

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

**Forest Service Handbook 1409.15 – Auditing Concessions Handbook  
Chapter 30 - Audit Programs**

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After the survey is completed, prepare a written audit program. Sample audit procedures to use as a starting point in writing an audit program are presented in section 31.5, item 3. It should be clearly understood that this is merely a sample of the audit steps the auditor may perform. The auditor must develop the actual audit program tailored to the operations of the concessioner being audited. On successive audits, a substantial portion of the audit program can and should be prepared prior to a visit with the permittee.

The auditor should design the audit program to suit each kind of activity under the permit. The audit procedures should provide a review of the accounting practices and the system of internal controls exercised over the recording of sales, other income, and cash receipts. The audit program will indicate the extent to which initial test checks of recorded transactions shall be made.

Accuracy of sales and other income reporting is vulnerable to the business practice and policy of each permittee. Costs may be offset against sales without recording either. In addition, inequitable substitutes of costs against sales and other income may be used by the permittee. This is an area of examination, which deserves the auditor's closest attention so that the proper sales base is used for computation of the percentage-fee amount. The objective is to ensure that full disclosure of all business transactions is recorded on a permittee's accounting records.

The auditor will:

1. Make such observations and test checks as deemed necessary to satisfy the auditor that the methods, procedures, and accounting practices, indicated by the answers to the survey questionnaire, are in actual use and are acceptable.
2. Record the observations on working papers. Limit the test check of selected transactions to that needed to verify answers to specific questions in the survey. If initial test checks indicate a potential problem in an area, that test should be expanded to the point necessary to ensure that the indicated problem does not really exist, or the problem is defined specifically so that corrective measures can be undertaken.
3. Record the audit work performed on working papers (ch. 40). The heading of each working paper shall be in the sequence of permittee's name, title of subject matter, and the period covered.
4. Index each working paper to its controlling summary sheet, the working-paper trial balance, and the audit program.
5. Explain all checks, tick marks, and symbols appearing on the working papers.
6. Place the auditor's name and completion date on each working paper.

## **30.2 - Objective**

The audit objective to determine that fees due or paid under the terms of the permit were correctly computed, reported, and either paid or billed as payable.

In the case of permits operating under the GRFS, this includes a review of the original determination or verification of updating by the auditing accountant of the permittee's gross fixed assets (GFA) and classification of sales and expenses for the purpose of computing the correct fee. This information shall also be used in updating and modifying the fee system when circumstances indicate the need to do so.

## **31 - Audit Guidelines for Permits Involving Fees Based on Permittees' Sales**

### **31.1 - When to Audit**

1. Determine audit frequency for flat-fee, percentage-fee, GRFS, and Granger-Thye (G-T) permits after consideration of the factors in section 31.4.
2. The Forest Supervisor shall ensure that audit of flat-fee, percentage-fee, GRFS, and G-T permits administered at the Forest are made when necessary.
3. The Regional Director of Fiscal and Accounting Management shall render technical auditing service and advice (FSM 1440.42), including determination of audit frequency, coverage, and priority, upon request of the Forest Supervisor. The Forest Supervisor should contact the Regional Director of Fiscal and Accounting Management for assistance when there is not a qualified accountant on the Forest Administrative Officer's staff to conduct the permit audit (sec. 04).
4. Audits of G-T permits need not be made annually solely because the permittee is required to spend stipulated amounts or do specified work in reconditioning or maintenance of Government improvements or equipment.

However, the permittee shall submit adequate itemized statements of expenditures, and documentation of performance, as prescribed by the permit. These statements shall be retained on file for all interim years between audits for determination of compliance with permit terms and subsequent audit verification.

### **31.2 - Composition of Audit**

1. The audit shall include:
  - a. A desk review of use fees and annual minimum fees due and received, based on income statements and permit requirements.

- b. Survey questionnaire information pertaining to the permittee's internal controls and accounting practices.
- c. Verification and review of a permittee's required liability insurance policy for compliance with any insurance clause.
- d. An audit program.
- e. Verification of sales and, where applicable, expenses.
- f. Verification and determination of GFA for GRFS permits.
- g. Analysis and verification of permittee's gratuity policy and practice.
- h. Verification of required expenditures or work in G-T permits.
- i. Auditor's report.

2. Supplementally to these accomplishments, the auditor should perform other useful management services, such as:

- a. Establishing and reporting whether or not ski lifts were inspected as required by terms of the permit.
- b. Reviewing permittee's nondiscrimination policies.
- c. Determining whether or not current pricing lists were submitted for approval by permittee and approved by Forest Service.
- d. Looking at rental and sublessee agreements and auditing sublessee operations, at least those operating under the GRFS.

### **31.3 - Scheduling of Audit**

The auditor will schedule the audit during the permittee's operating season so as to evaluate the internal controls and accounting practices in actual operation. The availability of the permittee to answer questions and to consider adoption of the auditor's recommendations and the availability of all books and records for audit are added advantages to this scheduling time.

### **31.4 - Audit-Frequency Determination**

1. Audit frequency is not based on time intervals, but rather on consideration of the following factors:

- a. Newness, changed conditions, and sensitivity of the organization, program, activity, or function.

- b. Total cost and duration of the program.
- c. Extent of Forest Service participation in terms of either resources or regulatory authority.
- d. Management objectives, as developed in consultation with the responsible program managers.
- e. Results of prior audits, including the adequacy of the financial management system and controls.
- f. Timeliness, reliability, and coverage of audit reports prepared by others, such as State and local governments and independent public accountants.
- g. Results of other internal evaluations, such as program and activity reviews.
- h. Legislative mandates or other congressional recommendations.
- i. Availability of audit resources.

2. As a matter of practicality, it is not necessary to audit all interim years between audits if the findings of the preceding audit and the most recent of the current years being covered by audit are reasonably clean and an adequate system of internal control is in effect.

3. The Forest Supervisor shall review the need for audit of GRFS permits no less frequently than every 3 years, and review flat-fee and percentage-fee permits subject to 5-year adjustment at least every 5th year prior to adjustment. When an audit is determined to be unnecessary, document the permit case folder with the reason(s) why an audit was not made.

### **31.5 - Audit Scope**

Audit scope is often controlled by terms of individual permits.

- 1. There are three kinds of audits:
  - a. Those concerned with accounting transactions for sales, other income, cash receipts, and so forth.
  - b. Those, which are subject to GRFS, and automatically require a determination and verification of gross fixed assets (GFA) in addition to verifying transactions reported on the permittee's income statement.
  - c. Those which are expanded to include data to support continuance of or change in the elements of GRFS; for example, break-even points and rates.

