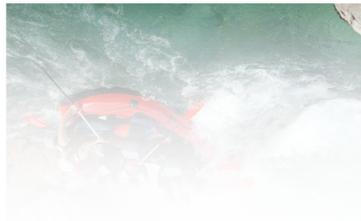


# Part A: Management's Discussion and Analysis Section (Unaudited)



## About This Report

The Forest Service, an agency of the U.S. Department of Agriculture (USDA), has chosen to produce a separate Agency Financial Report (AFR) and Annual Performance Report (APR) in accordance with the Office of Management and Budget (OMB) Circulars A-136 and A-11, Section 200.4.

The AFR provides an overview of the agency's financial performance and results to help Congress, the President, and the public assess the Forest Service's stewardship over the financial resources entrusted to it. This approach improves the Forest Service's performance reporting in the following ways:

- Eliminating redundancy, especially where actual data can be used in lieu of estimates due to the timing of the report.
- Making the information more meaningful and transparent to the public.
- Providing a more succinct and easily understood analysis of the Forest Service's accountability over its resources.

The fiscal year (FY) 2013 Management's Discussion and Analysis (MD&A) serves as a high-level overview of the Forest Service's financial reporting, programmatic performance, and compliance with legal and regulatory requirements. The content of the MD&A is the responsibility of Forest Service management.

The Forest Service's APR was published with the FY 2015 Congressional Budget Justification in February 2014 at <http://www.fs.fed.us>.



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# About the Agency

## MISSION

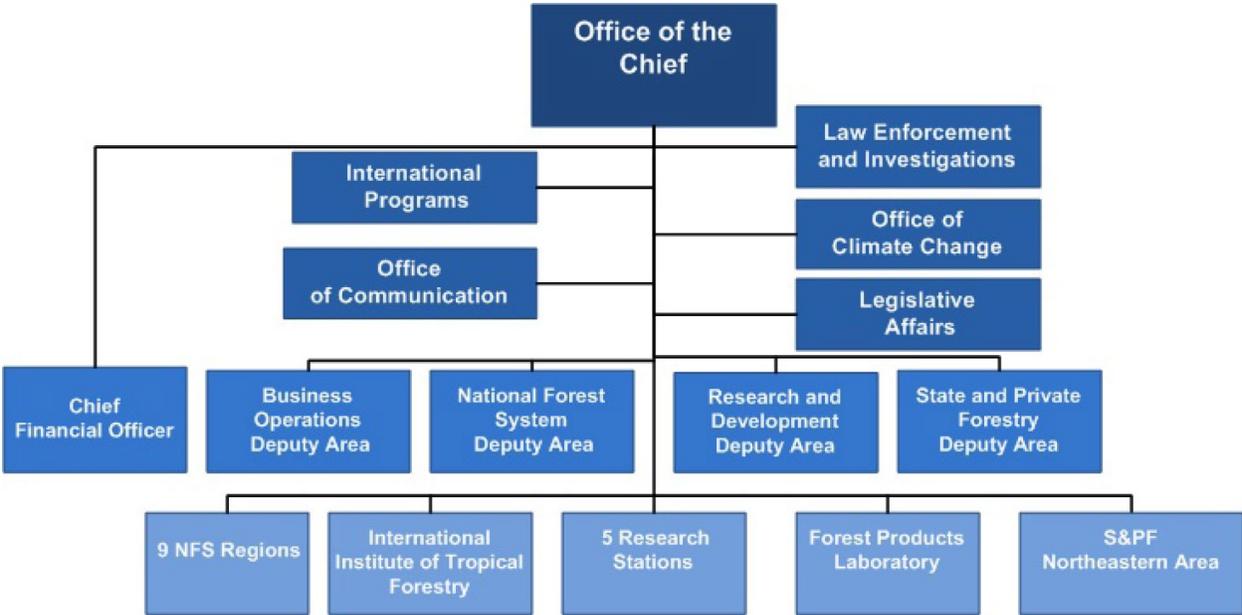
*Sustain the health, diversity, and productivity of the Nation’s forests and grasslands to meet the needs of present and future generations.*

## ORGANIZATION

The Forest Service fulfills its mission through the following organizational structure.

The Chief of the Forest Service is a career Federal employee of the Forest Service who reports to the U.S. Department of Agriculture Under Secretary for Natural Resources and Environment.

The Chief Financial Officer (CFO) and four deputy chiefs report to the Chief. The deputy areas are Business Operations, National Forest System (NFS), Research and Development (R&D), and State and Private Forestry (S&PF).



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## **FOREST SERVICE CHIEF FINANCIAL OFFICER AND DEPUTY AREAS**

The CFO and deputy areas enable the Forest Service to accomplish its mission. The following sections highlight the programs from the CFO and each deputy area. Several FY 2013 accomplishments are included.

### ***Chief Financial Officer***

The CFO supports the agency’s mission by providing timely, accurate, and reliable financial and program performance information in compliance with the Chief Financial Officers Act of 1990.

The CFO programs are Financial Management Systems, Financial Policy, Financial Reporting and Reconciliation, Audit and Assurance, and Budget and Finance.

### **FY 2013 Chief Financial Officer Accomplishments**

- The Forest Service received its 12th consecutive unqualified opinion from the independent auditors and no material weaknesses were noted for FY 2013. The unqualified or clean opinion is the Forest Service’s assurance that internal controls are in place in the agency’s financial systems, processes, and procedures.
- In FY 2013, the USDA Office of Inspector General (OIG) performed audits in areas of ecosystem management, roads, bridges, watersheds, firefighting succession planning, forest legacy, special uses, and financial statement reporting. By streamlining processes and increasing collaboration with the program areas, the Forest Service reached management decision on 86 OIG recommendations and closed 8 audits. The agency also participated in 31 Government Accountability Office (GAO) audits for firefighting aircraft fleet, trails, coal leasing, climate change, hydropower relicensing, Forest Service work planning, and border security. Nine of these GAO audits were closed, including 29 related recommendations.
- In this first year of migration to USDA’s new accounting system, the Financial Management Modernization Initiative (FMMI), the Forest Service interfaced six priority candidate systems for revenue accounting for programs such as minerals, recreation, and timber and eliminated one payment system.
- The Forest Service implemented Phase II of the Point of Sales System (POSS), installing equipment for credit card and online payments at an additional 43 national forests. With these installations, the agency has now installed POSS at 420 ranger districts, visitor centers, and supervisor’s offices for 84 of 154 national forests. Customers generated \$70 million in agency revenue through POSS, up from \$23 million in FY 2012.
- The Forest Service performed 174 internal reviews of fees, timber cost collections, Job Corps Centers, and other special assignments to ensure that agency controls are established and are working as they should in accordance with agency policy and OMB guidance.



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***Business Operations***

The Business Operations Deputy Area provides the tools that Forest Service employees rely on to accomplish the agency's mission. From modernizing an outdated radio system to hiring tomorrow's workforce, Business Operations staff provides critical services to the agency and its employees.

The Business Operations programs are the Chief Information Office; Enterprise Program; Strategic Planning, Budget, and Accountability; Human Resource Management; Job Corps Civilian Conservation Centers; Office of Regulatory and Management Services; Office of Safety and Occupational Health; and Acquisition Management.



