

**GAO**

**Testimony**

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**A Cost Accounting System  
Designed for Timber Sales in  
National Forests**

Statement of  
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Before the  
Subcommittee on Interior and  
Related Agencies  
Committee on Appropriations  
House of Representatives



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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to discuss the report issued by GAO entitled Timber Program: A Cost Accounting System Design for Timber Sales in National Forests, GAO/AFMD-87-33, which we completed at your request. This report proposes the basics of a system which we believe will provide information about the costs of the timber program to answer some of the questions that the Subcommittee has been asking during the past several years' hearings.

In developing the basic design which we will be presenting, we worked closely with the Forest Service. This cooperative relationship has been very beneficial to us. It allowed us to explore our ideas and obtain quick responses to the workability of those ideas in order to refine and build upon them. It also had the benefit of providing an opportunity for the Service's personnel to actively participate in the development of changes that would be necessary to make the system work.

EXISTING LEGISLATION  
ESTABLISHES FRAMEWORK FOR REPORTING

The Forest and Rangeland Renewable Resources Planning Act of 1974 as amended by the National Forest Management Act of 1976 (NFMA) requires the Service to publicly plan its management of national forest lands in accordance with the requirements contained in the Multiple-Use Sustained-Yield Act of 1960. As a part of the requirement of the NFMA, the Service is to report on the results of the implementation of that plan at specified intervals.

The proposed system will provide information which will conform to the reporting requirement under existing legislation. If properly implemented, it will show the results of operations in the timber area and will enable evaluation of whether or not the plan implemented by a forest needs to be altered.

Also, the multiple use mandate means that the Forest Service is managing its land not only to produce timber, but also to benefit outdoor recreation, range, watershed, and wildlife and fish. The principles on which we have based the proposal are equally applicable to other Forest Service programs. The proposed system may, therefore, aid in reporting on the results of operations in areas other than timber. Ultimately the Forest Service could have a "total resource accounting system" which would depict the costs and revenues of all operations within the Service.

#### OUTLINE OF SYSTEM PROPOSAL

The proposed system is characterized by a number of features responding to factors unique to a business based on a renewable resource--timber--and the governmental budgetary cycle which funds it. Among the features are the following:

Implementation at Forest Level -- The Forest Service has agreed with us to implement the system initially at the forest administrative unit level. This will allow it to implement the system on a Service-wide basis to gain experience. Our work shows that forests manage their timber programs at varying levels

depending on the program's size. We expect that as the Service becomes more adept at operating this new system, it would extend the system below the forest level in those units where management of the timber program is occurring below that level.

Differentiation of Cost by Time Period -- Costs incurred by the Service in operating its timber program generally can be categorized as annual, short-term, and long-term costs. These differing costs create a situation in which we had to analyze the expenditures and group them appropriately.

1. Annual costs represent those costs which do not have any future benefit. The amount expended in any one year can be directly traced to the revenue received during that year.
2. Short-term costs begin at the point where the sale boundaries can be set and costs can be traced to that area. Costs are collected for the duration of the sale, up to the point where the reforested land is certified as free to grow. Examples of costs included here are sale planning and design costs and reforestation costs.
3. Long-term costs are those costs which can be traced to the forest in general and which occur outside the period covered by the first two types of cost. Theoretically, these costs will result in a stand of timber which will be harvested in the future, and, as such, they represent the Service's investment in

that stand in historic dollars. Transportation system road costs applicable to future timber harvests would be found in this group.

Consistency and Comparability -- Implementation of this system will allow information to be aggregated in a manner in which you can compare the results of operations among the forests, as well as between years. If you take a moment to look at the sample reports which we prepared for the Coconino and Routt National Forests and which are shown in attachment 1, you can see that on a total basis, the results of operations are presented in a similar fashion. To the left of the total column, the presentations are different because the reports are designed to show information at the lowest level of organization. These breakdowns are meaningful to the Forest Service personnel managing those forests. Referring to the summary reports located in attachment 2, you will see that it will be possible to view the results of operations among the forests in a region, as well as the results of operations among regions and for the Service as a whole.

Responsibility Reporting -- The proposed system will show the results of operations at the organizational levels which are responsible for implementation of the program. This will begin to allow the Service and the Subcommittee to use the reports as a means of oversight in those areas of cost which are controllable at the various levels. It should also highlight areas where more attention should be placed; for example, timber harvest

administration costs in a forest may be increasing each year without a corresponding increase in timber harvest.

#### USE BY THE CONGRESS

The system also could affect the management exercised by this and other bodies of the Congress.

Oversight by Appropriations Subcommittees -- The availability of information as depicted in our examples will allow this and other committees and subcommittees to see the results of their decisions in a manner not previously available. In the reports of results of operations, changes in program emphasis may appear as the funding levels applied change or as the result of economies of operations. Finally, the overall focus of oversight may begin to change.