2. In any case, the scope of audit of accounting transactions depends upon the adequacy of the permittee's internal controls and accounting practices and procedures. The auditor, based upon judgment, may employ test checks of the accounting transactions. The test check would cover sales, other income cash receipts, and so forth, for a representative time period or sample, and GFA and expenses when appropriate.

3. The auditor would include in the text check program such steps as:

a. Most recent year of operation:

- (1) Foot and crossfoot the columns in the subsidiary records.
- (2) Review and foot the detail sale documentary evidence and tie in the totals to the amounts recorded.
- (3) Spot check extensions and prices shown on detail sales slips; note frequency of erasures.
- (4) Review and foot daily cash receipt summaries and tie in the total recorded in the subsidiary ledger.
- (5) Establish whether deposits are being made daily and in the same amount as the cash receipts for that day. If not, obtain reason, from permittee, as to why not and evaluate the propriety of the permittee's practice.
- (6) Verify deposits with authenticated deposit slips and bank statement.
- (7) Extend test-check period or coverage when significant inconsistencies are revealed.
- (8) Take other steps necessary to satisfy himself that amounts reported by the permittee are correct, or to provide a basis for calculation of the fee.
- (9) Is full disclosure being made of offsetting transactions; for example, where sales are netted against acquisitions or expenses. Explain fully.
- (10) Reconcile bank account for selected months of the period being audited.
- (11) Review gratuity policy and analyze permittee's actual gratuity practice for selected period such as one of the busy months of his operating season.
- (12) Obtain data in response to the following questions:
  - (a) Does permittee sublease any operations conducted on the permit area?
  - (b) If so, is sublessee reporting his gross sales to permittee?

(c) What is fee basis between permittee and sublessee for the subleased operations?

(d) Is permittee reporting sublessee's sales gross or just the amount permittee receives from sublessees' operations?

(13) Obtain data in response to the following questions:

(a) Does permittee utilize any vending machines in his operation?

(b) Which machines?

(c) How are vending-machine receipts split between vendor and permittee or sublessee?

(d) Is permittee reporting gross vending-machine receipts?

(14) Obtain data in response to the following questions:

Does permittee offer package sales? If so, what is his basis for apportioning package rates among classes of sales? Is permittee's practice acceptable? Explain.

b. Prior years not previously audited:

(1) Review financial reports for each year to note any significant change in sales, expenditures, adjustments, etc.

(2) Compare sales receipt totals to bank deposit slips, bank statements, and reported sales totals.

(3) Check carryover capital account totals from year to year.

(4) From the reviews of statements, the auditor will determine whether any further check or sampling of prior year records is needed, and will arrange with the permittee for examination of such supporting documents.

4. If the permittee's accounting records of sales, other income, cash receipts, gross fixed assets, expenses, etc., are not in accordance with generally accepted accounting practices and procedures, or, in the opinion of the auditor, the accounting records are insufficient to furnish accounting information economically or adequately for Forest Service purposes, the auditor will recommend changes to protect the Government's interest. The recommendation should be explained to the permittee, but the request that it be adopted as soon as practicable may be withheld for action by the Forest Supervisor. Should a subsequent audit reveal that the permittee failed to make the requested improvements, the auditor should recommend that the accounting practices and procedures be incorporated in the permit provisions whenever possible.



5. No later than the effective date of a new permit, and during the interim between audits, the auditor will prepare a letter for the Forest Supervisor's signature, advising each permittee in writing on what constitutes adequate accounting records, and sufficiently detailed annual operating statements for audit and analytical purposes. The permit provisions, books, and records are the basic sources of data for the auditor's recommendation regarding fees.

6. The scope of audit will include a verification and analysis of costs, profits, investment in assets, and owners' equity as this information is needed for future review of GRFS elements. The auditor, according to his best judgment, will determine the number of years to be covered. The auditor should make close approximations; such as, salary for owner-operator, and adjustments; such as, costs of meals and services being received by the owner-operator. These approximations and adjustments are necessary to determine net profits, which are comparable with other businesses where all labor costs are represented by cash outlays. Adjustments of accruals, depreciation allowances, capitalization as fixed assets, and other appropriate conversions will be made by the auditor according to his best judgment. These approximations and adjustments are for Forest Service use and not for action by the permittee. The auditor will document his findings and determinations and develop appropriate business ratios so that any recommendation is fully supported and summarized.

7. Guidelines for periodic fee reviews are provided in FSM 2715.25.

### **31.6 - Internal Control Standards**

1. The activities of concession permittees extend from simple, single enterprises to complex, interrelated ones where numerous and different facilities and uses are offered to the public. The type of business organization ranges from a private entrepreneur to partnership, to corporate affiliate, subsidiary, or parent company. Subleasing and joint venture activities further intensify the difficulty in prescribing Service-wide minimum standards of accounting and internal controls which are adequate and which will facilitate audit.

2. Three internal control elements common to concession operations regardless of size, variety, or complexity are (1) reliability of sales reporting; (2) accuracy of invested costs and reported expenses; and (3) permittee business practices which should prevent inaccuracies, manipulation, and failure to safeguard Government-owned assets.

3. With the three basic elements stated in item 2 in mind, it becomes obvious that standards be directly proportional to the size of the business. For a small operation where transactions are not numerous and the permittee handles all matters personally, the system may consist of a simple cashbook, check record, or receipts and disbursements journal supported by basic documents, such as invoices and canceled checks. In larger enterprises, the accounts and records requirements would also include separate ledgers and subsidiary records. Rendering of adequate reports and preservation and protection of Government-owned assets are inherent in all permit operations.

4. The following are minimum internal controls of an accounting system acceptable to the Forest Service:

- a. Cash registers, sales slips, inventory controls, and separation of responsibilities between employees should be used to safeguard cash receipts.
- b. Daily deposit should be prepared for each day's receipts which is reconciled with amount recorded in the cash-receipts book. (In remote areas, where bank is not convenient, several "daily deposits" may be deposited at one time.) All cash receipts should be deposited intact. Accumulating daily sales by the deposit date should be discouraged. Except for mixed permit and private land operations, and the very small permittee, a separate bank account should be used exclusively for depositing revenues and paying expenses under a permit. A petty cash or imprest fund account may be prescribed for paying for small expenses, thereby facilitating intact daily deposits.
- c. Revenue will be classified by class of sales or service. Package deals may be shown as such only when one fee rate applied and the operation is entirely on National Forest land (or an overall fee rate has been authorized for all operations, including those on private land). When an overall rate covering private land is not established a peroration must be developed to show what sales should be covered under the permit.
- d. Charge accounts for merchandise, services, etc., are identified separately and recorded as sales. Sales are not reduced by uncollectibles.
- e. Where possible, sales records are prepared by an employee other than the one who receives payment for occupancy of living accommodations. The sales records of guest account charges should be checked with use of available facilities and with revenue collection records to provide proof that all revenue is being properly recorded for fee computation purposes.
- f. An employee is present to check the revenue from coin-operated vending machines when unlocked by the vendor. A document signed by the vendor and employee should support the sales entry. This requirement for a record of sales also applies when the permittee has access to the sales receipt. Inquire in writing to vending machine company for verification or confirmation of sales from permittee's machines and rates of commission on machine sales.
- g. Printed, consecutive, prenumbered tickets (includes registrations, charge slips, invoices, etc.) and control of same are part of the permittee management where admissions, food, liquor, merchandise sales, equipment rentals, and repairs, and living accommodations are part of the business. A separate series of tickets should be assigned according to service furnished, price differentials, etc.