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**FY 2013 Business Operations Accomplishments**

- The Forest Service exceeded its procurement preference goals for Women-Owned, Veteran-Owned, Small-Disadvantaged, and Historically Underutilized Business Zones (HubZone) businesses.
- The Forest Service consolidated the Customer Help Desk contract to a USDA-wide contract, saving the agency \$500,000 and USDA over \$1.2 million in the first year.
- The agency strategically broadened its recruitment and outreach to increase minority representation in candidate pools with a newly developed corporate hiring model. As a result, more than 12,000 candidates submitted applications, and nearly half were from underrepresented groups. Of that, the Forest Service hired 300 students, with more than 21 percent in underrepresented groups. The model also ensures each student intern receives a standard career experience, including training and mentoring.
- Stewardship contracting contributes to the development of sustainable rural communities, restores and maintains healthy forest ecosystems, and provides a continuing source of local income and employment. The agency awarded 3 stewardship contracts in FY 2013 with values more than \$8 million, \$8.7 million, and \$13.8 million and executed 27 stewardship agreements for a combined value of \$3.2 million.
- The Forest Service cleared an outstanding Office of Personnel Management (OPM) audit issue from 2012 and led four field audits for 2013 that show Human Resource Service Teams meeting all OPM standards.
- The Forest Service completed the design of a Coordinated Response Protocol (CRP) that requires a claims investigation for any fatality or serious injury of on-duty Forest Service employees. The CRP received the Chief's approval for its immediate implementation and the standup of the Office of Learning on July 26, 2013, which was months ahead of initial expectations.
- The agency developed a national protocol for check-in and check-out, a policy for temporary and hosted employees' safety, a servicewide deployment of the Satellite Emergency Notification Devices, and the National Capital Region integration of an emergency notification system in response to employee feedback and in support of an enhanced safety culture in the Forest Service.

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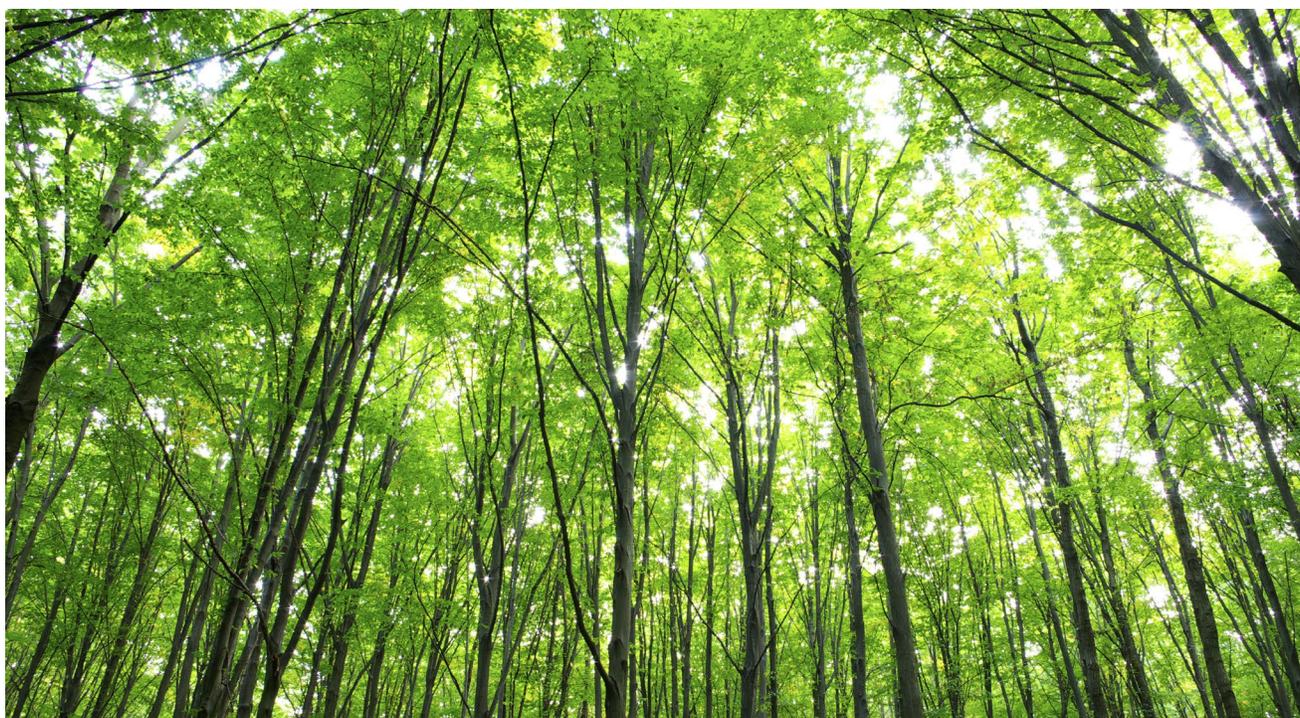
***National Forest System***

The NFS provides stewardship and management of the 193 million acres of national forests and grasslands. Following Secretary of Agriculture Tom Vilsack’s vision, the Forest Service has placed a focus on improving the health of its watersheds, restoring ecosystem functions, increasing forest resilience to climate change, and contributing to vibrant local economies.

The NFS programs are Engineering; Lands; Wilderness and Wild and Scenic Rivers; Rangeland Management; Recreation, Heritage, and Volunteer Resources; Forest Management; Watershed, Fish, Wildlife, Air, and Rare Plants; Minerals and Geology Management; Ecosystem Management Coordination; and the National Partnership Office.

**FY 2013 National Forest System Accomplishments**

- The Forest Service treated 2,390,000 acres through integrated resource restoration (IRR)-type activities. The IRR-type activities contribute significantly to the improvement of watershed conditions by restoring and sustaining watershed function and resilience.
- The Forest Service prepared and sold 2,600 MMBF (million board feet) of timber as an important tool to increase watershed health and improve resilience at the landscape level.
- The Forest Service decommissioned 1,490 miles of road; this decommissioning will contribute directly to achieving resource restoration goals by addressing environmental impacts from the transportation systems.
- The agency used high-impact targeted (HIT) practices to achieve the sustainable management of 363,000 acres within the USDA Landscapes of National Importance areas. These HIT practices are implemented in priority landscapes to achieve USDA’s Agency Priority Goal #3 to “accelerate the protection of clean, abundant water resources by advancing USDA’s capacity to measure the effectiveness of conservation investments in addressing water resource concerns.”
- Of the 15,000 watersheds associated with NFS lands, the Forest Service has 52 percent of those in fully functional condition. An additional 12 watersheds are expected to be moved to an improved condition class through maintenance, enhancement, and restorative activities.



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***Research and Development***

Forest Service R&D provides scientific information and new technologies to support sustainable management of the Nation’s forests and rangelands. The program is federally mandated to provide new knowledge and technologies to foster healthy watersheds, forest products, wildlife protection, outdoor recreation opportunities, and other benefits across all U.S. territories and States (including Federal and non-Federal lands).



Forest Service

Research is organized under seven Strategic Program Areas (SPAs), which support an integrated approach to studying broad, complex environmental and social issues. See the Required Supplementary Stewardship Information section of the AFR for details on the R&D SPAs.