Greater Focus on Output -- In an accounting sense, the federal government has historically not placed much emphasis on evaluating output. Indeed, much of the time and effort spent in the budgetary process is focused on the input of dollars through appropriations. This system will provide information to the Subcommittee for its use in focusing on the output received for the dollars expended.

I do not intend to imply that it is not important to focus on appropriations. However, I do believe that more time and effort should be spent in viewing what was received for the dollars provided. A system which is properly designed and operated provides reliable information which can be compared from

one year to the next. Analysis of good data can result in better decisions being made at appropriate organizational levels of the Service so that overall program operation is enhanced.

### Implementation Issues

We and the Service believe the proposed system will provide information which is useful for it and the Congress. The Service is at a critical point in the systems design cycle. It must do more work to make that proposal a reality, including:

Codification of Standard Definitions and Procedures -- An early task which must continue as the Service implements the system will be the codification of standard definitions for the contents of cost pools and for annual expenses. Procedures will also have to be reviewed to ensure that the system will yield consistent results across the Service.

Fund Control and Reprogramming -- The Forest Service believes its fund reprogramming arrangement with congressional committees requires adherence to specific fund balances at the level of individual districts within the forests. We believe that emphasis on obligation control causes managers, particularly at the district level, to concentrate primarily on the obligations to be incurred rather than on total resources used over longer periods.

The Service has some ideas about how to change the present situation, and I think change is inherent in the proposed system. I believe this Subcommittee could greatly help the Service

resolve this issue by considering proposals to place the fund control and reprogramming burden at the forest level. This would allow the district ranger to concentrate on implementing the approved programs and to report the results of the work accomplished against dollars spent.

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We appreciate the opportunity to assist the Subcommittee by demonstrating ways in which improved accounting and reporting can help in managing the cost of government programs. The past several years of involvement with this project have been interesting and informative for us. This involvement resulted in close cooperation with the Service. The Chief and the other personnel in the Service spent considerable time and effort in assisting us and should be commended for a job well done. I will be happy to answer any specific questions which you might have regarding the proposed system outlined in our report to you.

## Sample Reports on Timber Sale Revenues and Expenses

**Statement of Timber Sale Revenues and Expenses**  
**Coconino National Forest**  
**Fiscal Year 1986**

	Type of Sale					Total
	Timber resource		Commercial fuelwood	Other resource	Personal use	
	Sawtimber	Pulp (roundwood)				
<b>Revenues</b>						
Timber sales	\$ 7,555,522	\$ 13,066	\$ 17,368	\$ 0	\$ 174,037	\$ 7,760,013
Purchaser road credits	443,782	0	0	0	0	443,782
Associated charges	334,113	7,573	372	0	0	342,058
Interest/penalties	27,171	93	0	0	0	27,264
<b>Total</b>	<b>8,360,588</b>	<b>20,752</b>	<b>17,740</b>	<b>0</b>	<b>174,037</b>	<b>8,573,117</b>
<b>Controllable expenses</b>						
Sale activity allowance	2,692,739	7,180	6,138	0	60,217	2,966,294
Growth activity allowance	521,713	1,295	1,107	0	0	524,115
Single-year costs	932,086	2,314	1,978	0	19,402	953,780
<b>Total</b>	<b>4,346,558</b>	<b>10,789</b>	<b>9,223</b>	<b>0</b>	<b>79,619</b>	<b>4,446,189</b>
<b>Gain/loss before payments</b>	<b>\$4,014,030</b>	<b>\$9,963</b>	<b>\$8,517</b>	<b>\$ 0</b>	<b>\$94,418</b>	<b>\$4,126,928</b>
Payment to states	1,811,299	4,498	3,843	0	37,705	1,857,333
<b>Net gain/loss</b>	<b>\$2,202,741</b>	<b>\$5,467</b>	<b>\$4,674</b>	<b>\$ 0</b>	<b>\$56,713</b>	<b>\$2,269,595</b>

