

**Forest Service Manual
National Headquarters - Washington Office
Washington, DC**

**Forest Service Manual 1400 – Controls
Chapter 1440 - External Accounting and Review**

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Duration: This amendment is effective until superseded or removed.

Superseded Directive: 1400 Zero Code Contents, Amendment 1400-96-1; 1400 Zero Code, Amendment 1400-96-2; 1410 Contents, Amendment 1400-95-1; 1410-1416 Amendment 1400-95-2; 1417-1418, Amendment 1400-92-3; 1420, Amendment 1400-90-1; 1430, Amendment 1400-90-1; 1440, Amendment 1400-90-1; 1450, Amendment 1400-90-1; 1460, Amendment 1400-90-1; 1470 Amendment 1400-90-1

Approved by: Mike Dombeck, Chief

Date approved: October 31, 2000

Responsible Staff:

Posting Instructions: This is a technical amendment that converts the format and style of this FSM title from Applixware to the current corporate word processing application. Since this amendment replaces all text except Interim Directives (ID's), do not check for the last transmittal received for this title; instead place this transmittal sheet at the front of the title. DO NOT remove ID's when posting this amendment. ID's are not being reformatted at this time.

Explanation of changes: Following is an explanation of the changes throughout the directive by section.

Please read the new posting instructions (above) carefully.

1400: The entire amendment text has been reformatted and replaced, so that the amendment text on the Service-wide Directives Home Page in the Forest Service Web/Intranet (<http://fsweb.wo.fs.fed.us/directives/index.html>) corresponds with the amendment text on the Forest Service Directives Home Page in the Forest Service World Wide Web/Internet (<http://www.fs.fed.us/im/directives>).

Although some minor typographical and technical errors have been corrected, substantive direction has not been changed.

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Refrain from using the terms "audit" and "auditor" to refer to external financial analysis functions, which are the responsibility of the Forest Service (FSM 1440.5, Item 2). The work of Forest Service external accountants requires the application of audit techniques and is performed under the Comptroller General audit standards (FSM 1440.3).

The direction in this chapter applies only to those external activities listed in 1440.5, Item 2. It does not apply to the internal reviews performed by review and analysis staffs.

1440.1 - Authority

The Organic Administration Act of 1897, the National Forest Management Act of 1976, and other enabling legislation require controls over the occupancy and use of the National Forests. The underlying agreements supporting such occupancy and use provide the Forest Service access to and the right to examine any directly pertinent books and accounts to evaluate compliance with the terms and conditions of such agreements.

1440.2 - Objectives

The objectives of external accounting and review are to provide financial and cost analysis and evaluation for program managers to ensure that:

1. The financial and accounting records of contractors, concessionaires, licensees, and other external organizations meet the requirements of underlying agreements.
2. Accurate operating costs and selling price data is collected for use in appraising National Forest timber.
3. Fees and royalties due the Government are correct.
4. Applicable laws and regulations have been followed.

1440.3 - Policy

Perform external financial and cost accounting analysis and review to meet Forest Service resource program needs. Perform work to the standards of the governing bodies of the accounting profession listed in 1440.6.

1440.4 - Responsibility

1440.41 - Office of the Inspector General

The Office of the Inspector General (OIG) has overall responsibility for the audit function of the USDA. The OIG has delegated to the Forest Service the responsibility to provide a strong internal review system of Forest Service programs.

1440.41a - Washington Office Director of Fiscal and Public Safety

The Washington Office Director of Fiscal and Public Safety is responsible for:

1. Developing policies, standards, and procedures for external accounting and review.
2. Providing advice and assistance to Regions for uniformly interpreting and applying external accounting and review policies, standards, and procedures. This includes providing training, as appropriate, to Regional accountants in external accounting and review program areas.
3. Performing field reviews of Regional operations to ensure general uniformity in the application of external accounting and review policies, standards, and procedures.
4. Maintaining liaison on external accounting and review matters with Forest Service officials, in both Washington and field offices, Office of the Inspector General, Department of Agriculture, General Accounting Office, and other appropriate Federal and national accounting organization officials.
5. Performing program analyses and evaluations, trend analyses, financial and cost analyses and evaluations, reviews and other special examinations, such as air tanker cost analysis and timber appraisal statistical studies.