When applicable, a color scheme or similar device for segregation by service (rooms, cabins, campground, etc.) and price (morning, afternoon, all-day rates) should be suggested or required for use by permittee. A system for independent check (by a person who does not receive cash payment or collect tickets) should be provided to ascertain that tickets are issued when payment is made or charged to the guest's account. When tickets are collected, they should be rendered unfit for further use. Accountability for the numbers also provides the auditor an easy way to determine gratuities, losses, and sales deficiencies. Value of tickets issued should be reconciled daily with cash receipts and journalized whenever prior approval of exemption from fee calculation has not been obtained in writing from the Forest Service; for example, debit expense and credit sales.

h. The permittee should keep a detailed record of fixed assets showing the asset, date acquired, cost, estimated salvage value, estimated useful life, accumulated depreciation, and depreciation for current year. This record is required for income tax purposes and will serve for review of permittee's accounts. The auditor need only refer to this record when a permittee subject to the GRFS is audited.

i. Registration records, sales slips, tickets, bank statements, canceled checks, duplicate copies of deposit slips, etc., should be retained by the permittee for audit by the Forest Service auditor. Where audit is conducted on a 2- or 3-year frequency, the auditor should furnish a written statement to the permittee as to which records should be retained until the next audit; a copy should be a part of the working papers.

j. Paid invoices for outside services and purchases are filed alphabetically by payee's name. Number and date of payment check should be recorded on the face of the invoice.

5. An accounting system is an individual thing to be designed to fill the needs and desires of the permittee and to meet the requirements of the Forest Service. Such requirements are equivalent and not in excess of those pertaining to any business operation. The auditor, in appraising the system, should also consider (1) the ability of the bookkeeper, (2) available facilities, such as space and machines (3) expense limitations, and (4) other pertinent factors. The size and complexity of the permit operations, degree of personal supervision by the permittee, and his business knowledge and ability also affect the design of the accounting system. Where these methods of internal control, or others equally effective, are not used by the permittee, the auditor will test check transactions, using the above standards as a guide and, by observation, determine if it is reasonable to believe that all revenue is recorded and reported.

### **31.7 - Failure To Account for Sales**

Sales are understated when:

1. Cash is withheld from cash sales. A sale not recorded on a cash register or entered on a sales slip, or a sale recorded in an amount remaining after pocketing a portion or after paying a business expense, are examples of malpractices which are difficult to detect.

2. Cash is abstracted from cash sales and the shortage is covered up by the underfooting of the total cash debits and the total cash sales so that the debit and credit footings will equal. Verification of the footings will reveal this malpractice.

3. Charges to customers or guests are recorded only when cash is received; that is, gratuities, trade-offs, and uncollectibles are not handled as sales.

4. Worthless checks are withdrawn by the permittee from sales without properly recording action taken.

5. Commissions, rentals, and fees related to sales are substituted by the permittee for the sales amounts.

6. Cash disappearances are offset in sales.

7. Unauthorized giveaways are made which have not been sales priced.

8. In general, any application of offset whereby sales and costs are correspondingly understated.

9. Sales by sublessees are either unrecorded or only the income; for example, coin-operated vending machines and commissions from the sublessee, is recorded as sales. Total sales from transactions on the permit area, including those of sublessees, are subject to Forest Service fee and therefore subject to audit.

### **31.8 - Sales to Proprietor or Employees**

A proprietor may exclude from net sales the items, such as food and supplies, sold to him. The permittee may choose to exclude services rendered and sales made to employees who have no option to eat or live other than on the premises. On the other hand, where there is choice by employees, sales values at the regular rates will be included in sales even though payments were not made to the permittee by employees. The auditor will inform the permittee of permissive exclusions from sales and necessity to include the other sales in his reports.

### **31.9 - Use of Independent Accountants' Statements**

1. In most instances, independent accountants direct their audits toward verification of the permittee's representations made on his financial statements. For this reason the audit effort of the independent accountant is devoted to verification of balance-sheet items and a review of income and expense items for the audit. Frequently this accounting service begins at the point where the permittee has provided summaries of accounting data. In such instances, the independent accountant does not audit behind these summaries. Therefore, it is necessary for the Forest Service auditor to audit the details supporting these summaries.

2. Duplication of audit effort will be avoided when it is evident to the Forest Service auditor that the independent accountant, in the course of his work, has adequately checked the details supporting the financial statements; verified sales, other income, and cash; and reviewed accounting procedures and evaluated the internal controls. Examination by the auditor will be reduced to the extent that the independent accountant had already completed a portion of his own audit program. Proper entry in the working papers will be made as to the extent of utilization of the independent accountant's working papers or description of the extent of his verification.

3. Whenever a qualified accounting firm or person employed by the permittee is willing to follow an audit program prescribed by the Forest Service, render a copy of his certified (or equivalent) report and comments, make available his working papers, and correspond with the Forest Service on informational matters, this independent audit can be accepted in lieu of a Forest Service audit. In such case, the Regional Fiscal Agent will develop an audit program, etc., suitable to the permit operation and furnish the accounting firm with forms and procedures to follow. Substitution of outside audit for Forest Service audit does not eliminate visits to the permit operation for purposes of fiscal review and fee redeterminations, nor is it necessary to amend the permit to provide for acceptance of outside audit. The permittee will bear costs for outside audit arranged for by him.

4. When permits provide for credit against fees for reconditioning, maintenance, and replacement under the Granger-Thye Act, audits of such permit operations will be made by the Forest Service. The Forest Service auditor should review the Ranger's report of such work assigned and reported to have been accomplished. Expenditures will only be audited when permits have not been modified to comply with current manual instructions (FSM 2711.3). When annual audits are not made for these permits, the reports of work accomplished, or expenditures should be detailed enough to avoid review of records of earlier years during an audit.

