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COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

B-199886

AUGUST 14, 1980

The Honorable John Melcher
United States Senate



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Dear Senator Melcher:

Subject: [Financial Management Practices at the Flathead National Forest] (CED-80-131)

In response to your letter of March 26, 1980, which included copies of your correspondence with Mr. Maurice R. Johnson, we have inquired into certain financial management practices at the Forest Service's Flathead National Forest in northwestern Montana. Mr. Johnson, with whom we met both before starting our fieldwork and near its completion, made four allegations. These allegations and our findings follow.

ALLEGATION

The brush disposal fund supports personnel positions within the Forest Service which are not related to brush disposal.

Brush disposal funds used for overhead

The Brush Disposal Act of 1916, as amended in 1950 (16 U.S.C. 490), provides that the Secretary of Agriculture may require national forest timber purchasers "to deposit the estimated cost to the United States of disposing of brush and other debris resulting from their cutting operations * * *." The deposits constitute a special fund which is appropriated and remains available until expended. The Forest Service has interpreted "estimated cost" to mean all necessary costs, including overhead costs. Included in overhead costs are the costs of personnel and activities not directly related to specific programs or projects.

The funds collected from timber purchasers for the brush disposal program represent the planned direct costs of carrying out brush disposal activities plus an assessment (45 percent in fiscal year 1979 at the Flathead

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National Forest) applied to direct costs which is supposed to cover the program's contribution to overhead. Overhead costs are assigned to one of two overhead accounts--general administration or program management.

The general administration account finances indirect work activities, such as multiple- and land-use planning, and the salaries of officials from the Chief of the Forest Service to the district ranger. The program management account finances costs that can be identified with a specific program or function but are not identifiable with an individual work project. Examples would be program and functional planning and environmental analyses.

We found no indication that the brush disposal program was being disproportionately assessed for its share of general administration expenses. Under the Forest Service's system of allocating general administration expenses, most of its 30 plus programs help pay for those positions which cannot be directly related to individual program or project activities. (The Forest Service is prohibited by law from assessing certain programs for general administration expenses.) After some minor adjustments, the programs are all assessed uniform rates to pay general administration expenses at the Washington headquarters, region, forest, and district levels. The adjustments are made to compensate for those activities, such as high value contracts, payments to States, and land purchases, which incur relatively minor general administration expenses.

ALLEGATION

The overhead assessment rate applied to direct brush disposal costs increased from 7 percent in 1960 to 45 percent in 1979.

Overhead increase since 1960

Flathead Forest officials admit that the Service's overhead costs have risen dramatically since 1960--especially at the forest level--and that overhead has probably grown faster than direct expenses. However, they contend that the overhead increase is in response to added legislative requirements, such as those related to multiple- and land-use planning, and that the increase is not as dramatic as Mr. Johnson claims.

During discussions with Mr. Johnson, he said that he was not really certain about the 7-percent figure. He believed that it was about right, but that "it could have been a little more." According to one Flathead Forest official, the district offices in the early 1970s made their own overhead assessments and the assessment rate was about 7 percent. However, this district-only assessment rate is not comparable with the 45-percent assessment rate because the latter is the aggregate assessment for the Washington, regional, and forest offices as well as the district office.

None of the officials we interviewed at the region, forest, or district levels could recall the aggregate overhead assessment ever being lower than 15 to 20 percent of direct costs. Northern Region records showed that for fiscal year 1966, the aggregate overhead represented 14.7 percent of total brush disposal expenditures, or about 17.3 percent of direct costs. Direct, exacting comparisons between the 1966 data (17.3 percent) and current data (45 percent) are not practical because the Forest Service has significantly changed its method of tracking overhead since 1966.

We compared the actual forest level brush disposal overhead costs in the 13 Northern Region forests between 1975 and 1978. This comparison showed that these costs at the Flathead Forest (as a percentage of total costs) were generally less than at the other forests. Over the 4-year period, the brush disposal overhead costs at the Flathead Forest averaged 18.8 percent of total brush disposal expenditures. Only 2 of the Region's 13 forests had a lower percentage. For those 11 forests which averaged more than \$34,000 in total brush disposal expenditures, the percentage of total brush disposal funds being devoted to forest level overhead ranged from a low of 18.8 percent (at the Flathead) to a high of 41.3 percent (at the Beaverhead).

ALLEGATION

The salaries of three employees--the wilderness forester, timber sales administrator, and silviculturist--in the Flathead Forest's Spotted Bear District are being incorrectly financed from general administration funds.

Salaries at the Spotted Bear District

We found no evidence to indicate that the salaries of the wilderness forester, timber sales administrator, and silviculturist at the Spotted Bear District were systematically or routinely being financed from general administration funds. The pay records for these positions for calendar years 1977, 1978, and 1979 showed that of the total hours worked during the 3-year period, 55.4 percent were charged to project management (direct costs); 44.1 percent to program management; and the balance, 0.5 percent, to general administration. We found no evidence to indicate that the project management or program management charges for these positions were incorrect.

ALLEGATION

The Flathead Forest Supervisor's office had retained 49 percent of the money it received to manage the Bob Marshall Wilderness.

Funds for the Bob Marshall Wilderness

Wilderness activities are funded as part of the Forest's total recreation program; funds are not specifically designated for the Bob Marshall Wilderness. For fiscal year 1980 the Supervisor's office retained nearly 49 percent (\$204,000) of all monies allocated by the regional office for recreation--13 percent for project management, 16 percent for general administration, and 20 percent for program management. While it is not a question of wilderness funds being diverted to some unrelated purpose, it is true that 49 percent of the recreation monies received by the Forest for fiscal year 1980 did not get down to the district level.

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In addition to meeting with Mr. Johnson, we interviewed officials and reviewed files at the Forest Service's Washington headquarters and at its Northern Region and its Flathead National Forest Supervisor's and Spotted Bear District offices in Montana. We also reviewed pertinent legislation and Forest Service accounting and financial management manuals and instructions. Northern Region officials reviewed this report and agreed with our findings.

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As arranged with your office, we plan to distribute the report to the Forest Service and other interested parties 10 days after the date of the report.

Sincerely yours,

A handwritten signature in cursive script that reads "Henry Eschwege". The signature is written in dark ink and is positioned above the typed name.

Henry Eschwege
Director