**Statement of Timber Sale Revenues and Expenses**  
**Routt National Forest**  
**Fiscal Year 1986**

	Type of Sale						Total
	Timber resource	Other resource				Personal use	
		Sawtimber	Recreation	Wildlife	Range		
<b>Revenues</b>							
Timber sales	\$ 72,855	\$ 16,943	\$ 30,487	\$ 17,087	\$ 16,635	\$ 16,406	\$ 170,433
Purchaser road credits	64,256	19,594	35,271	19,773	19,238	0	178,134
Associated charges	23,537	5,474	9,853	5,524	5,374	0	49,762
Interest and penalties	0	0	0	0	0	0	0
<b>Total</b>	<b>180,650</b>	<b>42,011</b>	<b>75,621</b>	<b>42,394</b>	<b>41,247</b>	<b>16,406</b>	<b>398,329</b>
<b>Controllable expenses</b>							
Sale activity allowance	373,586	66,881	156,385	87,870	85,301	33,928	823,751
Growth activity allowance	71,359	16,735	30,122	16,887	16,430	0	152,133
Single-year costs	271,099	63,046	113,483	63,619	61,900	24,621	597,768
<b>Total</b>	<b>716,044</b>	<b>166,662</b>	<b>299,990</b>	<b>168,176</b>	<b>163,631</b>	<b>58,549</b>	<b>1,573,652</b>
<b>Gain/loss before payments</b>	<b>(\$535,994)</b>	<b>(\$124,651)</b>	<b>(\$224,369)</b>	<b>(\$125,782)</b>	<b>(\$122,384)</b>	<b>(\$42,143)</b>	<b>(\$1,175,323)</b>
Payment to states	48,529	11,266	20,314	11,368	11,081	4,407	107,005
<b>Net gain/loss</b>	<b>(\$584,523)</b>	<b>(\$135,937)</b>	<b>(\$244,683)</b>	<b>(\$137,170)</b>	<b>(\$133,465)</b>	<b>(\$46,550)</b>	<b>(\$1,282,328)</b>

GAO and the Forest Service jointly developed these statements to illustrate the proposed concept. The data is unaudited, and the columns may not add due to rounding.

Sample Consolidated Timber Sales Reports

Statement of Timber Sale Revenues and Expenses  
National Forest Service Total  
Fiscal Year 1986

	Region				Total
	Name	Name	Name	Southwestern	
<b>Revenues</b>					
Timber sales	\$ 000	\$ 000	\$ 000	\$ 000	\$ 0000
Purchaser road credits	000	000	000	000	0000
Associated charges	000	000	000	000	0000
Interest and penalties	000	000	000	000	0000
<b>Total</b>	<b>0000</b>	<b>0000</b>	<b>0000</b>	<b>0000</b>	<b>00000</b>
<b>Controllable expenses</b>					
Sale activity allowance	000	000	000	000	0000
Growth activity allowance	000	000	000	000	0000

Statement of Timber Sale Revenues and Expenses  
Southwestern Region  
Fiscal Year 1986

	Forest			Coconino	Total
	Name	Name	Name		
<b>Revenues</b>					
Timber sales	\$ 000	\$ 000	\$ 000	\$ 2,780,819	\$ 0000
Purchaser road credits	000	000	000	443,782	0000
Associated charges	000	000	000	342,066	0000
Interest and penalties	000	000	000	27,284	0000
<b>Total</b>	<b>0000</b>	<b>0000</b>	<b>0000</b>	<b>8,573,117</b>	<b>00000</b>
<b>Controllable expenses</b>					
Sale activity allowance	000	000	000	2,888,294	0000
Growth activity allowance	000	000	000	524,118	0000
Single-year costs	000	000	000	938,788	0000
<b>Total</b>	<b>000</b>	<b>000</b>	<b>000</b>	<b>4,446,189</b>	<b>0000</b>

Statement of Timber Sale Revenues and Expenses  
Coconino National Forest  
Fiscal Year 1986

	Type of Sale					Total
	Timber resource		Commercial lumber	Other resource	Personal use	
	Sawtimber	Pulp (roundwood)				
<b>Revenues</b>						
Timber sales	\$ 7,386,622	\$ 13,088	\$ 17,388	\$ 0	\$ 174,037	\$ 7,789,813
Purchaser road credits	443,782	0	0	0	0	443,782
Associated charges	334,113	7,573	372	0	0	342,066
Interest/penalties	27,171	93	0	0	0	27,264
<b>Total</b>	<b>8,389,588</b>	<b>20,752</b>	<b>17,740</b>	<b>0</b>	<b>174,037</b>	<b>8,573,117</b>
<b>Controllable expenses</b>						
Sale activity allowance	2,888,298	7,180	8,138	0	80,217	2,983,294
Growth activity allowance	521,713	1,286	1,107	0	0	524,118
Single-year costs	932,088	2,314	1,978	0	18,402	938,788
<b>Total</b>	<b>4,349,558</b>	<b>10,789</b>	<b>9,223</b>	<b>0</b>	<b>79,619</b>	<b>4,446,189</b>
<b>Gain/loss before</b>						
payments	\$4,014,030	\$9,963	\$8,517	\$ 0	\$94,418	\$4,126,328
Payment to states	1,811,280	4,408	3,643	0	37,706	1,857,333
<b>Net gain/loss</b>	<b>\$2,202,741</b>	<b>\$5,467</b>	<b>\$4,674</b>	<b>\$ 0</b>	<b>\$56,713</b>	<b>\$2,269,595</b>

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