### **32 - Audit Guidelines for Permits Involving Reconditioning and Maintenance of Improvements by Permittee**

1. There is a wide variety of permit clauses relating to the permittee's obligation to recondition, and maintain land and improvements under permit. Mutual understandings between the Forest Service and permittee also may have become contractual in nature over a

period of time. It is not practicable to provide other than the most general guidelines, to which others must be added by the auditor based on his judgment in each case, to cope with individual circumstances. Applicable guidelines under this section should also be followed.

2. Instructions for establishing a landlord-tenant relationship between the Forest Service and permittee are provided under FSM 2715.21d. This relationship is distinguished from the customary lease whereby an apartment or house is rented and the landlord pays for all reconditioning and maintenance costs. The fact that a flat fee or percentage fee is also payable does not change the relationship. Neither does allocation of all or part of the fee for work performed disturb this relationship.

3. The auditor is also confronted with a variety of permit operations. Each permit must be analyzed independently so that the audit recognizes the individual characteristics of the permit clauses and of agreed upon costs, which have been established by precedent. Digest of pertinent permit clauses and other contractual obligations and exceptions to the commercial relationship will be made a part of the auditor's desk review (portion of the audit). Audits of the flat-fee and percentage-use fee permit are discussed separately in this handbook.

4. Whenever the permittee has elected to deposit an amount to Cooperative Work, Forest Service (CWFS) under a separate cooperative agreement for the cost of work to be done by the Forest Service, the auditor will verify deposits made with the terms of the cooperative agreement and the permit.

5. Whenever the permittee has elected to do the work himself, including members of his family, or to have it done by others, the auditor will:

- a. Check to see that the items of work were planned in conformance with FSM 2715.21d and in advance of their actual accomplishment.
- b. Review the Ranger's inspection reports to establish whether all of the assigned work was performed and to the quality, degree, and standard contemplated by the maintenance and reconditioning agreement.
- c. Check to see that the amount of credit allowed against fee for the work performed or to have been performed was arrived at using fair and prudent cost estimating procedures.
- d. Check to see that for planned jobs not completed, the value of the incomplete maintenance was or would be added to the next annual billing.
- e. Perform his own independent inspection of the maintenance or reconditioning scheduled to have been performed to the extent practicable.
- f. Check to see that the proper amount of fee credit was credited against the permittee's fee billing statement.

6. When the permit is not audited annually, the reports of work accomplished or expenditures should be detailed enough to avoid review of records of earlier years during an audit for the most recent year.

7. The frequency of audit for this type of permit is based on the type of fee (percentage or flat), plus the additional consideration of ensuring the compliance with requirements for expenditures on reconditioning and maintenance.

### **33 - Audit Guidelines for Permits Involving Use and Replacement of Government Equipment**

1. In some cases permits involve reconditioning and maintenance of land and improvements along with use and replacement of Government equipment. Therefore, select the guidelines under section 22 and under this section as appropriate, and add others according to the characteristics of a permit operation.

2. There are numerous kinds of Government property under these permits ranging from small items with short usable lives to larger items with longer usable lives. Specialized equipment, such as draperies, canoes, freezers, rustic furniture, desks, machines, and light plant, are a few examples of the wide range.

3. Usually these permits include provisions requiring maintenance and replacement of equipment by the permittee. Occasionally precedent, which is also binding, establishes the permittee's obligations. In such cases, the auditor will:

a. Prepare a schedule of the equipment from Forest Service records and make an audit at the permittee's operation.

b. Physically inspect the equipment, record condition of each item, and indicate repair or replacement. Review whatever inspection reports have been prepared by the District Ranger and furnish the Ranger with a list of items recommended for repair or replacement.

c. Prepare a list of missing equipment and check the permit clause regarding relief from loss and replacement by permittee's plan for controlling Government equipment, and for making good on any losses for which relief should not be granted. Compare current findings with prior audit and include observations and recommendations in audit report as necessary. Furnish Ranger with listing, permittee's comments, permittee's failure to recondition or replace items, and audit recommendations.

4. The frequency of audit for this type of permit is based on the type of fee (GRFS, percentage, or flat), with consideration for the amount of value of Government equipment involved and the risk of loss of such values if not inventoried annually.

## **34 - Audit Guidelines for Permits Requiring Fixed Annual Fee Amount**

### **34.05 - Definition**

A flat-fee permit provides for payment of a stated amount each year as distinguished from a permit for which the fee amount varies with volume and type of business. This term does not include permits, which provide for temporary flat fees.

### **34.1 - Audit Program**

1. The Forest Supervisor will consider the following factors in deciding whether an audit is necessary:

- a. Findings reported by the Ranger.
- b. Increased business activities including longer operating season, greater public demand, and improved or expanded facilities.
- c. Reliability of permittee.
- d. Failure of permittee to comply with instructions from the Forest Supervisor.
- e. Promptness in reporting sales, where required, and in payment of fee.
- f. Findings or questions arising as a result of preaudit review of available material.
- g. Other factors pertinent to the permittee, permit, and operations thereunder.
- h. Need for verified sales data or other information from permittee's financial records for setting new fee schedule.
- i. Value of the use.

2. The Forest Service auditor will develop an audit program in proportion to the amount of the fee, size, and complexity of the permit operation. Such program will be related to instructions previously furnished the permittee as to accounts and records requirements. See exhibit 03 for an example of a concessioner's audit program.

3. If an audit is determined to be needed on these comparatively small permits, the Forest Service auditor will reduce the survey and audit program guidelines to such minimum as, in his judgment, is deemed necessary. This reduction should be substantial for small permits, particularly where only a simple record of sales and other income has been prescribed by the Forest Supervisor. Advice of the fiscal agent should be requested if qualified accounting personnel are not available to make such decisions, or when training would be desirable.



4. There are other reference sources that can be used in addition to or in conjunction with performing the audit procedures included in the audit program. These include a review of Federal tax returns, gasoline-pump-meter readings, sales tax, and other tax payments reported where there is a check made by other public authorities.

5. The audit program will be intensified and instruction to the permittee will be strengthened as needed. For example, should the auditor find that reported sales for the year being audited are incomplete or inaccurate, corrective action will be requested. The audit program will cover the current year, but it also may cover the prior year or years in such a case, depending upon the significance of the errors. However, where a flat-fee permit does not involve requirements for dollar expenditures or fee credits for expenditures for reconditioning and maintenance, an audit of earlier years is usually unnecessary.

6. In every concessioner audit, a reliable test should be made of the permittee's gratuity practice (sec. 31.5, item 3a (11)). In analyzing the gratuity practice, develop a working paper, such as is shown in exhibit 01. Gratuities beyond those covered or coverable by the standard gratuity clause cited in FSM 2783.11a, item 7b, should be added to the applicable class or classes of sales subject to the fee on Form 2700-19, Fee Calculation for Concession Permits.