**FY 2013 Research and Development Accomplishments**

- The Forest Service developed methods based on new sources of satellite data to provide near real-time fire mapping and measurement. These data have also been incorporated in a simulation model that includes weather forecasts for more realistic short-term predictions of fire spread and activity. These advances greatly enhance the ability of fire-fighting agencies to identify and respond to wildland fires quickly, as well as to plan for tactical fire operations and strategic fire planning.
- The agency published Mapping Multiple Forest Threats in the Northwestern United States in collaboration with Oregon State University. The publication is a tool that uses a 15-mile radius “neighborhood analysis” to identify locations where forest threats such as wildfire, insects and disease, and development may be more concentrated relative to other areas and where multiple threats intersect.
- The Forest Service hosted a climate change workshop for tribal environmental and natural resource managers in Flagstaff, AZ. The event led to an increased knowledge of climate change issues and the necessary dialogue on the needs and opportunities for tribes in Arizona and New Mexico to engage in climate-change planning.
- The Forest Service collaborated with the U.S. Department of the Interior (DOI), U.S. Geological Survey’s National Wildlife Health Center and Fish and Wildlife Service to identify key fungal species needed to understand the mysteries of White Nose Syndrome in bats. These fungi live in bat hibernation sites and even directly on the bats, but do not cause the devastating disease that has killed millions of bats in the Eastern United States. Researchers are examining these fungi to understand why one fungus can be deadly to bats while its close relatives are benign.

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***State and Private Forestry***

America’s forests, grasslands, and other open spaces are integral to the social, ecological, and economic well-being of the Nation. More than 50 percent of our Nation’s forests are privately owned and supply almost 30 percent of the surface drinking water to cities and rural communities. S&PF programs help protect these forests, providing support to keep them intact. Partnerships—so critical in implementing and delivering S&PF programs—help facilitate sound stewardship of lands across all ownerships on a landscape scale, while maintaining flexibility for individual forest landowners to pursue their objectives.

The S&PF programs are Fire and Aviation Management, Cooperative Forestry, Conservation Education, Urban and Community Forestry, Forest Health Protection, and the Office of Tribal Relations.

**FY 2013 State and Private Forestry Accomplishments**

- The Forest Service provided funding to the Veterans Fire Corps to assist veterans in their transition to civilian life. Through this partnership, more than 250 veterans were trained for wildland fire and fuels work. The agency hired 74 of these veterans, and other wildland fire agencies hired another 35 veterans. The Forest Service has also begun a dialogue with the Wounded Warrior Regiment of the Quantico Marine Corps Base to explore nonfirefighting employment opportunities.
- In FY 2013, Secretary Vilsack approved the Report to the Secretary of Agriculture, USDA Policy and Procedures Review and Recommendations: Indian Sacred Sites (December 2012). The Forest Service addressed the recommendations with a strategic and inspirational approach that integrates Indian Sacred Sites into the Forest Service mission and provides for their protection through interagency coordination and collaboration.
- In partnership with the Ad Council as part of the Discover the Forest Campaign, the agency increased public awareness of family recreation opportunities through a newly developed targeted outreach for African-American audiences and increased awareness of DescubreElBosque.org, the campaign fulfillment site, by 15 percent among Spanish-speaking audiences. The Forest Service provided wildfire-prevention and science-education materials in English and Spanish to over 55,000 teachers in nearly 14,000 middle schools.



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- The Forest Service invested in the USDA Wood to Energy Initiative by awarding cooperative agreements to five state-wide wood energy teams in 2013. The teams—comprised of Federal and State agencies, private businesses, and non-governmental organizations—support rural communities by addressing choices in financing, wood supply, and combustion technology that must be resolved before installing a system. The agency’s investment reduces energy costs for rural schools, hospitals, and businesses and increases these communities’ health and resilience.

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## **RESPONSIBILITY SEGMENTS**

The Forest Service’s mission is dedicated to the principle of multiple-use management of the Nation’s forest resources for sustained yields of wood, water, forage, wildlife, and recreation. Through management of the national forests and grasslands; research; and cooperation with States, tribes, and private forest owners, the agency strives to meet the needs of the Nation. Some of the responsibility segment names are the same as those used for deputy areas, but the terms are not necessarily synonymous for financial management reporting purposes. The mission is divided into four major responsibility segments.

**National Forests and Grasslands:** This responsibility segment includes management of an estimated 193 million acres of NFS land, which includes 36.6 million acres of designated wilderness areas. In addition, the Forest Service partners with other agencies, nations, and organizations to foster global natural resource conservation and sustainable development of the world’s forest resources.

**Forest and Rangeland Research:** This responsibility segment is accountable for research and development of forestry and rangeland management practices to develop and deliver scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the estimated 1.3 billion acres of forests and associated rangelands in the United States.

**State and Private Forestry:** This responsibility segment reaches across the boundaries of national forests and uses cooperative agreements with State and local governments, tribal governments, forest industries, and private landowners to provide technical and financial assistance that helps protect and manage non-Federal forests and associated rangeland and watershed areas.

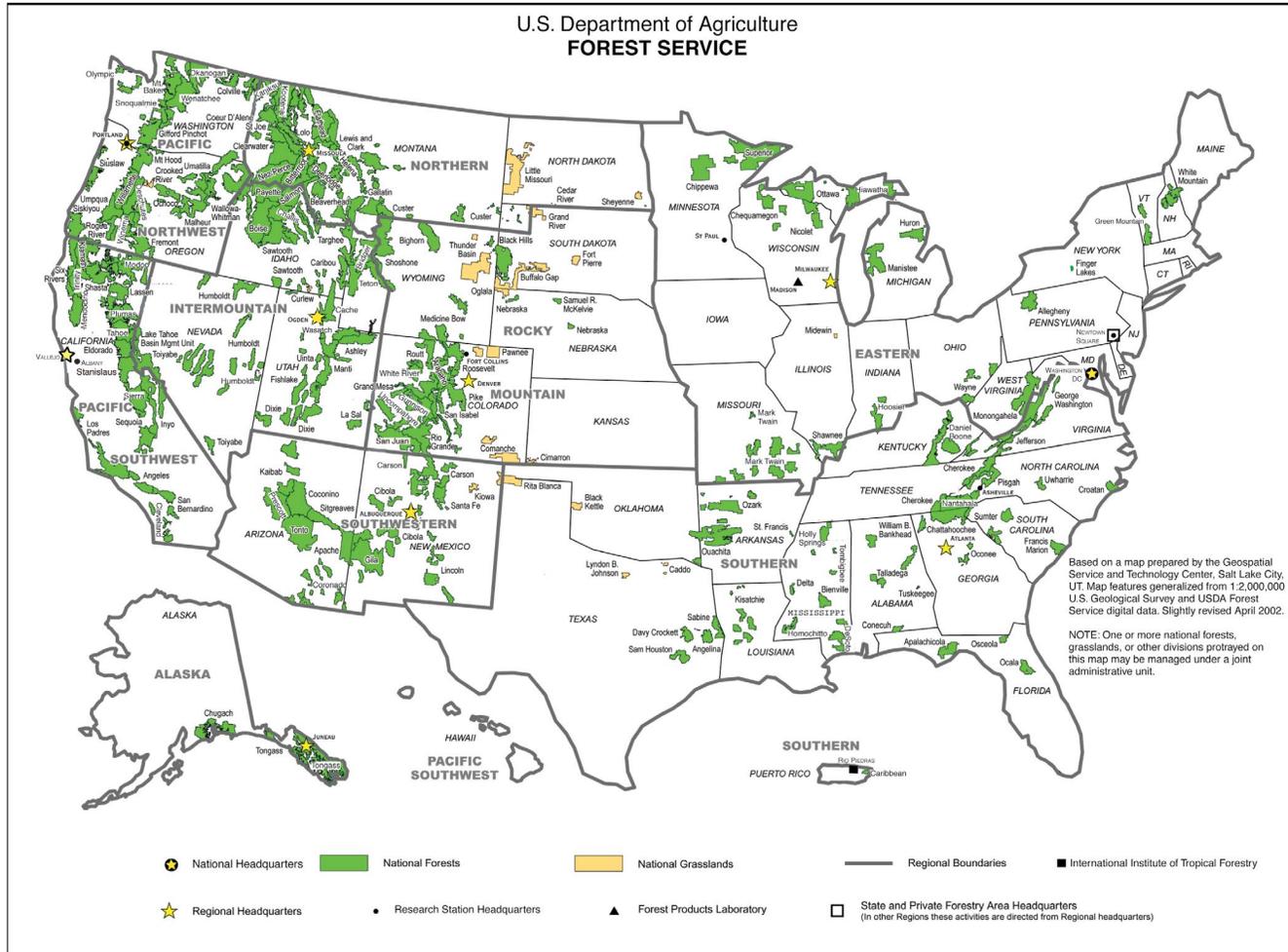
**Wildland Fire Management:** This responsibility segment is responsible for protection of life, property, and natural resources on an estimated 193 million acres of NFS lands and the estimated 20 million acres of adjacent State and private lands.



