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U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Rangoon, Burma

REPORT OF EXAMINATION

EXPANSION OF TEAK PRODUCTION - PHASE I

Project Number 482-22-230-123

(A Program to Increase Finished Teakwood Production  
up to Pre-War Tonnage)

For the Period

November 2, 1962 to January 31, 1966

Audit Report No. 66-1

Date Issued March 15, 1966

Copy No. 5

Office of the Controller

Audit Branch

USAID/Burma

A.I.D.  
Reference Center  
Room 1486 NS

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Ministry of Forestry and Agriculture  
State Timber Board (5)

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## INTRODUCTION

In accordance with M.O. 798.1, an examination has been made on the activities of Project Agreement Number 482-22-230-123 (formerly numbered 482-AA-17-AC-2), Expansion of Teak Production, Phase I, dated November 2, 1962. The Agreement was executed between the Government of the United States, represented by the Agency for International Development (A.I.D.), which is administered in Burma by its operations mission (hereinafter referred to as USAID), and the Revolutionary Government of the Union of Burma (hereinafter referred to as RGUB) represented by the Ministry of National Planning.

The Project Agreement made available a total of \$1,449,700 (Fiscal Year 1963 funds) for U.S. financed commodities. The funds were to be advanced as a loan pursuant to the 25 million dollar Line of Credit established by the U.S. for Burma under agreement reached on March 21, 1957. The purpose of this financing was to establish a program to increase teak production up to pre-war tonnage within the shortest possible period by expanding and improving finished teakwood production. In addition, the RGUB was to contribute local currency costs, the equivalent to \$704,900.00 for technical and other services and construction.

This examination was made by the Audit Branch of the Office of the Controller, USAID/Burma. The examination covered the period November 2, 1962 through January 31, 1966.

## BACKGROUND INFORMATION

Burma's total area is comprised of 60% forest. Of the forest resources, teak is the best known timber, and to date, the best revenue producer. However, after World War II, the production and sales of teak experienced a slump due to several factors. Mainly, seven of the existing sawmills owned and operated by the State Timber Board were very old and overdue for replacement. Several of the mills were reportedly 80 years old. Because these mills were poorly laid out and could not produce a high proportion of top-quality, valuable timber, it was decided that the installation of modern sawmilling equipment was necessary in order to increase out-turn as well as upgrade converted teak. Because of the limited milling capacity, the State Timber Board was reportedly unable to meet more than 70% of the demand for teak from the foreign buyers. In addition, there had developed a shortage of animal extraction power. Prior to World War II, some 6,500 elephants were available to provide motive power for moving felled logs to streams and rivers. This total was reduced to about 2,000 by war and insurrection, and only 1,500 of these were available for teak operations. It was estimated that more

than a decade would be required to rebuild trained elephant herds to pre-war strength. Lastly, the insurrection activities created conditions of insecurity in forest areas and caused much of the labor force to be driven away.

The Project Agreement being amended nine times, dollar costs were limited to \$1,444,653.98 and the funds were provided under original Appropriation Number 72-1131006, and original Allotment Number 356-50-482-56-68-31.

As of January 31, 1966 records of the USAID Accounting Branch, based upon Advices of Charge from AID/W, disclosed that expenditures under PIO/C Number 9-30011 amounted to \$1,262,546.94 leaving an unexpended balance of \$182,107.04.

USAID responsibilities for monitoring activities under the project were delegated to the Public Works Engineer (hereinafter referred to as the Project Coordinator), and for the RGUB, the State Timber Board was the interested agency. The latter is an agency under the Ministry of Forestry and Agriculture.

#### PURPOSE AND SCOPE OF EXAMINATION

This examination was made to review the performance under the Project Agreement and to determine compliance with the terms of the Agreement by all responsible parties.

The examination entailed a review of project documentation, property data, reporting, adherence to A.I.D. marking requirements, utilization of equipment, contribution by the RGUB, and end-use visits to selected sites. The period of coverage applicable to this examination was from November 2, 1962 through January 31, 1966.

Dollar expenditures, which were disbursed by AID/W, were not checked as the records of the USAID do not provide adequate data concerning the disbursements to make possible a reasonable verification.

#### PREVIOUS EXAMINATION

Prior to this report, no previous examination had been made to review the activities under the project.

## SCHEDULES ATTACHED

Schedule A - Procurement Contracts

Schedule B - Distribution of U. S. Financed  
Commodities - Sawmills

Schedule C - Shortages

## SUMMARY OF COMMENTS, FINDINGS AND RECOMMENDATIONS

This examination covers Project Agreement Number 482-22-230-123, Expansion of Teak Production, Phase I signed November 2, 1962. The examination, first to be made of this project, is for the period November 2, 1962 (inception) through January 31, 1966.