In making these gratuities analysis, set up a working paper to cover the types of gratuities given in the horizontal columns and the dates tested in vertical order. The results of this sample analysis can be applied to the years being audited by (1) establishing which gratuities are not subject to the recognized Forest Service gratuity policy, (2) computing what percent of skier days, meals served, overnight room occupancies, etc. were gratuitous to the total volume of each class of business for the period tested, and (3) applying that percentage to the total volume of business for the year or years being audited. The dollar amount of sales this number of disallowed giveaways represents can be computed by (1) establishing the average sales charge for any class of sale by dividing total skier days, room rents, etc. for each year tested into the total receipts for that class of sale for the year and (2) multiplying the resulting average unit selling value for that class of sale times the number of unauthorized gratuities. The resulting amounts are added to the reported sales by sales class reported by the permittee for fee calculation on 2700-19.

Experience to date has shown it is most practicable to work with the permittee to agree what percent of his total gratuities fall within Forest Service policy. If this cannot be reasonably done, and permittee's records will permit, develop a working paper, such as is shown in exhibit 02, for a test period of the year to determine the percent of gratuities given that fall within Forest Service policy. Apply the results of this test to the total time period being audited.

7. By March 1 of each year, each Forest will report to the Regional Director, Fiscal and Accounting Management, the concessioner audits that have been performed or deferred during the preceding calendar year. This information should be used by the fiscal agent to guide him in knowing where increased performance, emphasis, or audit training is needed.

Exhibit 1

USDA Forest Service  
Page 18 of 38

# 34.1 - Exhibit 02

## Exhibit 2

✓

Analysis of Permittee's Gratuity Practice  
for February 1976

SKI LIFT TICKETS FOR

Date 1976	Total per Line	Persons present in public safety interest	Persons whose presence significantly increase sales	Employees and Officials of Bureau or Administration Events	Officials Responsible for Inspection of Area Admin	OTHER ALLOWABLE GRATUITIES Meeting Forest Service policy Description	Gratuities outside F.S. Policy
February	Crossfooted						
1							
2							
3							
4							
5	1285	120	37	193	6		186
6	24	3	1		2		6
7	13	2	1				3
8	10	2					3
9	4	1					1
10	14	3	1		2		1
11	5	1					2
12	21	4	2		1		3
13	9	2					3
14	2	1					1
15	20	5	2		1		2
16	13	3	1	3			2
17	23	5	3	3	1		11
18	29	6	4	3	2		14
19							
20	Feb Totals 1272 cf	158	52	202	15		212
21							
22							
23	cf - crossfooted						
24							
25							
26							
27							
28							
29							
30							

Gratuities outside F.S. Policy  $\frac{633}{1272} = 50\%$   
" within F.S. "

✓ Same breakdown, if and as needed, for meals,  
room occupancies, etc.

### 34.1 - Exhibit 03

#### CONCESSIONER'S AUDIT PROGRAM

Prepared by \_\_\_\_\_

Date \_\_\_\_\_

#### Audit Steps

1. Prepare a trial balance of the general ledger as of the end of the audit period.  
(Leave columns available for adjustments.)
  - a. Analyze income and expense accounts, paying particular attention to entries to income accounts from other than sales summaries and credit entries to expense accounts.
  - b. Reconcile income figures to the concessioner's annual certified public accountant financial statement and to the statement of income submitted to the Forest Service.
2. Trace all income for an audit check month from the originating source to bank deposits and to entries into the general ledger.
  - a. Review the internal control of receipts to determine that all sales are being reported.
  - b. Verify the effectiveness of ticket inventory records, if any.
3. Reconcile the guest register with the receipts from cabin rentals for the audit month.
4. Check the receipt forms issued by the vending machine company against the daily cash tapes for the audit month to verify whether the gross sales have been reported on the financial statement.
5. Summarize monthly reports to the State fish and game agency of licenses sold, and compare with monthly cash summaries, financial statement, and checks written to the State.
6. Determine the number of gallons of gasoline sold, calculate the tax, and compare with State tax reported on the financial statement.
7. Verify on a spot-check basis the extensions and prices on meal tickets for the audit month, and check against the daily cash tapes.

### **34.1 - Exhibit 03--Continued**

8. Analyze the quarterly sales and use tax returns to the State and compare with sales account in general ledger and financial statement.
9. Check permittee's insurance policies against permit insurance requirements.
10. From observation and review, record the permittee's compliance with the two nondiscrimination clauses - the permit, covering such items as the posting of employment notices, advertising for employees, furnishing of services, and the inclusion of the provisions in subcontracts and leases.
11. Prepare from the audit working papers a summary showing the corrected net sales total. (This can be made a part of the trial balance.)

### **34.2 - Audit Frequency Determinations**

1. Standards for frequency of audit of permittee's records for permits with flat fees are prescribed in section 31.4. The Forest Supervisor shall determine whether an audit is required in each case. When an audit is determined to be unnecessary, record this in the case folder.

2. Where necessary for fee redetermination, audits shall cover the financial transactions for the most recent 12 months or the last annual accounting period. Reports for earlier years may be reviewed and transactions of an unusual nature checked, if warranted.

3. A desk audit shall be made upon transfer to another permittee to ensure that the prior permittee's obligations to the Forest Service are settled. Instructions for accounts and records shall be furnished the new permittee at the same time. Follow-up within 1 year, preferably during the operation season, to ensure that the new permittee understands the recordkeeping and reporting requirements.

### **35 - Audit Guidelines for Permits Operating Under Graduated-Rate Fee System**

1. The graduated-rate fee system (GRFS), used for determining concession fees, operates by applying a selected rate from an established schedule of graduated rates to the concessioner's gross sales. The rate, or rates, to be used is determined by the proportioned relationship of the concessioner's sales to gross fixed assets (GFA). The instructions for application and use of GRFS are contained in FSM 2715.14. The system, with its built-in graduation of rates as sales of a given class of business increase above or drop below the break-even point established for that class of sale, automatically takes into consideration the productivity of the site in relationship to invested capital and increases or decreases in the enterprise's volume of business. Because of this self-adjusting feature, the audit of GRFS permittee operations at periodic intervals takes on a different emphasis.

2. An audit of a permittee's operation under GRFS has these main objectives:

- a. To determine whether all sales including trade-offs and unauthorized giveaways were reported and properly classified as to categories of business.
- b. To determine whether the GFA was properly constructed, updated, and valued.
- c. To determine whether the resulting fee from the above determinations was properly calculated.