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The map illustrates the 154 national forests and 20 national grasslands that collectively make up the NFS of the Forest Service.

**FIGURE 1. LOCATIONS OF FOREST SERVICE ADMINISTRATIVE UNITS**



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## Demands, Risks, Conditions, and Trends

The Forest Service has a vital role in providing the values and benefits that people receive from healthy and resilient forests and grasslands by ensuring their sustainability and productivity for present and future generations.

These values and benefits are now at risk. Drought, invasive species, uncharacteristically severe wildfires, and outbreaks of insects and disease are affecting the sustainability and productivity of America's forests, grasslands, and watersheds. These stresses and disturbances, accelerated by the changing climate, are now occurring at an unprecedented rate.

For FY 2013, Forest Service Chief Tidwell reinforced his commitment to three focus areas—Safety, Restoration, and Wildland Fire Management—that address this risk and are the agency's greatest hope for protecting rural communities and those who live or work in the wildland-urban interface (WUI) from wildfire.

### SAFETY

For Forest Service employees, working safely in high-risk environments that are prone to wildfire means recognizing that wildfires are not preventable, but rather inevitable. The Forest Service will continue its Safety Learning Journey with the goal of becoming a zero-fatality organization by focusing on the inherent risks in its mission-critical work and by developing mitigation strategies that involve the State and local firefighting communities.

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## **RESTORATION**

The Forest Service will continue to work with State and Federal agencies, our partners, and local communities to achieve ecological sustainability by restoring high-priority watersheds, identifying areas at greatest risk from insects and disease, supporting the Collaborative Forest Landscape Restoration Program, and implementing the Western Bark Beetle Strategy. Perhaps most importantly, the agency will develop public and private partnerships to leverage resources that support these restoration goals. The Forest Service will continue these efforts into FY 2014, albeit at a reduced rate if agency budgets do not support all restoration initiatives. To improve the agency’s efficiency in all restoration efforts, the Forest Service will streamline environmental analysis and reduce forest plan revision costs by implementing the new planning rule.

## **WILDLAND FIRE MANAGEMENT**

While it is not possible to control a wind-driven wildfire, it may be possible to minimize the potential for catastrophic wildfire by restoring or building fire-adapted communities and ecosystems and by working through cross-jurisdictional partnerships to develop community wildfire protection plans (CWPPs).

The Forest Service’s wildland fire management policies, developed by research scientists and fire ecologists, allow some remote wildfires to burn today to reduce the risk from future catastrophic wildfires. People living in the fire-prone areas of the Western States likely expect catastrophic wildfires, asking themselves not “if” but “when” because they understand these ecosystems have evolved with fire. To reduce the risks to homeowners and communities, the Forest Service encourages participation in the Firewise Program to learn mitigation measures that make it possible for firefighters to safely defend homes and communities, such as building homes with burn-resistant materials and clearing nearby trees, shrubs, and grasses.



Dirk Huber, Forest Service

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The fire management agencies recognize that fire suppression is not achieved solely by boots on the ground, but by having air tankers that fight wildfires from the air. Although the Forest Service’s 10-year average cost of fire suppression has risen to more than \$1 billion and 40 percent of the agency’s budget, there is still a critical shortage of large air tankers needed to fight wildfires, having decreased by 75 percent over the last decade from 44 to only 11 air tankers.

During the past 10 years, the Forest Service made transfers from nonfirefighting accounts to pay for fire suppression costs, ranging from \$100 million in FY 2007 to \$999 million in FY 2012, and totaling approximately \$2.7 billion. Of that total, \$2.3 billion was repaid to the nonfirefighting accounts, but the transfers led to disruptions within many Forest Service programs. Each time the agency transfers money out of accounts to pay for fire suppression, there are significant and lasting impacts across the entire Forest Service. Not only do the impacts affect the ability of the Forest Service to conduct stewardship work on national forests and grasslands, they also affect agency partners, local governments, and tribes. In FY 2013, transfers from nonfirefighting accounts to pay for suppression costs totaled approximately \$505 million.

In addition to Safety, Restoration, and Wildland Fire Management, Chief Tidwell focuses on jobs in local communities and an inclusive and diverse workforce.

### **JOBS AND COMMUNITIES**

The Forest Service builds economic sustainability in local communities by delivering jobs and economic benefits from hazardous fuels reduction and other activities on the national forests and grasslands. The agency will continue to work with partners to expand markets for the biomass that is a product of fuels reduction activities, including wood-to-energy projects.

### **INCLUSIVENESS AND DIVERSITY**

Diversity of thought is the foundation of every successful organization. Accordingly, the Forest Service will continue its focus on providing an inclusive work environment where everyone is respected and valued. The Forest Service welcomes the opportunity to be an employer of choice and to continue providing jobs, training, and community support in urban and underserved communities and in traditional, resourced-based communities.

However, with 83 percent of the Nation’s population living in urban areas, many Forest Service programs must also promote healthier, more livable urban environments. The Forest Service is helping all Americans reconnect with the outdoors by encouraging their participation in its work and decisionmaking processes for forestry-related activities.



Forest Service

## Performance Goals, Objectives, and Results

### THE GOVERNMENT PERFORMANCE AND RESULTS MODERNIZATION ACT OF 2010

In May 2013, OMB provided updated guidance to all Federal agencies for changes coming from implementation of the Government Performance and Results Modernization Act of 2010 for strategic planning, setting priority goals, and quarterly performance reporting.

All performance reported for the Agency Priority Goal and Key Performance Measures in this section is aligned with the USDA Strategic Plan FY 2010–2015. The Forest Service strategic plan is currently being updated and will be implemented in FY 2014.

The Federal Government's shutdown delayed the Forest Service's field reporting for FY 2013, so not all accomplishments were available when the AFR was prepared for publication. The final FY 2013 performance totals are available in the FY 2013 APR that is published with the Forest Service's FY 2015 Budget Justification in February 2014 at <http://www.fs.fed.us>.

#### *Strategic Goals and Objectives*

The Forest Service's program of work is aligned with USDA's Strategic Goal 2 and its objectives.

**USDA's Strategic Goal 2**—*Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources.*

**Strategic Objective 2.1**—Restore and Conserve the Nation's Forests, Farms, Ranches, and Grasslands

**Strategic Objective 2.2**—Lead Efforts to Mitigate and Adapt to Climate Change

**Strategic Objective 2.3**—Protect and Enhance America's Water Resources

**Strategic Objective 2.4**—Reduce Risk from Catastrophic Wildfire and Restore Fire to its Appropriate Place on the Landscape

In FY 2013, the Forest Service prioritized its efforts to achieve USDA's strategic objectives with an emphasis on the "theme" of each objective. These themes align the agency's program of work directly to the objectives and are defined as Restoration—Forests, Grasslands and Watersheds; Communities—Strengthening Communities and Sustaining Jobs; and Fire—Responding to Wildfires and Reducing Risks.