Under the Project Agreement, \$1,449,700.00 was to be made available for U. S. financed commodities. As of January 31, 1966, USAID records showed expenditures totalling \$1,262,546.94 which the mission received on Advices of Charge from AID/W.

This examination gave assurances that the lowest prices were obtained for the procurement of U. S. financed commodities. However, it was noted that the foreign-made specifications concerning the sawmilling machinery made competition restrictive. In total, twelve procurement contracts were awarded to nine U. S. firms at a cost of \$1,444,563.98. As of January 31, 1966, receiving records disclosed commodity arrivals valued at \$1,403,404.88.

The review disclosed that one contractor's invoice was under the contract amount by \$432.44; thus, USAID accounting records showed an excess by this amount (Recommendation Number 1).

In addition to delinquent deliveries, the project suffered numerous short landings. Although most shortages consisted of miscellaneous parts and was valued at approximately \$9,500.00, it was felt that mill operations would be delayed further if the needed parts were not forthcoming soon (Recommendation Number 2).

It was found that equipment and machinery purchased by the State Timber Board for project activities were not properly marked with A.I.D. emblems. A recommendation was made that the Project Coordinator jointly with the State Timber Board take steps to have all items properly marked (Recommendation Number 3).

In the case of the RGUB contribution towards the project, it was disclosed that the financial data was not readily available during the audit. A recommendation was made that the Project Coordinator obtain the information as soon as it is developed (Recommendation Number 4).

Due to the lack of adequate records and reports by USAID Technicians, audit work was limited in some areas and was made more difficult in others. It was recommended that the mission require all responsible project coordinators to submit progress reports (Recommendation Number 5).

The examination disclosed that the distribution of new sawmilling equipment was deviated somewhat from the work plan as prescribed under the Project Agreement. This report makes a recommendation that these changes be incorporated in the Project Agreement by an amendment (Recommendation Number 6).

Because the prime contractor for the sawmilling commodities failed to meet delivery schedules, no conclusive evaluation could be made regarding the degree of project implementation and accomplishments. However, this report contains data regarding log ton production increases which were related to the utilization of new extraction equipment.

This report was reviewed and cleared by the Project Coordinator prior to its publication and he indicated agreement with findings, conclusions and recommendations in the report.

DETAILED COMMENTS ON THE EXAMINATION

## PROJECT AGREEMENT

As previously mentioned, Project Agreement Number 482-22-230-123 was signed on November 2, 1962. This Agreement, which made available \$1,449,700 of U. S. financing for this program, made the specific stipulations which are outlined in the following sections.

The Agreement provided for the expansion, renovation and modernization of State Timber Board sawmills Nos. 1, 3, 4, 5, and 6, and for additional extraction equipment. The goals were as follows:

- (1) Increase the percentage of high-value cuts from each individual log from that currently obtained.
- (2) Increase the value of production, and in the case of improvements to existing mills, utilize the full capacity of all components of the mills.
- (3) Increase the efficiency of existing mills and particularly provide for better disposal of sawdust, firewood and other by-products which have a ready domestic market.

It was planned to provide the additional extraction equipment which, with the equipment on hand, would be used to form two timber extraction units, to make a total of six. Each unit would consist of five track-laying tractor logging units, one logloading tractor unit, four logging truck units, six trucks and trailers, one road roller, twelve chainsaws, one portable welding set, and one field repair shop.

Each unit was expected to afford an increase of 2,000 tons or a total of 14,000 tons in the extraction of round logs per year, plus an increase of 10% in the capability of the animal power available.

The U. S. Government agreed to provide \$1,449,700 under the terms of the Economic Development Loan Agreement of March 21, 1957. This amount was to assist in financing the total foreign exchange costs needed to meet the equipment requirements for improvements to the existing State Timber Board mills and additional extraction equipment as described above.

The Project Agreement stipulated that the RGUB would provide K3,355,-324 which is the equivalent of \$704,900, to finance necessary local construction costs and such foreign exchange costs as may be required in addition to the U. S. contribution.

Revision Number 1 to the above Agreement was signed on September 9, 1963, and extended the final U. S. contribution date from December 31, 1963 to May 31, 1964.

Revision Number 2 to the original Agreement was executed on March 25, 1964. This revision decreased the U. S. contribution to \$1,444,653.98. All other provisions remained the same.

The remaining five revisions to the Agreement only extended the final contribution dates. All other provisions of the original Agreement remained unchanged. Revision Number 8 was issued on December 17, 1965, and extended the U. S. final contribution date to July 31, 1966.