3. The auditor's responsibility under item 2a is somewhat similar to that for auditing permits with a single percent of sales fee clause. It is expanded under GRFS to categorizing sales by class because of the varying rates and break-even points on a sales to GFA relationship established for the broad classes of business described in FSM 2715.14c and FSM 2783.11a, items 5 through 7. The auditor should apply whatever practicable analysis techniques are

available for distinguishing total sales by class of fee. The auditor should then record those remaining unidentified sales in the highest fee category for which the permittee had revenues during the operating period being audited.

- a. Establishing a permittee's initial GFA and auditing its annual update is probably the most difficult job the auditor must undertake under GRFS. FSM 2715.14c, item 3, and FSM 2783.11a, item 7, provide the instructions for determining, valuing, and updating GFA for acquisitions, deletions, modifications, sale and transfer of assets, and so forth.
- b. Each permittee operating under GRFS must submit annually to the Forest Service office administering its permit an operating statement and an update of its GFA. See FSM 2715.14, item 3d(4). Forms and instructions for submitting this information are being prepared and will be provided to all permittees subject to this requirement. This information should provide a good starting point for the Forest Service auditor.

### **35.1 - Establishing and Updating Gross Fixed Assets**

1. The following instructions describe one way by which gross-fixed-asset (GFA) establishment and updating can be accomplished. The permanent documentation and preservation of the continuing GFA record is essential to its successful use in computing fees each year.

2. Exhibits 01 and 02 have been developed as working tools. Their use need not be standard nor mandatory for documenting the initial GFA, or its annual revisions for existing or new commercial-public-service permit operation.

- a. Existing Permits Where Gross-Fixed-Asset is Now in Effect. Use of the formats may be adopted in order to document the past work and the agreed upon GFA's.
- b. Existing Permits. The initial GFA should be established, approved, and documented as a preparatory step before the GRFS is incorporated into the permit. The existence of all GFA items will be verified by taking a physical inventory.
- c. New Developments, New Permits. The initial GFA should be established, approved, and documented at the end of the first construction year as reported on the first Federal income tax return or the capital asset depreciation schedule.
- d. Physical Existence of All Gross Fixed Asset Items. These must be verified for all new permits under GRFS. This should be accomplished by a physical inventory taken after all capitalized GFA items are scheduled.
- e. Approval of Initial Gross Fixed Assets. The initial GFA shall be established by the representative of the Forest Supervisor before the GRFS is incorporated in a permit. However, this does not preclude adjustment thereof if significant errors are

discovered by audit. When this occurs, an amendment to permit clause A-7 will be required.

3. Instructions for using exhibits 01 and 02 follow:

a. Exhibit 01, Schedule of Assets. The source of data for this form shall be the permittee's Federal income tax return or other suitable depreciation schedule plus investment data he may show for the period of time since the last tax filing. In addition, data will be accepted for imputed investments not always capitalized or reported on income tax returns, such as clearing ski runs (ex. 02, line 25). More than one sheet may be necessary to list the assets. Assets should be grouped into categories commonly used in permittee's accounting practice, such as boats, lifts and tows, cabins, lodge, and sewage system.

Avoid tedious showing of long lists of minor asset items. Combine into group entries. Supplemental working papers should be used to document numerous small items.

In the sample case described herein the working papers are keyed to the entries in the summary (ex. 02) in the circles; for example, 1/3 22/2, etc.

The columns are arranged to provide for GFA data over a period of 7 years. Asset cost from the permittee's depreciation schedule will be entered in column 1 the first-year permit is converted to GRFS. The following year, assets added and assets (deleted) will be entered in column 2; these amounts will be added or (deducted) from the amounts in column 1 and the total or difference transcribed in column 3. Column 3 should then agree with the permittee's depreciation schedule for the second year.

b. Exhibit 02, Summary. The summary sheet brings together the assets shown from exhibit 01, makes deductions, and adds assets for which GSA credit is allowable.

Line 1. Bring forward totals by groups from exhibit 01.

Line 4. Assets not in use and not contributing to income, such as boats set aside for replacement, cabins being torn down and replaced, a ski lift not in use, uncompleted construction, closed restaurant facility.

Line 5. Assets not related, such as a sports car operated by a son of the permittee, boats owned by a ski-area operator.

Line 8. Other noncreditable assets, such as land.

Line 9. Consumables, such as linens, dishes, small tools, uniforms, glassware (FSM 2783.11a, item 7).



Line 21. Cost value of rented equipment. A truck rented for a full year, but used at the resort only on summer jobs contributing to the public use, and then used on farm work in winter. Prorate cost value on basis of time actually used at permitted area or in connection with operation of area.

Line 23. The gross-fixed-asset recognizes rented buildings and buildings as assets. Value of Government-owned buildings for which permittee pays 6 percent of value as rent in addition to fee, should be allowed as GFA. Permittee pays a separate rental rate. This meets the Government's objective to provide a needed public service and is equitable to both parties.

Line 25. Other additions, such as clearing ski runs, soil erosion control, parking areas, and access road (FSM 2783.11a, item 7).

Line 38. Compute net GFA. This is the amount to use in fee calculation forms, 2700-19, box E.

Lines 41-44. Obtain signatures and dates, if possible. The net GFA resulting from compilation is not a negotiable matter. Agreement with permittee is desirable but if it is not reached by the time of the billing date for the subject years computed fee, Supervisors must proceed to bill and collect the fee computed by the Forest Service, using GFA as determined by Supervisors (FSM 2715.14c, item 3).

4. Graduated-rate fee system will be kept current. It will be kept under continuous review. A procedure which will assist greatly in this regard is the auditor's review of the annual operating statements prepared by permittees operating under this system. These statements showing annual operating results and GFA update should be desk audited as soon as practicable after receipt and audited and amended, as needed, at time of onsite audit. Copies of all GRFS permittee annual operating statements should be accumulated and retained at the Forest office. Periodically this backlog of data will be requested by the Washington Office and analyzed in a manner similar to that used in the study and development of the fee system. The objective of this review is to maintain break-even points and rate schedules that will be equitable to both the permittee and the Government.