1440.41b - Regional Director of Fiscal and Public Safety

The Regional Director of Fiscal and Public Safety is responsible for:

1. Planning and performing the external accounting and review program (FSM 1440.5) throughout the Region consistent with the technical and policy guidance provided by the Washington Office. This includes performing all management functions for the conduct of field review operations, including inviting program staff participation on review teams where technical program assistance is needed.
2. Providing technical advice and assistance, including appropriate training, on external accounting and review matters to Regional and Forest program managers and accountants.
3. In conjunction with Regional program managers, providing technical advice and assistance to external organizations in interpreting and applying the financial and accounting control requirements of underlying agreements.
4. Maintaining liaison with Federal, State, and local officials within the Region on external accounting and review policies of the Forest Service.
5. Analyzing and evaluating external accounting and review findings to identify trends and determine their significance in the administration of Forest Service external programs;

making recommendations to the Regional Forester for action or possible referral to the Washington Office.

6. Developing an annual review plan (FSM 1442) in consultation with appropriate program managers, for approval by the Regional Forester.

7. Providing input to the Washington Office Director of Fiscal and Public Safety regarding policies, standards, and procedures for external accounting and review, which are inaccurate, inconsistent, or missing from the FSM, handbooks, and other written instructions.

1440.5 - Definitions

1. Review. The systematic examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws, regulations, and agreement requirements. The terms "analysis," "evaluation," and "review" are used synonymously throughout these instructions.

2. External Accounting and Review. The process of providing cost and financial analysis and evaluation to Forest Service program managers in all external program areas. These areas include:

- a. Timber appraisal cost collection and analysis.
- b. Commercial special-use permits.
- c. Smokey Bear and Woodsy Owl licenses.
- d. Grassland grazing associations.
- e. Financial and accounting matters of any diversified nature.

In accordance with prearranged verbal or written understanding with applicable OIG office, perform air tanker cost collections and analyses and cost and pricing analyses and contract audits upon request by contracting.

1440.6 - Standards

Perform external accounting and review in accordance with:

1. The most recent revision of the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," issued by the Comptroller General of the United States.

2. Generally accepted accounting principles as approved and adopted by recognized private and public-sector standard-setting bodies, such as:

- a. American Institute of Certified Public Accountants.

- b. Financial Accounting Standards Board.
- c. Cost Accounting Standards Board.
- d. National Council on Governmental Accounting.
- e. Securities and Exchange Commission.
- f. General Services Administration.
- g. Governmental Accounting Standards Board.

1441 - Scope and Frequency of Review

Annually, Regions should examine programs to determine the coverage, frequency, and priority of reviews required. Consider the following factors in determining whether to perform or request a review:

1. Newness, changed conditions, sensitivity of the organization, program, activity, or function.
2. Total cost and duration of program.
3. Extent of Forest Service participation, either in terms of resources or regulatory authority.
4. Management objectives, as developed in consultation with the responsible program managers.
5. Results of prior reviews, including the adequacy of the financial management system and controls.
6. Timeliness, reliability, and coverage of review reports prepared by others.
7. Results of other internal evaluations, such as program and activity reviews.
8. Legislative mandates or other congressional recommendations.
9. Availability of review resources.

Do not review all intervening years if the findings from preceding review and the most recent of the current years being reviewed are reasonably clean and an adequate system of internal control is in effect.

There is no prescribed time interval for reviews; however, application of the above criteria may necessitate reviews based on some time factor. In such instances, the criteria, and not just the passage of time, should dictate the time interval.

1442 - Annual Review Plan

Base Regional review plans on the criteria in FSM 1441. At a minimum, the review plan must specify:

1. All programs subject to review.
2. Programs selected for review, with priorities and specific reasons for selection.
3. Organization of the review team.
4. Scope of review coverage.
5. Expected benefits of such review.

1443 - Conduct of Reviews

1443.1 - Review Notification

Notify the appropriate party of the program or activity to be reviewed in writing at least 30 days in advance of the review. Retain a copy of the notice in the work papers and send a copy to the appropriate program management staff group.

1443.2 - Preliminary Procedures

Before starting the review, the reviewer must obtain and review key reference materials. Generally, these include:

1. A copy of the permit, license, or contract, for each program included in the scope of the examination.
2. Financial reports issued during the review period.
3. Most recent audit report issued by program's internal and/or independent auditor.
4. Accounting and operating manual instructions, organization charts, and chart accounts.
5. Any special or corollary reports submitted by the reviewer as required by program agreement.
6. Working papers, report, and permanent survey file of last review done.

The reviewer must make copies or extracts of these documents as needed for the review work papers or permanent file.

1443.3 - Entrance Conference

At the start of each review, the reviewer must meet with the officials responsible for the organization or function being reviewed to discuss the purpose and scope of the review and any potential problem areas. Include a summary of the meeting in the work papers. Inform Forest Service program management officials about the conference so that they may attend.