### U. S. FINANCING

All U. S. financed commodities were handled under letters of commitment which were issued by AID/W to the State Commercial Bank of Rangoon, Burma. As detailed in Schedule A, the Bank opened twelve letters of credit in the United States for the nine successful bidders. During the examination, records disclosed that only one letter of credit remained active because a contractor was delinquent in making his deliveries. This matter is described in more detail under the subsequent caption titled "Procurement."

In addition to the above, the review disclosed that records of the USAID Accounting Branch should be deobligated in the amount of \$432.14. This sum was obligated in connection with the execution of a contract with Autocars Ltd. for various Caterpillar Tractor parts. On November 4, 1963 letter of credit No. 267/10 was issued for \$3,424.07 in accordance with the contract price. The paid invoice and receiving documents of the State Timber Board showed that all items were delivered on May 26, 1964 at a total cost of \$2,991.93; thus, the contractor's invoice was under the contract amount by \$432.14.

✓ RECOMMENDATION NO. 1 - That the USAID Controller take action to deobligate funds of \$432.14 which are considered excess to the needs of the project.

(Prior to the issuance of this report the mission took corrective action by deobligating funds in the above amount.)

### PROCUREMENT

Offshore procurement was authorized under PIO/C Number 9-30011 dated November 2, 1962. Twelve procurement contracts were awarded to nine U. S. firms at a cost of \$1,444,563.98 (Schedule A). As of January 31, 1966 USAID accounting records disclosed total disbursements of \$1,262,546.94 and receiving records of the State Timber Board showed commodity arrivals valued at \$1,403,404.88.

Original procurement documentation was not readily available at the State Timber Board; thus, the examination was limited to USAID files. The reason for this approach was that an official written clearance was required from the Ministry of National Planning, because it had custody over all

official government procurement records. In Burma, experience has shown that two to four weeks is needed for permission to visit a location; thus, in order to expedite audit activities the files of the Project Coordinator were reviewed. After considering the nature of the commodities, the files were found to be very informative and contained sufficient data to conclude that competition was restrictive and the lowest prices were accepted. The actual selection was done by the Equipment Control Committee of the Ministry of National Planning. In addition, two USAID engineers observed the selecting process. The accepted bids were forwarded to the State Timber Board in order that it execute contracts among the successful bidders.

(This report is critical of the specifications used in the bidding. It was noted that specifications pertaining to most sawmilling machinery were somewhat restrictive. Reportedly, the project was originally scheduled to be financed by the United Nations; therefore, the machinery was designed by an Australian technician under the auspices of the United Nations. Subsequently, the project was undertaken by A.I.D. and no modification was made to the designs. Thus, foreign-made specifications were used to attract American manufacturers to bid. Apparently, this was a noble effort to save additional design cost, but such procedure was not efficient considering the size of the total procurement.

In the original PIO/C the contracting and delivery periods were from November 2, 1962 to April 30, 1963 and December 31, 1963 respectively. However, a series of amendments extended the terminal contract date to December 15, 1963 and the delivery period to May 31, 1966. All items were procured during the contract period; but, project objectives were delayed due to untimely deliveries, erroneous shipments and shortages from one major contractor, Northeast Ohio Machine Builders, Inc. This firm was awarded a contract to furnish the majority of the sawmilling commodities. The contractor promised to make delivery before June 23, 1964 - i.e., eight months after the opening of the letter of credit. As of the examination, the contractor was 18 months delinquent in making deliveries of some key equipment and parts. Although the dock and maritime strikes of January 1965 and June - August 1965 respectively, and the non-availability of U. S. flag vessels due to the war in Vietnam could have contributed to some extent, it is felt that the contractor's organization does not have sufficient knowledge and/or experience to meet realistic delivery schedules, orders, and specific A.I.D. marking instructions.

As to the foregoing, USAID/Burma has expressed its dissatisfaction to AID/W concerning the performance of the contractor. It has been USAID's conviction that Northeast Ohio Builders, Inc. should be considered ineligible for the bidding under Phase II of the project. Recently, USAID's stand on this subject has been accepted by AID/W.

#### END-USE OBSERVATIONS

As previously mentioned, procurement was authorized through the issuance of PIO/C Number 9-30011 dated November 2, 1962. The examination

disclosed that the order was amended nine times and dollar cost was limited to \$1,444,653.98. In accordance with the amended PIO/C, commodities were classified as follows:

<u>CODE</u>	<u>CLASSIFICATION</u>	<u>AMOUNT</u>
680	Miscellaneous Iron & Steel Manufacture	\$7,844.07
700	Industrial Machinery & Equipment	\$1,020,385.75
770	Agricultural Equipment & Parts (Exclusive of tractors)	\$11,162.88
820	Motor Vehicles, Engines & Parts	\$41,503.04
833	Tractors and Parts	<u>\$363,758.24</u>
	Total Procurement	<u>\$1,444,653.98</u>

End-use visits were made to three sawmills in order to check property accountability and to determine the utilization of the commodities (Schedule B). The valuation of the items which were physically verified amounted to approximately \$663,000 (46% of the total procurement, \$1,444,563.98).

