table I.1 provides the details, by fiscal year, of these transactions.

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Table I.1: National Forest Fund Receipts and Distributions, Fiscal Years 1990 Through 1996

Dollars in thousands

| NFF activity | Fiscal year | | | | | | | 1997 ^a |
|--|-------------|-----------|-----------|-----------|-----------|-----------|----------------------|----------------------|
| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | |
| Receipts | | | | | | | | |
| Timber | \$822,700 | \$649,801 | \$504,592 | \$416,005 | \$420,854 | \$294,222 | \$186,776 | \$212,611 |
| Grazing | 9,133 | 9,753 | 9,464 | 9,268 | 9,779 | 7,780 | 6,572 | 5,845 |
| Land use | 4,748 | 4,740 | 4,983 | 5,282 | 5,760 | 6,051 | 4,485 | 6,950 |
| Recreation—special uses | 27,483 | 27,952 | 14,948 | 36,102 | 36,785 | 36,774 | 37,526 | 33,544 |
| Recreation user fees | 13,734 | 14,958 | 31,542 | 13,186 | 10,870 | 9,547 | 9,977 | 7,675 |
| Minerals | 32,369 | 19,145 | 9,107 | 1,600 | 1,156 | 1,422 | 1,616 | 1,391 |
| Power | 982 | 1,134 | 1,245 | 1,426 | 1,648 | 1,597 | 1,885 | 1,846 |
| Quartz crystals | 26 | 0 | 26 | 25 | 32 | 22 | 36 | 0 |
| NFF total ^b | 911,175 | 727,482 | 575,908 | 482,894 | 486,884 | 357,416 | 248,873 | 269,862 |
| End-of-year adjustments ^c | 15,134 | -6,150 | 68,865 | -37,723 | 20,012 | 1,262 | 30,651 | 0 |
| NFF to be distributed | 926,309 | 721,332 | 644,773 | 445,171 | 506,896 | 358,678 | 279,524 | 269,862 |
| Spotted owl appropriation | 0 | 0 | 0 | 0 | 0 | 0 | 135,022 ^d | 129,894 ^d |
| Total to be distributed | 926,309 | 721,332 | 644,773 | 445,171 | 506,896 | 358,678 | 414,546 | 399,756 |
| Distributions | | | | | | | | |
| Payments to states | 344,835 | 152,189 | 169,001 | 159,243 | 162,620 | 132,069 | 119,524 | 98,579 |
| Spotted owl guarantee payment | 0 | 169,348 | 153,822 | 145,279 | 145,276 | 140,149 | 135,022 | 129,894 |
| Payments to Minnesota | 1,251 | 1,252 | 1,255 | 1,263 | 1,267 | 1,267 | 1,267 | 1,267 |
| Roads and trails ^e | 91,010 | 72,642 | 57,480 | 48,187 | 48,569 | 35,609 | 24,784 | 27,680 |
| Special acquisitions | 1,103 | 1,148 | 1,190 | 1,212 | 1,252 | 1,317 | 1,069 | 1,069 |
| 50-percent grazing | 4,489 | 4,796 | 4,647 | 4,545 | 4,800 | 3,811 | 3,212 | 2,882 |
| Purchaser-Elect Program | 4,859 | 5,806 | 8,546 | 8,457 | 5,945 | 5,945 | 5,945 | 5,945 |
| Recreation user fees | 8,927 | 9,723 | 9,716 | 8,571 | 7,065 | 6,206 | 6,485 | 4,989 |
| Tongass Timber Supply Fund | 42,887 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Timber Sales Pipeline Restoration Fund | 0 | 0 | 0 | 0 | 0 | 0 | 1,400 | 0 |
| Returned to the U.S. Treasury ^b | 426,948 | 304,429 | 239,117 | 68,414 | 130,103 | 32,306 | 115,839 ^f | 127,451 |

(Table notes on next page)

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Note: This table does not reflect the \$145 million from fiscal year 1994 and the \$140 million from fiscal year 1995 that could have been returned to the Treasury had the spotted owl payment been made pursuant to P.L. 103-66, as amended.

^aBased on the Forest Service's adjusted second quarter projections.

^bFigures may not add because of rounding.

^cAt the end of the fiscal year, some adjustments are made to other funds before a final amount is determined as the amount in the NFF to be distributed.

^dThese are the amounts of the spotted owl guarantee appropriations for fiscal years 1996 and 1997.

^eSince fiscal year 1982, the amount distributed to the Roads and Trails Fund has been returned to the Treasury to offset appropriations for road and trail construction.

^fAccording to Forest Service officials, this amount will be transferred back to the Treasury. However, as of August 12, 1997, the transfer had not been made.

Source: Forest Service ASR-08 reports and Computation for Distribution of Moneys Received From National Forests for Fiscal Years 1990 to 1996.

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