# 35.1 – Exhibit 01

## Exhibit 1

PUBLIC SERVICE PERMIT		SCHEDULE OF ASSETS	
Form Filled Assets (GFA) RECORD		ADDRESS	
PERMIT DATE	LOCATION OF ASSETS		
ASSETS - GROUP DESCRIPTION FROM FEDERAL INCOME TAX RETURN			
DATE COMPLETED EACH YEAR			
ACQUIRED DATE	ASSET	ASSET COST	ADDITIONS (DELETIONS)
1	Hand	2000-	
2	Machinery and Equipment	31685-	
3	Resort Personal Property	42033-	
4	Water and Sewer Systems	2917-	
5	Office Furniture and Fixtures	215-	
6	Horse	175-	
7	Household Improvements	1700-	
8	Buildings	32615-	
9	4 WD Pickup	3800-	
10	Bar and Tack Room	2600-	
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# 35.1 - Exhibit 01--Continued

## Exhibit 1--Continued

① Machinery and Equipment					
Asset	Acquired	Cost	Use	Use not retained to Not in Use Permit	GAFA 12/31/69
Graveler tractor	1962	1510	Logging	6500	
Dump truck	1960	1800	Logging	1800	
Log truck & trailer	1961	20000	Logging	20000	
Win rope	1962	2000	Logging	2000	
Scramobile	1967	1500	Personal - auto sports	450	
Shop - engine hoist	1965	235	Logging equipment misc	235	
Shop - automotive equip.	1963	1850	Logging equipment misc	1850	
Shop - outboard equip.	1968	710	Small motor misc		700
Caterpillar Imperial	1968	2700	Used for maintenance	400	2000
Mobile log loader	1966	2500	Logging	1800	
Paint sprayer	1967	350	General		350
Gasoline pump tank	1963	1500	Used for boat gas		1500
Hoist for boats	1963	900	Used for boat misc		900
Additions:		2165		7000	5000
Retirements					
② Buildings					
Boat House	1958	5700	Boat operation		5700
Snack Shop	1958	5800	Food Service		5800
Maintenance Shop	1959	2600	Logging & area	1300	1300
Manager's quarters & office	1959	11050	Area operation		11050
Restroom (4)	1959	2000	Restroom		2000
Patio-Snack Shack	1959	125	Food Service		125
Storage shed for tractor	1967	1400	Logging	1400	
Additions		3475		2700	2975
Retirements					

# 35.1 - Exhibit 01--Continued

## Exhibit 1--Continued

(g) Resort Personal Property

Asset	Acquired Cost	Use	Use not reflected in SFY	Use in the Permit Consumables 12/31/69
Motor boats	1,350	2800	Rentals: Gas Service & Oil Service	1,300
Personal Motors	1,747	2,400	Rentals	2,400
Service vans & life rafts	1,747	2,400	Rentals	2,400
Gas cans for boats	1,747	2,400	Rentals	2,400
Prochairs	1,747	2,400	Rentals	2,400
Boats	1,747	2,400	Rentals	2,400
Bedding	1,747	2,400	Rentals	2,400
Pots and Pans	1,747	2,400	Rentals	2,400
Dishes, silverware, etc.	1,747	2,400	Rentals	2,400
Bedspreads	1,747	2,400	Rentals	2,400
Springs & Mattresses	1,747	2,400	Rentals	2,400
Dressers	1,747	2,400	Rentals	2,400
Closets - bedroom	1,747	2,400	Rentals	2,400
Refrigerators	1,747	2,400	Rentals	2,400
Stoves	1,747	2,400	Rentals	2,400
Dinette sets	1,747	2,400	Rentals	2,400
Overstuffed Chairs	1,747	2,400	Rentals	2,400
Carpeting	1,747	2,400	Rentals	2,400
T.V. sets	1,747	2,400	Rentals	2,400
Refrigerated Cans	1,747	2,400	Rentals	2,400
Cleaning equipment	1,747	2,400	Rentals	2,400
Mops, cleaning cloths	1,747	2,400	Rentals	2,400
Washers & dryers	1,747	2,400	Rentals	2,400
Additions:				
Retirements:				

Exhibit 2

PUBLIC SERVICE PERMIT		GROSS FIXED ASSETS (GFA) RECORD		PERMITTEE		LOCATION OF ASSETS		ADDRESS		SUMMARY	
PERMIT DATE		FOR PER CALCULATION - YEAR ENDED 12/31/69		TOTAL		GROUP		TOTALS FROM SCHEDULES OF ASSETS		TOTALS FROM SCHEDULES OF ASSETS	
1	Assets - For tax return	167500-	Land	5000-	167500-	167500-	5000-	167500-	5000-	167500-	5000-
2	Deduct										
3	(4) Cost of assets not in use										
4	(5) Cost of assets not related to use of permitted N.F. land										
5	(6) Other (specify):										
6	Land										
7	Consumables										
8											
9											
10											
11											
12											
13											
14											
15											
16											
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18											
19											
20	Add:										
21	(1) Cost value of rented equip. (Pro-rate on basis of use)										
22	(2) Govt. assets subject to 5% rent.										
23	(3) Other (specify):										
24	Imputed-Ski runs & Trails										
25	Boat ramp										
26											
27											
28											
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30											
31											
32	Total Additions	7000-		7000-	7000-	7000-		7000-		7000-	
33											
34											
35											
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# Exhibit 2--Continued

④ Land				
Acquired or Retained			Post	
2/17/47	Represents the original cost of the land to permittee. Land is not depreciable and accordingly is not recognized as part of the GFA			
			2000-	No GFA added 12/31/69
④ Water and Sewer System				
5/28/58	System constructed during initial development of site		2917-	
	Additions:			
	None			
			2917 - GFA	12/31/69
⑤ Office Furniture and Fixtures				
1965	Desk and Chair	75-		
1968	Typewriter	60-		
1968	Adding Machine	80-		
	Additions:			
	None			
	Retirements:			
	None			
			215 - GFA	12/31/69

© WILSON JONES COMPANY

67205 GREEN

7205 BUFF

MADE IN U.S.A.

# Exhibit 2--Continued

## ① Leasehold Improvements

1		2		3		4		5	
Acquired or Retained				Cost		Use not related to Permitted Area		GFA 12/31/69	
7/3/58	Landscaping grounds			1700-					
Additions:									
None									
Retirements									
None								1700-	
(1/9) 4WD Pickup									
1968	Ford 4-wheel drive pickup. Primary use is for travel in the back-country, hunting and camping. Estimated 5% use in area			3800-		3610-		190-	
Additions									
Retirements									
(1/10) Barn and Tack Room									
1960	Board and tack room for use not related to permitted area operations			2600-					
				2600-		2600		0-	

Exhibit 2--Continued

(22)  
2

# Rental Equipment

Front-end loader, rented 3 months during 1969 for cleanup and for Area maintenance. Rent payment was changed to expense (\$60.50). Used loader of this model is priced at \$8,400. by Apex Equip. Co., Melford, Wn. Useful life 4 years. Annual depreciation \$2,100.  
Used 1/4 of year — credit ( $\frac{1}{4} \times 2100$ )

525 - GFA 7/3/69

(24)  
8

# Government Route Subject to 6% Rent

Small building in permitted area used for rental equipment storage in off-season and for general storage during operations. Building carried on investment record at S.D. Cat. a construction cost of

850 - GFA 7/3/69

(26)  
7

# Boat Ramp

Boat ramp constructed by permittee with regular crew during slack seasons. Cost was primarily labor and fuel which were expensed as operating costs. Value established by J. Doel, Forest Engineer, Sam Jones, Land Specialist, and P. Pal, Construction Contractor for permittee. Report with papers attached. Appraisal value

1350 - GFA 7/3/69



## **35.2 - Treatment of Specific Items**

The following treatment of cost items, particularly relative to allowability as gross fixed assets, is in the interest of achieving Service-wide uniformity.