Although no formal property control register was maintained at the Central Stores Office of the State Timber Board, the examination disclosed that the nature and quantity of the purchased equipment and the detailed property records available facilitated a reconciliation of the procurement. The policy of the State Timber Board is for its mills to be accountable for all property assigned to them. Thus, each sawmill and camp maintains stock record cards (known as "bin cards") which reflect their property accountability; however, such cards are prepared only when all equipment and machinery are assembled completely and are placed in operation.

During end-use visits at the sawmills, it was observed that stock record cards had not been prepared on the new commodities, because many key parts and accessories had not arrived in Burma. As previously mentioned in this report under the caption "Procurement," the supplier was very delinquent in meeting his delivery schedules. For this reason, it was noted that the new expansion areas of sawmills Nos. 1, 3 and 4 were inoperative. At sawmills Nos. 1 and 2, most items of machinery were assembled but were inoperative because parts were missing. However, at sawmill No. 3, only a few items were assembled. Most commodities were in their packing crates outside the mill. Although the crates had been opened during inspection and shortages reported, officials decided that storage would be better than the assembly of incomplete machinery.

At the time of the visits, twelve cases of commodities had recently arrived and were awaiting transfer from the dock area. In addition, the final shipment of commodities were expected to arrive in Burma during April 1966. Therefore, officials anticipated that the installment of all items should be complete and operative by July or August 1966 at the latest.

No end-use visits were made in connection with the extraction equipment. A field trip to the Kindat and Pegu Agencies (logging camps) was scheduled; however, the Burmese Foreign Office disapproved the trip because recent insurrection activities were reported within the areas. Nevertheless, in the future the Office of the Controller will endeavor to perform end-use checks on the extraction equipment when the areas are considered secure.

### SHORTAGES

As previously mentioned, shortages impeded operations in the newly expanded sawmills. In most instances, the shortages consisted of major component parts; however, many small items were missing also (Schedule C). As of January 31, 1966 the total valuation was estimated at \$36,500.00 which is comprised of shortages as follows: disputed shortages (\$9,500.00) and acknowledged shortages (\$28,000.00).

The disputed items have been outstanding for over a year. Records showed that in February 1965, the State Timber Board (STB) first brought these shortages to the attention of the contractor. However, much of the period was expended in correspondence among the interested parties - i.e., STB, the contractor, an insurance company, a forwarding agent, and various suppliers. Also during the examination, it was noted that the STB failed to answer a query from the contractor's insurance company; thus, causing a six months delay.

In addition to the foregoing, the project experienced shortages of high value items; however, these shortages were readily acknowledged by the contractors, and as of the report, all items were expected to arrive soon.

STB personnel appeared optimistic that the new sawmill units may be in operation during August, but the questionable shortages seem to be the pending barrier which could further hamper operations. Although the shortages consist of many small parts having nominal values, it is conceivable that operations could be delayed until October or November 1966.

RECOMMENDATION NO. 2 - (a) that the STB in cooperation with the Project Coordinator maintain liaison with the contractor concerning the shortages in order to prevent further delays to the project, and (b) as soon as all parts have arrived, notification be given to the Controller to enable examination if desired.

### EQUIPMENT MARKINGS

In accordance with Section 201.31 of A.I.D. Regulation No. 1, end-use observations were made at selected sites (Schedule B). The examination

disclosed that most items of machinery and equipment, especially at the sawmills, obtained through dollar funding did not have A.I.D. marking emblems affixed to them.

Visits to sawmills Nos. 1, 3 and 4 disclosed that A.I.D. emblems were omitted on all commodities by the supplier, Northeast Ohio Machine Builders, Inc. There were no indications that emblems were defaced, and mill officials reported that no emblems had ever been affixed to any commodities. Nevertheless in most instances, the supplier affixed his large metal name plates to commodities. In addition, end-use visits noted that most sealed packing crates in storage at mill sites did not have A.I.D. emblems; however, there were evidences that some defacing had occurred. Those large crates having emblems were observed too small to give adequate recognition to these U. S. financed A.I.D. commodities. Therefore, the examination has disclosed sufficient evidence that the supplier failed to comply with A.I.D. Regulation 1 as specified in the General Provisions of the PIO/C.

In addition, USAID files revealed that this flagrant violation of A.I.D. marking requirements had been reported in March 1965 to the supplier by the AID/W Office of Small Business.

