



# **Alaska Region Timber Sales Program Region 10**

**2018-FCOB-002**

**USDA Forest Service**

**Chief Financial Officer Organization**

**Audit & Assurance**

**Financial Compliance & Oversight Branch**

**August 18, 2020**



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**Subject:** Final Report – Alaska Region Timber Sales Program

**To:** Chris French, Deputy Chief, National Forest System  
David Schmid, Regional Forester, Alaska Region  
Earl Stewart, Forest Supervisor, Tongass National Forest

This letter is to notify you that the USDA Forest Service Financial Compliance & Oversight Branch has completed the final report for the audit over the Alaska Region timber sales program. The report is for your information and use and is for official use only.

We considered comments provided when preparing the final report. Comments to the draft report left no unresolved issues. Therefore, we do not require any additional comments. We will continue to monitor the implementation of the recommendations through August 2021 and may reach out to your staff in the future.

We appreciate the courtesies extended to the staff. If there are any questions, please contact me at [anthony.m.torres@usda.gov](mailto:anthony.m.torres@usda.gov) or (505) 563-7252.

Sincerely,

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ANTHONY TORRES  
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ANTHONY M. TORRES  
Branch Chief, Financial Compliance & Oversight

Cc: Antoine Dixon, Michael Clanton, Erica Banegas, Juan Sedillo, Valarie Sanchez



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## Alaska Region Timber Sales Program

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**SUBJECT:** Final Report – Alaska Region Timber Sales Program Audit

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## OBJECTIVE

To determine whether the timber sale program was sufficiently managed by the USDA Forest Service Alaska Region and Tongass National Forest personnel.

## BACKGROUND

The USDA Forest Service (Forest Service) manages about 191 million acres of public land within 156 national forests. Located in Southeast Alaska is the Tongass National Forest (Tongass)<sup>1</sup>. The Tongass encompasses 16.7 million acres, of which 3.5% or 593 thousand acres was identified for timber production. Most of Southeast Alaska is undeveloped. The region is sparsely populated with an estimated 74,280 people living in more than 30 towns with only 4 of those towns having populations greater than 2,500. The communities of Southeast Alaska depend on the Tongass in various ways, including employment in wood products, commercial fishing, fish processing, recreation, tourism, mining, and mineral development.

The Tongass is managed by the Forest Supervisor through eight ranger districts and the Tongass headquarters (the Supervisor's Office (SO)). The Regional Forester, supported by staff in the Regional Office (RO), provides policy direction and oversight for national forests in the Alaska region. The Chief Financial Officer Organization, Financial Compliance & Oversight Branch audit team was requested to specifically review two timber sales prepared, awarded and administered by Tongass and State of Alaska (State) staff that also included RO oversight.

- **Big Thorne Stewardship Contract:** Awarded on September 30, 2014 to Viking Lumber Company, Inc. This included approximately 98 million board feet (MMBF) of proposed timber. The timber sale was located on Prince of Wales Island, within the boundaries of the Thorne Bay Ranger District of the Tongass.
- **Kosciusko Good Neighbor Authority (GNA) Agreement:** Awarded on May 8, 2017 to the State and the timber sale contract was awarded in September 2017 to Alcan Timber, Inc. This included approximately 30 MMBF of proposed timber. The timber sale was located on Kosciusko Island near Edna Bay. This Agreement was the first of its type within the region. The GNA was awarded to the State to manage the timber sale with Forest Service oversight. In addition, the State is required to perform restoration projects with the proceeds of the sale.

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<sup>1</sup> Tongass – Most work on the Tongass is carried out by personnel on ranger districts rather than in the Forest Supervisor's headquarters (SO). In the report, unless the SO is specifically acknowledged, "Tongass" or "Forest" is referenced.