#### *USDA's Key Performance Measures*

In collaboration with USDA, the Forest Service identified key performance measures (KPMs) that report progress toward the strategic objectives on a cumulative basis.

The Forest Service records accomplishments performed under contract at the time the contract is issued to provide a consistent link between annual appropriated dollars and accomplishments. Other accomplishments are recorded at the time the work is completed. Actual performance data was published in the Forest Service FY 2013 APR at <http://www.fs.fed.us> in February 2014.

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**Restoration Theme—Forests, Grasslands and Watersheds**

The Restoration Theme—aligned with USDA’s Strategic Objective 2.1—Restore and Conserve the Nation’s Forests, Farms, Ranches, and Grasslands—ensures that forest and grassland ecosystems are more adaptable to changing conditions, especially when faced with severe natural or human-induced disturbances. The Forest Service’s stewardship of these ecosystems improves the resiliency of the Nation’s forests and rangelands and provides the long-term benefits of clean air, clean drinking water for communities, renewable energy from biomass, wildlife and fish habitat, and forest products.

In FY 2013, the Forest Service achieved its restoration goals by focusing on active forest management through collaboration with its partners. The agency also integrated activities for watershed restoration at broad, landscape scales using peer-reviewed science of its research of ecosystems, the effects of changing climate, and the dynamics of invasive species. The Forest Service relied on this research and multiparty monitoring to guide its efforts through the continuous cycle of assessing, implementing, and adapting new information.

The KPM for annual acres of public and private forest lands restored or enhanced is the sum of acres treated annually that contribute significantly to improvement in watershed conditions. The KPM for the volume of timber sold from NFS lands is the amount of wood fiber provided each year to help meet the Nation’s demand for forest products in an environmentally sustainable manner.

**TABLE 1. RESTORATION THEME’S KPM RESULTS**

Key Performance Measure	Result
Annual acres of public and private forest lands restored or enhanced (in millions)	Met
Volume of timber sold (million board feet)	Met

**Communities Theme—Strengthening Communities and Sustaining Jobs**

The Communities Theme—aligned with USDA’s Strategic Objective 2.1—Restore and Conserve the Nation’s Forests, Farms, Ranches, and Grasslands—provides opportunities for economic expansion that can support diverse employment in forest-dependent communities. The Forest Service is committed to engaging communities across the Nation to reconnect with the outdoors, expand recreation benefits, and harness the many economic opportunities of our restoration activities.

In FY 2013, the Forest Service supported forest-dependent communities by maintaining and creating new jobs in rural communities and helping to diversify the forest products industry. This diversification nurtures the sustainability of local communities and the forest-contractor infrastructure that is needed to perform restoration work into the future.

Results for the KPM for communities with urban and community forestry programs is not available for the publication in the AFR. The results are available in the agency’s APR that was published with the Forest Service’s FY 2015 Budget Justification in February 2014 at <http://www.fs.fed.us>.



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**TABLE 2. COMMUNITY THEME’S KPM RESULTS**

Key Performance Measure	Result
Communities with urban and community forestry programs resulting from Forest Service assistance (number of communities)	Deferred

**Fire Theme—Responding to Wildfires and Reducing Risks**

The Fire Theme—aligned with USDA’s Strategic Objective 2.4—Reduce Risk from Catastrophic Wildfire and Restore Fire to its Appropriate Place on the Landscape—restores and maintains resilient landscapes, fire-adapted communities, and effective responses to wildfire with local, State, tribal and Federal organizations.

The Fire Theme is integral to the goals of landscape-scale restoration and cross-boundary landscape conservation. In FY 2013, the agency partnered with States, communities and Federal agencies to maximize suppression capabilities and support community efforts to reduce the direct threat of wildland fire. The Forest Service also supported the diversification and innovation of new markets for woody biomass extracted in the process of reducing hazardous fuels.

In FY 2013, the Forest Service focused on the treatment of hazardous fuels in high-priority areas, including non-Federal acres under partnership agreements, to reduce the intensity, severity, or effects of wildland fire on communities and natural resources. The Forest Service lowered the targeted acres for FY 2013 due to the increased costs of treatments if numerous entries into the area are required to achieve and maintain desired results.

In order to build community capacity to suppress and reduce losses from wildfires, the Forest Service provided technical assistance to develop CWPPs or equivalent plans. CWPPs are more common for communities in the Western States, while the communities that fall in the Southern Wildfire Risk Assessment and the Northeast Wildfire Risk Assessment areas develop plans that are equivalent, but not necessarily the same as the CWPP.

In FY 2012, the Forest Service updated its data systems to more thoroughly capture fuels treatments that were identified not only in CWPPs, but also in the equivalent plans. For FY 2013, this change enabled the Forest Service to fully capture the integrated, partner-driven planning efforts that are going on at all levels of management.

The KPM for wildland-urban interface (WUI) acres treated to reduce the risk of catastrophic fire was reported to be 1,608,000 acres.

The KPM for acres treated in the WUI that have been identified in CWPPs is calculated from the total number of acres that are associated with a CWPP divided by the total number of treated WUI acres.

**TABLE 3. FIRE THEME’S KPM RESULTS**

Key Performance Measure	Result
Acres of WUI fuels treated to reduce the risk of catastrophic fire (in millions)	Met
Percentage of acres treated in the WUI that have been identified in CWPPs	Met

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***Agency Priority Goal***

OMB defines an Agency Priority Goal (APG) as one that supports improvements in near-term outcomes, customer service, or certain efficiencies for an agency and advances progress toward longer term, outcome-focused strategic goals and objectives. APGs reflect the most critical, implementation-focused, performance improvement priorities of agency leadership and the Administration, and therefore do not reflect the full scope of the agency mission.

For USDA’s Priority Goal 3, the Department identified USDA’s Landscapes of National Importance including national forests and private working lands in the Chesapeake Bay, Great Lakes, Upper and Lower Mississippi, and California Bay Delta. USDA’s Priority Goal 3 is—

*Accelerate the protection of clean, abundant water resources by advancing USDA’s capacity to measure the effectiveness of conservation investments in addressing water resource concerns.*

The Forest Service contributes to USDA’s achievement of this APG by accelerating the protection of clean, abundant water resources through the implementation of HIT practices on national forests and private working lands in priority watersheds. These HIT practices include specific activities and treatments that protect watersheds and water resources such as establishing forest vegetation, improving rangeland vegetation, restoring lake and stream habitat, and maintaining or decommissioning roads.

**TABLE 4. FOREST SERVICE’S PERFORMANCE FOR USDA’S PRIORITY GOAL 3**

Performance	USDA Baseline	FY 2011 Actual	FY 2012 Actual	FY 2013 Target	FY 2013 Year to Date	FY 2014 Target	FY 2015 Target <sup>1</sup>
Acres on which high-impact targeted practices are implemented on national forest and private working lands in priority landscapes to accelerate the protection of clean, abundant water resources	0	304,565	321,203	300,000	363,000	270,000	300,000

These HIT practices were implemented in partnership with individuals, communities, and tribal, State, and local governments to ensure a clean and abundant supply of water for people and the environment.

The annual USDA performance results for this APG are reported on the [Performance.gov](http://www.performance.gov) Web site. In February 2014, the Forest Service’s FY 2013 APR provided actual accomplishments for the Forest Service’s contribution to these performance measures.