RECOMMENDATION NO. 3 - (a) that the Project Coordinator jointly with the State Timber Board take steps to have commodities properly marked in accordance with Section 201.31 of A.I.D. Regulation 1, and (b) that the Controller be notified of the action taken.

As previously mentioned under the caption "End-Use Observations," no end-use visits were made to the logging camps. In the near future, the Office of the Controller anticipates to check the extent of the A.I.D. markings on the extraction equipment.

#### CONTRIBUTION OF RGUB

Under Article D3(b) of the Project Agreement, the Revolutionary Government of the Union of Burma agreed to provide K3,355,324 (the equivalent of \$704,600) to finance necessary local construction costs and such foreign exchange costs as may be required in addition to the U.S. contribution.

During the course of the examination, several queries were made in regard to the extent of the RGUB's contribution without results. Thus, upon the request of State Timber Board (STB) officials, the USAID sent a letter on February 10, 1966 in which it requested the financial contribution made towards the project. Although no reply had been received at the issuance of this report, an STB official has repeatedly assured USAID audit personnel that the financial data is being developed and will be forthcoming soon.

RECOMMENDATION NO. 4 - That the Project Coordinator pursue the matter of the RGUB financial contribution further and timely notify the Controller in order that USAID's files can be properly documented.

#### PARTICIPANTS

Article D,3,(d) of the Project Agreement states that the A.I.D. agreed to provide for the cost of specialized training in the U.S. and other countries as required for implementing the project.

The examination disclosed that no PIO/P was issued in connection with the project. However, the Project Coordinator stated that what training there was available, it was limited to on-the-job instructions at various installations under the auspices of the State Timber Board.

#### USAID TECHNICIANS

According to Article D, 3, (c) of the Project Agreement, the Agency for International Development (A.I.D.) would provide the services of two short-term consultants, one structural and one electrical engineer. The consultants would assist in the placing and installation of equipment for the existing mills as provided in the Project Agreement for Phase I of the Project. However, the primary responsibilities of the engineers were to be under Phase II of the Project - i.e., the design for a new sawmill and its auxiliary plywood and veneer plants.

As of this examination engineering services were available to the project. Reportedly during March - June 1963, two engineers were provided. Their prime mission was the feasibility study for Teak Phase II; but, their services were available and offered to STB on Phase I. Because the delinquency in the arrival of U.S. financed commodities had been high, the engineers could not contribute to the project. Assistance was again available during August - December 1965 and some services were rendered; however, sufficient equipment had not yet arrived to permit full utilization of their services. The Project Coordinator reported that a sawmilling consultant is expected to arrive in Burma during April 1966. This individual will assist and advise STB personnel in operating the new machinery.

In addition, it was disclosed that several technicians of the United Nation's performed some functions which were required originally of the consultants. Under the next caption, these technicians are covered in more detail.

Since early 1963, the Project Coordinator has been delegated the responsibilities to monitor activities under the Project. To date his activities have been limited to coordination with the State Timber Board on matters of procurement.

## U. N. TECHNICIANS

Article D, 3, (e) of the Project Agreement states that the services of a Forest Officer in Sawmilling and a Forest Officer in Mechanized Extraction would be provided by the Food and Agricultural Organization (F.A.O.) of the United Nations.

The examination disclosed that the F.A.O. furnished the required services. Reportedly under the terms of an agreement between the RGUB and F.A.O., four technicians were sent to Burma as shown below:

<u>NAME</u>	<u>ACTIVITY</u>	<u>DATES IN BURMA</u>	
		<u>ARRIVAL</u>	<u>DEPARTURE</u>
J. L. Briggs	Sawmilling	7/11/57	6/30/63
F. Zurbrugg	Logging	Feb. 1960	-
M. Breznjak	Sawmilling	Dec. 1964	Dec. 1965
J. Poulter	Mechanized Extraction	Dec. 1965	-

## REPORTS

The examination disclosed that the USAID files lacked sufficient documentation concerning the status of the project. Although no progress reports were required under the Project Agreement, it is felt that the USAID should consider the preparation of periodic reports because they provide meaningful information and serve as management tools. For example, Recommendation Number 4 concerning the extent of the RGUB contribution would be unnecessary if adequate progress reports had been prepared.

RECOMMENDATION NO. 5 - That the USAID require all Project Coordinators to submit progress reports which contain full disclosure of the actual events, problems and financial data related to the reporting period.

(Prior to the issuance of this report, the Mission instructed its Project Coordinators to prepare more comprehensive type progress reports and such reports are currently in preparation.)

In accordance with Article O, Standard Provision Annex to the Project Agreement, a Completion Report on the project shall be drawn up between A.I.D. and the Cooperating Agency upon completion of the project. Because the last PIO/C items are anticipated to arrive during April 1966, the project is near the completion stage. Therefore, the USAID should be alerted to initiate the required Completion Report when Phase I of the Project is deemed completed.