1. Capitalization of Tangible Fixed Assets Expensed on Permittee's Books. If a permittee expenses fixed assets for tax purposes, but capitalizes them on his official accounting records, they are acceptable as GFA. Costs of the following items verified by a representative of the Forest Service to be in existence and used by the permittee are included in the establishment of the original GFA, but not includable thereafter, unless capitalized on the permittee's accounting records:

- a. Expensed items that are identifiable structures, major equipment, such as road maintenance equipment, or land improvements, which play a distinct role in generating sales.
  - b. Identifiable one-time, up-front permittee costs to provide utility services to the area, which will not be recovered by permittee through reduced rate or repayment.
2. Bad Debts. These are recognized as a proper cost item in determining operating results, but should not be treated as reduction of sales subject to fee.

3. Liquor Licenses. Liquor licenses issued by States that have no expiration date are neither amortizable nor depreciable. They are an intangible asset; that is, a capital asset having no physical existence, its value being dependent on the rights that possession confers upon the owner. Accordingly, this type of liquor license as well as those paid for through an annual fee may not be treated as GFA.

## **36 - Audit Guidelines for Interpretive Associations**

### **36.1 - When to Audit**

FSM 1666 states the requirement for an annual audit of interpretive associations. This requirement can be met by conducting audits at 3-year intervals so long as each audit includes the intervening years since the previous audit.

### **36.2 - Preliminary Procedures**

Before starting the audit, the auditor should acquire and review key reference materials. These materials will usually consist of:

1. Copy of the executed agreement with amendments, if any.
2. Copy of the Association's charter and bylaws.
3. Copy of financial statements and/or reports for the period to be audited.

4. Copy of prior audit report, if any.
5. FSM 1666, FSM 6531.14b, FSM 6531.42e, and FSH 1409.15

### **36.3 - Audit Procedures at Forest Service Offices**

This may be conducted at the District Ranger's Office or the Supervisor's Office depending on where the activity occurs.

1. Conduct entrance conference with appropriate personnel.
  - a. If at the Supervisor's office, interview:
    - (1) Administrative officer or budget and finance section head.
    - (2) Interpretive association representative.
  - b. If at a District Ranger's office, interview:
    - (1) District Ranger or his assistant.
    - (2) District clerk.
    - (3) Interpretive association representative.
    - (4) Budget and finance section head.
2. Review procedures for sales of association materials at the Forest Service office (VIS center, etc.).
  - a. Prepare schedule of cash sales by Forest Service employees.
  - b. Ascertain that all sales receipts are remitted to the association in a timely manner.
  - c. Review procedures for handling cash receipts from sale of association materials. Do these procedures differ from those employed in handling other cash receipts in the Forest Service office? If so, how?
    - (1) Review safekeeping facilities.
    - (2) Review frequency of deposit.

### **36.4 - Audit Procedures at Association's Office**

1. Review association's charter and bylaws for changes that may render cooperative agreement invalid.

2. Review revenue and expenditures.

a. Revenue.

- (1) Review procedures for handling revenue including deposit.
- (2) Reconcile checking and savings accounts.
- (3) Check the rate at which the savings account is increasing. Is the balance unreasonably high?
- (4) Are receipts deposited intact?
- (5) Are serially-numbered sales invoices used? Are they all accounted for?

b. Expenditures.

- (1) If the association has any paid employees, check for the accuracy of payrolls, payroll deductions, etc.
- (2) Review canceled checks for amount, payee, dates, signature, and endorsements.
- (3) Review purchase orders, cancelled checks, and invoices for required approvals and agreement between amounts billed and amounts paid.
- (4) Review all expenditures to determine whether they are consistent with the purposes of the Association as set forth in the charter and bylaws.
- (5) Review inventory controls.
  - (a) Identify markup percentage(s) used.
  - (b) Identify and describe any inventory controls in use.
  - (c) Review frequency and scope of physical inventories.

**36.5 - Financial Statements**

- 1. During the course of the audit, data shown on financial statements and reports prepared by or for the association should be verified and any discrepancies reconciled.
- 2. If no financial statements have been prepared, prepare a balance sheet and an income statement using the format shown in exhibits 01 and 02.

**36.5 - Exhibit 01**

<u>Balance Sheet</u>			
<u>December 31, 1978</u>			
<u>Assets:</u>			
<u>Cash</u>			
On Hand and in Bank	XXXX		
Savings Account	<u>XXXX</u>		
Total Cash		XXXX	
Inventory		<u>XXXX</u>	
Total Assets		XXXX	
<u>Liabilities and Net Worth:</u>			
<u>Retained Earnings</u>			
Retained Earnings, January 1, 1978	XXXX		
Gain or (Loss) from Operations	<u>XXXX</u>		
Total Retained Earnings	XXXX		
Donated Capital	<u>XXXX</u>		
Total Liabilities and Net Worth		<u>XXXX</u>	

### 36.5 - Exhibit 02

<u>Income Statement</u>			
<u>Period Ended December 31, 1978</u>			
<u>Income:</u>			
Sales			XXXX
Less: Cost of Goods Sold	XXXX		
Opening Inventory	XXXX		
Plus Purchases	XXXX		
Less Ending Inventory	<u>XXXX</u>		
Cost of Goods Sold			<u>XXXX</u>
Gross Profit on Sales			XXXX
<u>Expenses:</u>			
Postage	XXXX		
State Taxes	XXXX		
Intangible Tax	XXXX		
Deposit Tickets	<u>XXXX</u>		
Total Expenses	XXXX		
Less Other Income			
Interest Earned	<u>XXXX</u>		
Net Expenses			<u>XXXX</u>
Net Income from Operations			XXXX

### **36.6 - Conclusion--Exit Conference**

1. Should be composed of same personnel as entrance conference.
2. Discuss results of the audit.
  - a. Include suggestions for correction of procedures.
  - b. Include in the discussion those recommendations that may have been adopted during the course of the audit as a result thereof.

### **36.7 - Audit Report**

See sec. 42.1 for description of reporting requirements, and report content and distribution.