<sup>1</sup> FY 2015 targets reflect published targets—or Forest Service contribution to multiagency targets—in the USDA Strategic Plan.

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The HIT practices implemented by the Forest Service resulted in treating 363,000 acres of lands of national importance. The contributing performance measures include:

1. Acres of lake habitat restored or enhanced
2. Acre equivalent for stream habitat restored or enhanced
3. Acres of water or soil resources protected, maintained, or improved
4. Acres of water or soil resources protected, maintained, or improved by fuels treatment
5. Acre equivalent for roads decommissioned
6. Acre equivalent for high-clearance road improved
7. Acre equivalent for passenger car road improved
8. Acre equivalent for high-clearance road maintained
9. Acre equivalent for passenger car road maintained
10. Acre equivalent for road or stream crossings reconstructed or constructed for providing aquatic organism passage
11. Acres of forest land vegetation established
12. Acres of rangeland vegetation improved
13. Acres treated for noxious weeds or invasive plants on NFS lands
14. Acre equivalent for contaminated Abandoned Mine Land sites mitigated using CERCLA<sup>2</sup> and non-CERCLA authority
15. Acre equivalent for road bridges constructed, rehabilitated, or replaced



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<sup>2</sup> CERCLA is the Comprehensive Environmental Response, Compensation, and Liability Act. The objective of CERCLA is to clean up any uncontrolled releases of specified hazardous substances.

## Summary Analysis of Financial Statements and Stewardship Information

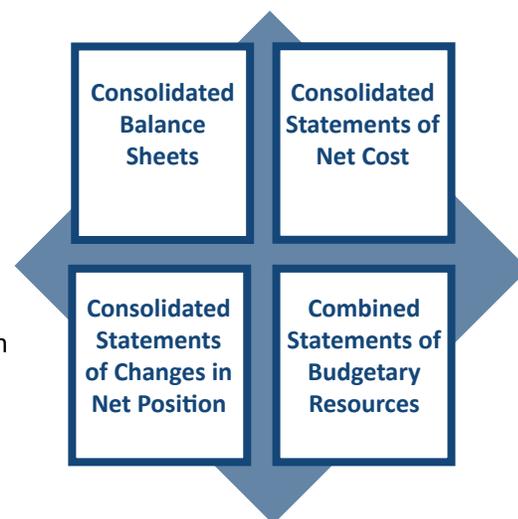
The Forest Service produces a series of financial statements on a quarterly basis to summarize the activity and associated financial position of the agency. In producing these statements, the agency seeks to provide relevant, reliable, and accurate financial information related to Forest Service activities. An analysis of the agency's September 30, 2013, financial statements provides the following highlights and exhibits, reflecting the comparative amounts for FY 2013 and FY 2012.

### CONSOLIDATED BALANCE SHEETS

The Balance Sheet is a presentation of the Forest Service's financial condition at the end of the fiscal year. It shows the resources Forest Service holds to meet its statutory requirements (Assets), the amounts it owes that will require payment from these resources (Liabilities), and the difference between them (Net Position).

#### Assets

As of September 30, 2013, Forest Service reports \$4.9 billion in assets, representing a decrease of 9 percent from FY 2012 amounts.

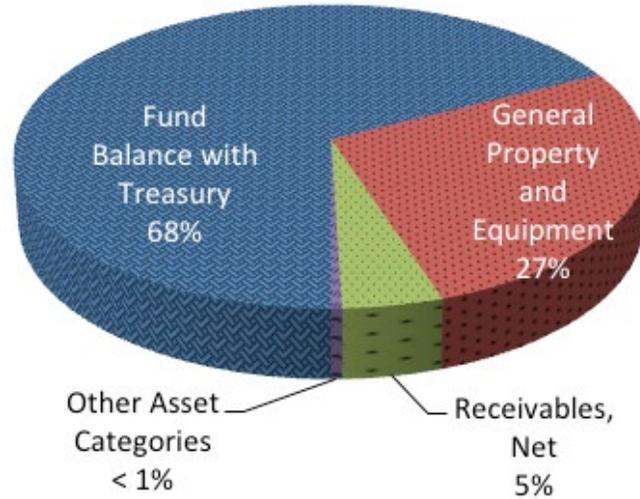


**TABLE 5. FOREST SERVICE ASSETS (IN MILLIONS)**

Asset	FY 2013	FY 2012	Difference in Dollars	Difference in Percentage
Fund Balance with Treasury	\$3,305	\$3,684	\$(379)	(10%)
General Property and Equipment	1,338	1,392	(54)	(4%)
Receivables, Net	226	296	(70)	(24%)
Total of Major Categories	\$4,869	\$5,372	\$(503)	(9%)
Other Asset Categories	24	26	(2)	(8%)
Grand Total Assets	\$4,893	\$5,398	\$(505)	(9%)

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

FY 2013 Assets



*Fund Balance with Treasury*

The Fund Balance with Treasury (68 percent of assets) decreased \$379 million (10 percent) from FY 2012, primarily due to sequestration, which were across-the-board spending cuts enacted to reduce the national budget deficit.

*General Property, Plant, and Equipment*

General Property, Plant, and Equipment (PP&E) (27 percent of assets) consists primarily of forest road-surface improvements, bridges, campgrounds, administrative buildings, other structures, and equipment. General PP&E also includes assets acquired by the Forest Service for conducting business activities, such as providing goods or services. General PP&E does not include the value of heritage assets or stewardship assets, which are categorized as Stewardship PP&E.

*Stewardship PP&E*

Stewardship PP&E assets—both heritage and stewardship assets—do not have a readily identifiable financial value as do the general PP&E assets, so they are not recorded within the Forest Service financial statements.

Heritage assets are assets that are historical or significant for their natural, cultural, aesthetic, or other important attributes and that are expected to be preserved indefinitely. Stewardship assets are primarily land, held by the Forest Service as part of the NFS, and not acquired for, or in connection with, other general PP&E.

For an in-depth discussion of heritage and stewardship assets, see the Financial Statement Note 5—Stewardship PP&E and the Required Supplementary Information section.

*Receivables, Net*

Accounts Receivable, Net (5 percent of assets) decreased \$70 million (24 percent) from FY 2012, primarily due to the collection in FY 2013 of outstanding FY 2012 fire billings with the State of Texas.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

*Other Assets*

Other Assets (<1 percent of assets) represent advances and prepayments for goods and services provided to the Forest Service.

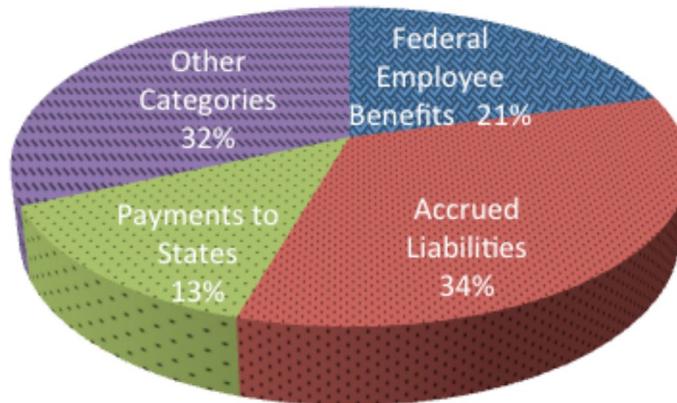
*Liabilities*

As of September 30, 2013, the Forest Service reports \$2.4 billion in liabilities, representing a decrease of 1 percent from FY 2012 amounts.