Thus at this time, no recommendation is hereby made in this report; however, in the near future the Office of the Controller will review this matter in order to determine that the required Completion Report has been issued.

## PROJECT EVALUATION

As previously mentioned in this report, the project experienced several unfavorable aspects. Therefore, project objectives as outlined in the Project Agreement were not achieved. Mainly, deficiencies were attributed to the actions of Northeast Ohio Machine Builders, Inc., the principal contractor for the sawmilling machinery. The examination disclosed that the project suffered from untimely deliveries, erroneous shipments, and shortages. The final shipment excluding the shortages is expected to arrive during April 1966. At the present, the shortages remain the only questionable items which could delay sawmilling operations; however, State Timber Board (STB) officials are optimistic that the shortages will be resolved soon. If the items arrive before July, they anticipate that the new sawmill units can go on stream by August.

In addition, it was noted that new sawmilling equipment was distributed only to Sawmills Nos. 1, 3, and 4. This distribution was a deviation from the specific targets of the project. According to Article B of the Project Agreement, the project was to provide for the expansion, renovation, and modernization of State Timber Board (STB) Sawmills Nos. 1, 3, 4, 5 and 6. For Sawmill No. 5, Article B2 provided that additional machinery would be installed in this sawmill to cut dimension size (custom order) lumber. Similarly for Sawmill No. 6, Article B3(b) provided that timber handling equipment would be improved by the addition of forklift trucks, extending conveyors, and motorizing overhead gantries. Some equipment would be replaced with that more suitable. The examination failed to find any documentation or correspondence which authorized the departure from the work plans as prescribed in the Project Agreement. However, the auditors were informed by USAID and STB officials that because Sawmills Nos. 1 and 5 were adjacent to each other as were Nos. 3 and 6 and all were obsolete, it was decided to consolidate the operations. Thus, all equipment which was scheduled for Sawmills Nos. 5 and 6 went into Sawmills Nos. 1 and 3 in order to provide for larger plant expansion. This was a verbal agreement to deviate from the work plans of the Project Agreement. Though it was agreed that the goals would be met by this change in plans, per A.I.D. procedures the change itself should have been documented by amending the Project Agreement.

RECOMMENDATION NO. 6 - In order to correctly reflect the method of reaching the goals of this project, USAID should take action on the verbal agreement to change the work plans by formally amending the Project Agreement.

On the favorable side, new extraction equipment contributed to some increases in log tons. Project equipment was distributed to the Agencies

of Kindat and Pegu. STB personnel reported that a sizeable increase in log tons will occur during the 1965/66 season. During the 1964/65 season most of the equipment was utilized on the building of new access roads. Whereas such construction does not contribute greatly to production statistics during the year, nevertheless, new roads contribute mostly to future production activities. Shown below is the STB extraction data as follows:

<u>Year</u>	<u>Working Season</u>	<u>Log Tons</u>	
		<u>Kindat</u>	<u>Pegu</u>
1964/65	October/May 65	31,417	10,941
1965/66	October/December 65	8,660	20,000

Audit Report No. 66-1

Auditor in Charge:

*John C. Froneberger Jr.*  
JOHN C. FRONEBERGER, JR.  
 AUDITOR

Approved by:

*Stanley S. Nowak*  
Stanley S. Nowak  
 Controller

PROCUREMENT CONTRACTS

SCHEDULE A

EXPANSION OF TEAK PRODUCTION - PHASE I

PROJECT NO. 482-22-230-123

Contractors	Type of Equipment	Contract		Letter of Credit No. & Date	Arrival of Final Shipment.
		Amount	Date		
Northeast Ohio Machine Builders, Inc.	Industrial Sawmill Machinery and Equipment	\$967,307.65	10-16-63	263/10 10-26-63	-
Parsons & Whitmore, Inc.	Sawdust Conveyors	32,316.00	10-21-63	264/10 10-24-63	7-17-64
M/S Mart Holldt, Inc.	General Purpose Tool Sets - 2 ea.	4,420.00	10-7-63	265/10 10-24-63	4-28-64
The Eimco Corporation	Eimco Diesel Power Tractors - 10 ea.	319,850.00	10-7-63	266/10 10-24-63	6-5-64
Caterpillar Overseas S.A.	Hydraulic Track Pin Press - 1 ea.	3,424.07	10-23-63	267/10 11-4-63	9-2-64
- do -	Caterpillar 955 Traxcavators - 2 ea.	43,908.34	10-23-63	268/10 11-4-63	8-6-64
McDonough Manufacturing Co.	Filing Room Equipment	20,762.10	10-17-63	269/10 12-19-63	9-2-64
International Harvester Export Co.	International Tipper Trucks - 2 ea.	13,450.00	11-4-63	270/10 12-18-63	6-24-64
- do -	International Diesel Trucks - 2 ea.	11,510.00	11-4-63	271/10 12-18-63	6-10-64
- do -	International Scouts - 2 ea.	5,804.00	11-4-63	272/10 12-18-63	6-24-64
M/S McCulloch International, Inc.	1 and 2 man Power Saws - 26 ea.	11,162.78	11-4-63	273/10 12-30-63	6-16-64
Kaiser Jeep Overseas S.A.	Willys Jeep CJ6 - 4 ea.	10,739.04	12-9-63	278/10 3-3-64	5-26-64
	Total	<u>\$1,444,653.98</u>			