Forest Service timber sale activities have long been controversial because of concerns over ecological and financial costs associated with harvesting timber. In particular, the Forest Service has received multiple concerns with the Region's management of the timber sales program. For example, a 2016 timber program review that was conducted by Forest Service personnel from the Washington Office identified several areas for improvement in the administration of the region's timber program, which were documented in an Action Plan. The 2016 review identified specific concerns with cruising and appraisal of the Big Thorne Stewardship Contract that resulted in the Regional Forester requesting a subsequent independent review in 2017. This review identified additional findings. Due to continued public interest and the need for an additional independent review, the Washington Office Associate Deputy Chief, National Forest Systems, requested an audit of the Big Thorne Stewardship Contract and the Kosciusko GNA agreement.

## **SUMMARY**

The timber sales program was not sufficiently managed. Specifically, the timber sale cruising, appraisal, sale preparation, and contracting program for the Big Thorne Stewardship Contract and Kosciusko Good Neighbor Authority Agreement were not always managed in accordance with the terms of the agreements and Forest Service policy. As a result, timber sale methodology and calculation errors created an approximate \$2 million contract modification adjustment for the Big Thorne Stewardship Contract to reconcile inaccuracies. Similarly, the Kosciusko Good Neighbor Authority Agreement administration and oversight were not sufficient to prevent a potential conflict of interest, inaccurate or missing information and financial management discrepancies.

## **BIG THORNE STEWARDSHIP CONTRACT**

The RO and Tongass personnel were not aligned in decisions that affected the Big Thorne Stewardship Contract. This included methodology and calculation variances between the offices that contributed to an inefficient timber program and ultimately, potential litigation from the contractor awarded this timber sale. This should be of significant concern to the Forest Service as the stewardship contracts require potential buyers to bid on the timber sale. If the timber sale numbers are not accurate, the Forest Service may encounter skeptical contractors in future timber sales contracts.

## **Cruise Plan**

The Tongass personnel cruised the timber sale site without an approved cruise plan. According to a Forest Service official, the process was not strictly followed because to do so would mean not meeting the deadline to complete the sale. FSM 2400, Chapter 2440, Section 2442.2, states each timber sale is required to

have an approved cruise plan *before* cruising has started for every timber sale expected to have a value in excess of \$5,000. However, cruising for the Big Thorne sale was completed two months before the approved plan was signed. Specifically, the cruise was completed on June 25, 2013 while the cruise plan was approved on August 21, 2013.

In addition, the Tongass personnel made errors that resulted in an overstatement of the cruised timber volume. For example, they cruised all trees on every plot and post stratified or combined all cruises into one. Forest Service Handbook (FSH) 2409.12, 41.4.5, states that post stratifying is not allowed because stratification after the field samples are taken does not permit optimum allocation of samples by strata and introduces bias in the estimate.

Moreover, we were informed that the cruising software did not have enough space to handle the large file developed from cruising the Big Thorne sale. The Tongass personnel decided to divide the cruise into five separate cruises, run them separately through the cruising software, and combine the final results. This inaccurate cruising methodology resulted in more volume than could actually be accounted. Although the RO questioned the results, the Tongass personnel did not have enough time to figure out what was wrong or determine how to correct the issue.

Also, the FSH was not followed to develop the final cruise which should have accounted for hidden defects, percent recoverable in utility, and cull and breakage factors. According to a 2017 prior review, the cruise plan developed in 2013 followed the FSH. However, the plan was not followed in implementing the final 2013 cruise. For example, the hidden defect percentage for Hemlock should have been 26%, but was recorded in the final cruise as 19%. Overall, the prior review identified approximately 12 MMBF less sawtimber and utility volume due to using the incorrect FSH figures.

As a result, not processing the cruise in accordance with the FSH and cruising without an approved cruise plan allowed errors to occur which affected the accuracy of the data and remaining timber sale processes that used the cruise data for support, including the appraisal.

## Appraisal

We identified the need for enhanced appraisal controls. According to FSH 2409.22, Chapter 100.120, prior to advertisement, any timber sale greater than or equal to 1 MMBF must have an Appraisal of Record approved by the Regional Office Forest Management. The audit team recognized that the Big Thorne timber sale was offered twice. The 2013 timber sale was "pulled" from the award process at the last minute because of a National Environmental Policy Act (NEPA) deficiency. Once the NEPA deficiency was corrected, the sale was reoffered in 2014. In addition, the appraisal responsibility for the Big Thorne