**TABLE 6. FOREST SERVICE LIABILITIES (IN MILLIONS)**

Liability	FY 2013	FY 2012	Difference in Dollars	Difference in Percentage
Federal Employee Benefits	\$491	\$470	\$21	4%
Other Liabilities				
Accrued Liabilities	800	961	(161)	(17%)
Payments to States	325	346	(21)	(6%)
Other Categories	753	618	135	22%
Grand Total Liabilities	\$2,369	\$2,395	\$(26)	(1%)

**FY 2013 Liabilities**



*Federal Employee Benefits*

Federal Employee Benefits (21 percent of liabilities) had an increase of \$21 million (4 percent) from FY 2012. The Federal Employees’ Compensation Act (FECA) liability is accrued workers’ compensation benefits, not yet paid by the Forest Service. FECA benefits include the current and expected future liability for death, disability, medical, and other approved workers’ compensation costs. By law, Federal agencies cannot make these payments until Congress appropriates and OMB apportions the funds, and they are liabilities on the balance sheet.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

*Accrued Liabilities*

Accrued Liabilities (34 percent of liabilities) had a decrease of \$161 million (17 percent) from FY 2012. Accrued Liabilities consist primarily of accruals for payroll and for receipt of goods and services. Accrued liabilities for occupancy agreements between U.S. General Services Administration and the Forest Service are also included. A portion of the accrued liabilities total is calculated by a mathematical model based on a regression between open obligation balances and subsequent payments.

*Payments to States*

The liability for Payments to States (13 percent of liabilities) decreased \$21 million (6 percent) from FY 2012 primarily due to sequestration.

The Payments to States Program was authorized by the Twenty-Five Percent Fund Act of May 23, 1908, as amended (16 U.S.C. 500). This program requires revenue generated by the sale of goods and services on the national forests to be shared with the States for public schools and public roads in the county or counties in which the national forests are located. The Secure Rural School and Community Self Determination Act of 2000, reauthorized on October 2, 2013, for FY 2013 as part of Public Law 113-40, also provides for roads and schools, Forest Service projects, and emergency services. In addition, the Payments to Counties, Bankhead-Jones Farm Tenant Act of 1937 requires 25 percent of the net revenues from each national grassland or land utilization project to be paid to the counties in which such lands are located.



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**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

*Other Categories*

Other Categories (32 percent of liabilities) increased \$135 million (22 percent) from FY 2012. Other categories of liabilities include deposit liabilities and annual leave liabilities. Deposit liabilities consist of collections deposited in clearing accounts awaiting disposition or reclassification.

**Net Position**

As reported in the Consolidated Statements of Changes in Net Position section, the Forest Service reported \$2.5 billion for both unexpended appropriations and cumulative results of operations. The total net position decreased by \$479 million (16 percent) from FY 2012. See the Consolidated Statements of Changes in Net Position section for further information on the changes in net position.

**CONSOLIDATED STATEMENTS OF NET COST**

The Consolidated Statements of Net Cost report the difference of two amounts: total gross costs minus total gross revenue for the year. The Forest Service’s net cost of operations was \$5.8 billion, representing a decrease of 5 percent from FY 2012 amounts.

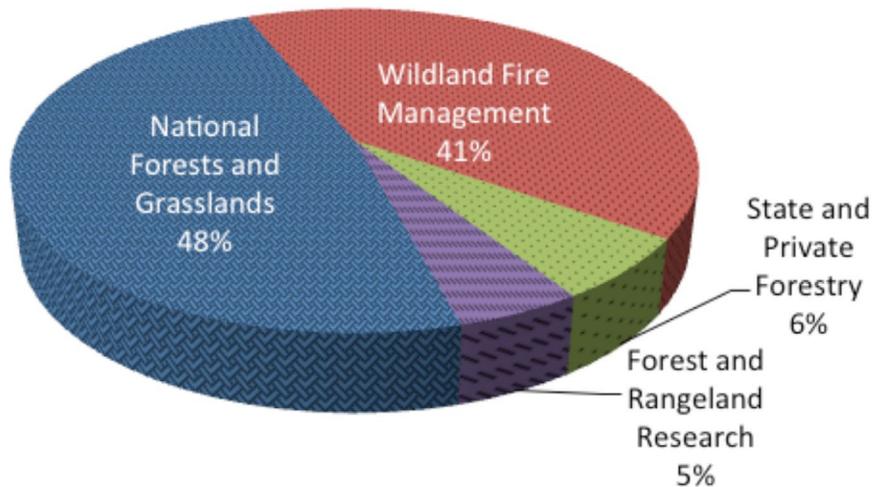
**TABLE 7. FOREST SERVICE NET COST OF OPERATIONS (IN MILLIONS)**

Net Cost of Operations	FY 2013	FY 2012	Difference in Dollars	Difference in Percentage
Program Cost by Segment:				
National Forests and Grasslands	\$3,143	\$3,377	\$(234)	(7%)
Wildland Fire Management	2,658	2,833	(175)	(6%)
State and Private Forestry	411	388	23	6%
Forest and Rangeland Research	329	342	(13)	(4%)
Total Program Costs	6,541	6,940	(399)	(6%)
Less: Total Earned Revenue	761	839	(78)	(9%)
Net Cost of Operations	\$5,780	\$6,101	\$(321)	(5%)

**Expenses**

Forest Service program costs are \$6.5 billion for FY 2013, representing a decrease of 6 percent from FY 2012.

**FY 2013 Expenses By Segment**



**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

**Revenue**

The Forest Service’s earned revenue—from both public and intragovernmental sources—is \$761 million for FY 2013 and \$839 million for FY 2012, resulting in a decrease of \$78 million.

Earned revenue from the public includes such items as the sale of forest products (timber and firewood); recreational opportunities (campgrounds); mineral resources; livestock grazing; and special land use fees for power generation, resorts, and other business activities conducted on NFS lands.

The Forest Service also performs reimbursable activities for fire and other activities completed for other Federal agencies, in accordance with the Economy Act and other authorities.

**CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION**

The Statements of Changes in Net Position report the change in net position during the reporting period. Net position is affected by changes to its two components: Unexpended Appropriations and Cumulative Results of Operations.

**TABLE 8. FOREST SERVICE NET POSITION (IN MILLIONS)**

Net Position	FY 2013	FY 2012	Difference in Dollars	Difference in Percentage
Unexpended Appropriations	\$1,043	\$1,510	\$(467)	(31%)
Cumulative Results of Operations	1,481	1,493	(12)	(1%)
Total Net Position	\$2,524	\$3,003	\$(479)	(16%)

**Unexpended Appropriations**

The Unexpended Appropriations balance is \$1.0 billion for FY 2013, representing a decrease of 31 percent from FY 2012. The decrease is primarily due to sequestration. Unexpended Appropriations reflect the spending authority made available by congressional appropriation, but not used.

**Cumulative Results of Operations**

The Cumulative Results of Operations amount reflects the cumulative effect of financing in excess of expenditures and includes funds from dedicated collections. It is the funds from dedicated collections that predominately finance the enhancement and maintenance of NFS lands, including reforestation. Funds from dedicated collections are presented separately on the Statements of Changes in Net Position, in accordance with the Statement of Federal Financial Accounting Standard 43—Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds. For a detailed description of each fund, see Note 11: Funds from Dedicated Collections in Part B. Financial Section of the AFR.