DISTRIBUTION OF U.S. FINANCED COMMODITIES

PIO/C NO. 482-123-9-30011

EXPANSION OF TEAK PRODUCTION - PHASE 1

SCHEDULE B  
Page 1 of 4

Quantity	Description of Commodity	Serial No.	A.I.D. Emblem Markings	Amount	Remarks
<u>SAWMILL NUMBER 1</u>					
7 Sets	Firewood Conveyors	-	None	\$ 32,607.84	Received in good condition; $\frac{1}{2}$ installed.
- *	Dead Rollers	-	None	2,488.21	24 Feet shortage expected in last shipment.
12 Each	Slip Top Benches	-	None	102,608.60	Received 2 types instead of 4. 12 Joy sticks short - expected in 6th shipment.
2 Each	42" Circular Press Benches	-	None	14,077.21	Arrived minus saw fence riving knives.
1 Each	36" Circular Bench	-	None	7,033.75	Arrived minus saw fence riving knives.
1 Each	18" L.H. Band mill carriage	-	None	36,106.30	Pantographs short - expected in 6th shipment.
1 Each	Electric Band mill carriage drive	-	None	129,333.72	Shortages - 1 drive winch, one joy stick, 4 sets limit switches & 1,000 ft. cable.
2 Sets	45 H.P. V-belt drives with motor and controls for 42" C.S.B.	-	None	6,551.16	Received in good condition.
1 Set	30 H.P. V-belt drives with motor and controls for 36" C.S.B.	-	None	5,300.82	Received in good condition.
7 Each	Cut-off Saws	-	None	11,826.50	Not automatic as ordered but manually operated.
1 Each	Saw Anvils	-	None	76.50	Received in good condition.
3 Each	#25 Armstrong Rip Saw Sharpeners	-	-	8,442.63	Still in Crate.
1 Set	Log Turner, Stop and Loader	-	None	6,990.69	Only 2 cylinders received. Whole assembly of machine not received.

Quantity	Description of Commodity	Serial No.	A.I.D. Emblem Markings	Amount	Remarks
1 Each	Chain Transfer 12' Long			8,897.24	Received in good condition.
2 Each	3-Ton Log Hoists	-	None	9,225.34	One in use and the other in box.
4 Each	Timber Belt Conveyors	-	None	12,610.04	3 installed to date.
1 Each	#10X11 Worthington Air Compressors 1L-78352-T	-	None	9,522.55	Assembled and in use.
Various	Saw Filing Room Equipment	-	-	<u>6,883.05</u>	Still in crates.
			Total	<u>\$4,10,582.29</u>	
	<u>SAWMILL NUMBER 3</u>				
2 Sets	Firewood Conveyors	-	None	\$ 9,162.26	Not in use.
1 Each	L.H. Resaw Infeed Table	-	None	11,305.85	Resaw not received. Expected in the 6th shipment.
3 Each	48" Circular Breast Benches	-	None	21,126.43	Face plate not received.
3 Each	Air Compressor for Carriages	-	-	4,491.23	Still in box.
3 Sets	Electric Band Mill Carriage Drives	TT825659V3	None	88,001.37	Carriage not received.
1 Set	100 H.P. V-Belt Drives with motor and controls for Resaws	-	None	8,371.09	Received incomplete, without bed plate and fence.
3 Sets	60 H.P. V-Belt Drives with motor and controls for 48" CSB	-	None	13,390.14	Received incomplete, without bed plate and fence.