1443.4 - Review Survey

Perform surveys to review and evaluate the adequacy of the accounting system and internal controls before or at the time of the first review. Update surveys at each subsequent review. The objectives of the survey are to:

1. Obtain basic and descriptive accounting system data.
2. Check the accuracy and reliability of accounting data.
3. Establish that data are consistent from year to year.
4. Encourage adherence to prescribed management policies and Forest Service requirements.
5. Identify areas where detailed review is needed and prepare a review program.

1443.5 - Sampling

Use sampling, as appropriate, in Forest Service review tests. Where possible, the reviewer shall use statistical or scientific sampling. Regardless of method, the reviewer must ensure that sufficient evidence is obtained to support the findings. Sections 320A (01 to .24) and 320B (01 to .24) of the American Institute of Certified Public Accountants Statement on Auditing Standards No. 1 provide guidance in statistical sampling procedures.

1443.6 - Matters Requiring Immediate Action

If evidence of possible fraud, defalcations, or other similar irregularity is discovered, the reviewer must immediately contact the Regional Director of Fiscal and Public Safety, who in turn must refer the evidence to the Regional Forester for consideration and forwarding to the Office of the Inspector General.

1443.7 - Exit Conference

Upon completion of the fieldwork, the reviewer must hold an exit conference with officials of the program reviewed to discuss all findings and recommendations. Inform Forest Service program management officials about the conference so that they may attend.

The exit conference gives the reviewer an opportunity to obtain comments on the accuracy and completeness of the facts presented and conclusions reached. It also provides officials with advance information to use as a basis for initiating corrective action without waiting for the final report. Whenever possible, obtain the comments on the findings and incorporate them in the report. Also include in the report information on any corrective measures taken or promised to be taken.

1444 - Review Report

The Regional Director of Fiscal and Public Safety must issue review reports to the Regional Forester as soon as possible after completion of the fieldwork, but no later than 45 working days after the exit conference. The Regional Forester must transmit reports to the program head reviewed and designate a Forest Service program manager to respond to review findings and recommendations.

A bill for collection must accompany the review report sent to the reviewer, if the review discloses amounts due the Government. The due date entered on the bill for collection must not be more than 30 days from the date the review report is released. Include explanations regarding disputed amounts and provision for late payment in accordance with the Federal Claims Collection Standards (FSM 6572.06, 4 CFR 102).

1445 - Followup on Review Recommendations

The program manager designated to respond to review findings and recommendations (FSM 1445) must take the following action promptly and responsively:

1. Inform the Regional Forester within 60 days after a report is issued to the programmed office reviewed, unless special arrangements have been agreed upon for a longer period in which to respond. This response should clearly state:

- a. The action taken to date and the additional action planned.
- b. The date, if reasonably known, by which complete action is anticipated that will meet closing criteria (FSM 1446).
- c. A brief explanation of the need for additional time to resolve findings.

A copy of the response shall be furnished the Regional Director of Fiscal and Public Safety.

2. Follow up on matters not concluded at the time of the initial response, with subsequent progress reports until action on all items in the review report meets the closing criteria in

FSM 1446. Send subsequent progress reports to the Regional Forester at 60-day intervals after the date in item 1(b). A copy of such reports shall be furnished the Regional Director of Fiscal and Public Safety.

Regional officials must resolve both monetary and non-monetary findings 6-months after issuance of a review report. Findings are resolved for purposes of meeting the 6-month deadline when Regional officials and the reviewer have agreed on the validity of the findings and the need for and nature of corrective action, and the reviewer is so informed. Complete resolution of review findings in accordance with the criteria in FSM 1446 should be accomplished as soon as possible thereafter.

This does not require program managers to complete collection of questioned costs within the 6-month period. However, program managers must decide within the allotted time period whether to terminate collection action in accordance with 4 CFR 104 (FSM 6572) or to continue collection action in accordance with 4 CFR 102 or 103. If the program office reviewed has not paid in full by the due date shown on the initial bill for collection (FSM 1444), amounts not paid are subject to a late payment charge as required by 4 CFR 102. Support termination of collection in writing signed by the line officer authorized to make the decision. This decision must include written justification and the legal basis for the decision not to pursue recovery of the questioned costs.

1446 - Criteria for Closing Action on Review Recommendations

Consider reviews closed when all findings have been resolved and corrective actions have completed, such as:

1. Amount of indebtedness determined and bill for collection has been issued and funds collected, collection actions have been terminated, or the review finding is determined to be in error.
2. New, additional, or revised program directives have been written and issued.
3. Compliance with applicable laws, regulations, and administrative requirements has been achieved.
4. Inefficient uses of resources (such as personnel, property, and space) have been eliminated.
5. Agreement has been reached that good reasons exist for not following review recommendations.

Include in the review reply detailed descriptions of the corrective actions taken by designated program managers (FSM 1445).