**COMBINED STATEMENTS OF BUDGETARY RESOURCES**

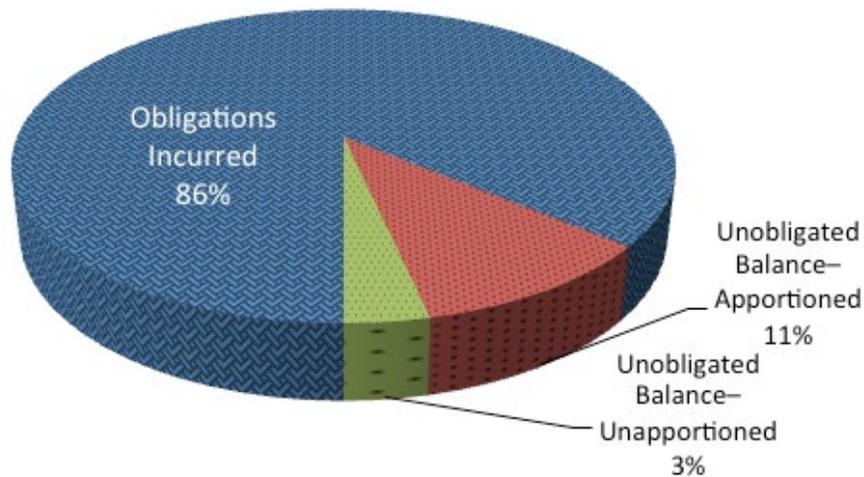
In accordance with Federal statutes and implementing guidance from OMB, the Forest Service may incur obligations and make payments to the extent it has budgetary resources to cover such items. The Combined Statements of Budgetary Resources presents the sources of these budgetary resources, the status of the funds at yearend, and the relationship between its budgetary resources and the outlays made against them. Forest Service’s total budgetary resources were \$7.8 billion in FY 2013 and \$8.1 billion in FY 2012, representing a decrease of 4 percent from FY 2012.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

**TABLE 9. FOREST SERVICE STATEMENT OF BUDGETARY RESOURCES (IN MILLIONS)**

Statement of Budgetary Resources	FY 2013	FY 2012	Difference in Dollars	Difference in Percentage
Total Budgetary Resources	\$7,779	\$8,090	\$(311)	(4%)
Status of Budgetary Resources				
Obligations Incurred	6,692	6,698	(6)	(<1%)
Unobligated Balance—AppORTioned	816	800	16	2%
Unobligated Balance—UnappORTioned	271	592	(321)	(54%)
Total Status of Budgetary Resources	\$7,779	\$8,090	\$(311)	(4%)

**FY 2013 Statement of Budgetary Resources**



***Unobligated Balance—AppORTioned***

The Unobligated Balance—AppORTioned was \$816 million (10 percent) in FY 2013.

***Unobligated Balance—UnappORTioned***

The Unobligated Balance—UnappORTioned was \$271 million (4 percent) in FY 2013. The decrease is primarily due to sequestration.

## Analysis of Systems, Controls, and Legal Compliance

### MANAGEMENT ASSURANCES

#### *Federal Managers' Financial Integrity Act*

The Federal Managers' Financial Integrity Act (FMFIA) management control objectives (below) identify those deficiencies that seriously affect an agency's ability to meet these management control objectives as "material weaknesses."

The FMFIA or Integrity Act requires agency managers to reasonably assure Congress and the American public that all financial information meets the following control objectives:

- Programs achieve their intended results
- Resources are used consistent with overall mission
- Programs and resources are free from waste, fraud, and mismanagement
- Laws and regulations are followed
- Controls are sufficient to minimize any improper or erroneous payments
- Performance information is reliable
- System security is in substantial compliance with all relevant requirements
- Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels

#### FMFIA Assertions

Forest Service management conducted its annual evaluations of internal control (FMFIA, Section 2) and financial systems (FMFIA, Section 4), effective for the period ending September 30, 2013.

#### *Federal Financial Management Improvement Act*

The Federal Financial Management Improvement Act (FFMIA) mandates that agencies "...implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level." FFMIA also requires any agency unable to report substantial compliance with these requirements to develop remediation plans.

#### FFMIA Assertions

As of September 30, 2013, the Forest Service's financial management systems overall substantially comply with applicable Federal accounting standards, application of the U.S. Standard General Ledger at the transaction level, and Federal financial management systems requirements. However, there was a certain instance in which Forest Service user access, authorization, and password controls were not in compliance with Forest Service policy and Federal financial management systems requirements. In addition, adequate segregation of duties was not maintained in one financial system.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

***Federal Information Security Management Act***

The Federal Information Security Management Act (FISMA) provides the framework for securing the Federal Government’s information technology (IT). Departments covered by the Paperwork Reduction Act must implement the requirements of FISMA, reporting annually to OMB and Congress on the effectiveness of the agency’s security programs and independent OIG evaluations. No IT material weaknesses were noted for Assurance Year 2013 (ending June 30, 2013), in accordance with USDA’s Implementation Guide for OMB Circular A-123, Internal Control over Financial Reporting, Appendix A.

***Internal Control Over Financial Reporting (Circular A-123, Appendix A)***

Forest Service management recognizes its responsibility for monitoring and correcting all internal control deficiencies. To identify potential deficiencies, the agency conducted an assessment of the effectiveness of internal control over financial reporting for the 2013 Assurance Year (ending June 30, 2013).

The Forest Service prepares risk assessments to evaluate program vulnerabilities for internal controls and then tests the controls to assess the level of internal control at the agency level. The agency uses the following procedures in this process:

- Process narratives and flowcharts are used to evaluate workflow and internal control from beginning to end of program responsibility
- Documentation and design of key controls are reviewed with management and key staff
- The operating effectiveness of properly designed controls is tested by recalculating and verifying compliance with policy and procedures
- Corrective action plans are developed for control and significant deficiencies

Based on the results of the assessment, the Forest Service can provide qualified assurance that controls over the financial reporting area are operating effectively.

***Anti-Deficiency Act Compliance***

In FY 2013, the Forest Service identified an Anti-Deficiency Act (ADA) violation relating to 31 U.S.C. Section 1517 that specifically prohibits an agency from making obligations or expenditures in excess of an apportionment or reappportionment or in excess of the amount permitted by agency regulations.

***Background***

The Energy Policy Act of 2005 (Public Law 109-85) established congressional direction in Section 365 for the Secretary of the Interior to create a pilot project to improve Federal permit coordination. The Bureau of Land Management (BLM) transfers funds to the Forest Service to participate in the pilot. Priorities for the piloted program are to identify additional expertise to accomplish congressional direction to improve Federal permit coordination, continue improvement in processing oil and gas permits, and establish a joint Geographic Information Systems database tracking system between the BLM and the Forest Service. The White River National Forest and Thunder Basin Grasslands in the Rocky Mountain Region, the Carson National Forest in the Southwest Region, and the Ashley National Forest in Intermountain Region participated in the pilot.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

**Situation**

The Forest Service reported obligations or expenditures in excess of the balance transferred to the Forest Service from the DOI BLM as of December 31, 2012. Reports indicated that the Forest Service spent \$6,781.90 in excess of the \$72,000 carried over from FY 2012. Although actions had transpired to obtain the funding needed for FY 2013 work by Forest Service and BLM, the warrant with additional funding was not received until January 31, 2013.

**LIMITATIONS OF FINANCIAL STATEMENTS**

The Forest Service’s principal financial statements have been prepared to report the financial position and results of operations of the agency, pursuant to the requirements of Title 31 of the United States Code, Section 3515(b).

The Forest Service statements have been prepared from its books and records in accordance with Generally Accepted Accounting Principles for Federal entities and the formats prescribed by OMB. The statements, however, are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