Quantity	Description of Commodity	Serial No.	A.I.D. Emblem Markings	Amount	Remarks
2 Each	Cut-off Saws	-	None	3,378.99	Received in good condition.
1 Each	Timber Chain Conveyor	-	None	<u>7,377.44</u>	Received in good condition.
		Total		<u>\$166,604.80</u>	
<u>SAWMILL NUMBER 4</u>					
408 Feet	Dead Rolls	-	None	4,342.49	24 Feet short received.
2 Each	R.H. Resaw Infeed Tables	-	None	22,611.70	Driving system not received.
1 Set	350 feet Light Mono Rail	-	None	1,963.10	Received but not put to use due to non-arrival of other equipment.
5 Each	42" Circular Breast Benches	-	None	35,193.04	Not used due to incomplete arrivals of others.
5 Each	48" Circular Breast Benches	-	None	35,210.72	Not used due to incomplete arrivals of others.
1 Each	32" L.H. Band Mill Carriage	-	-	38,665.20	Control arm not received and not included in packing list - still in box. Mill requires instructions to repair defective hydraulic system.
2 Each	Air Compressor for Carriages	-	None	2,994.16	One short received.
2 Sets	100 H.P. V-Belt drives with motor and controls for resaws	-	None	13,780.49	One short.
5 Sets	65 H.P. V-Belt drive with motor and controls for 48" CSB	-	None	22,316.55	Received 60 H.P. motors, but not used due to non-arrival of other equipment.

Quantity	Description of Commodity	Serial No.	A.I.D. Emblem Markings	Amount	Remarks
5 Sets	45 H.P. V-Belt drive with motor and controls for 42" CSB	-	None	16,377.78	Received 50 H.P. motors, but not used due to non-arrival of other equipment.
10 Sets	Chain transfers with drives	-	None	44,337.14	Received 5 sets with many shortages.
7 Each	Cut-off Saws	-	None	11,826.50	All received but not used due to non-arrival of other equipment.
1 Each	Welding Clamp	-	None	186.15	Received but not used due to non-arrival of other equipment.
1 Each	Saw Anvil	-	None	76.50	Received but not used due to non-arrival of other equipment.
1 Each	#28 Armstrong Rip Saw Sharpeners	-	None	2,814.21	Received but not used due to non-arrival of other equipment.
250 Feet	Twin City Mono Rail	-	None	21,951.54	Received but not used due to non-arrival of other equipment.
1 Lot	Electrical Equipment	-	None	37,203.54	4 each 10 H.P., 1500 RPM, 400 Volts motor not received. Despatch 115 Volts instead of 230 Volts fixtures without tubes (lamps).
8 Sets	Sawdust Conveyors	-	None	32,316.00	100 Feet short received.
Various	Saw Filing Room Equipment	-	None	13,879.05	Received but not used due to non-arrival of other equipment.
Total				<u>\$362,063.66</u>	

\*Quantity was not readily determined at the time of the End-Use visit.

SHORTAGES

PIO/C No. 482-123-9-30011

Expansion of Teak Production - Phase I  
as of January 31, 1966

SCHEDULE C

Page 1 of 7

Description of Item	Quantity Short	Estimated Value
<u>Disputed Shortages from Northeast Ohio Machine Builders, Inc.</u>		
1. Howell 2 H.P. Motors	4 each	\$ 688.00
2. L-B, H-78 Pintle Chain Rivited	280 ft.	1,108.80
2. L-B, H-78 Pintle Chain Rivited	19 each	2.94
3. L-B, H-78 Pintle Chain Rivets	5 each	211.19
4. R-C-60-2 Sprokets w/30 teeth	5 each	102.00
5. R-C-60-2 Sprokets w/15 teeth	38 each	931.76
6. H-78 Sprokets, 10 teeth w/Ky & S.S.	13 each	291.12
7. H-78 Sprokets, 10 teeth w/S.S. only	44 each	592.88
8. L-B Pillow Block Bearing # P231	37 each	285.64
9. L-B Flanged Type Bearing # FX220C	50 each	651.00
10. L-B Flanged Type Bearing # F231	27 each	43.80
11. L-B Steel Collars	25 each	253.06
12. L-B Babbitt Bearing #445-3-8	5 each	764.00
13. Pathon # INA 314FA4 Cylinder		

Description of Item	Quantity Short	Estimated Value
14. Wabco 4-Way Valve # PK 34101-0200	4 each	233.60
15. Wabco Bases	5 each	60.00
16. Floreg (Wabco) #P 53020-2	5 each	56.10
17. Filter Regulator	4 sets	264.88
18. Furnas Starters	4 each	796.00
19. G & C Lifting Links # B-1047-12	25 each	1,000.00
20. G & C Lifting Arms # B-1047-9	25 each	750.00
21. G & C Pin or Shaft for Lift Link	25 each	50.00
22. G & C Spacer (Pipe)	17 each	17.00
23. G & C Shim Sets	44 each	88.00
24. G & C Pin for Lift Arm	47 each	94.00
25. G & C Pin for Cylinder	5 each	5.00
26. { G & C Keys Square 2-3/4"	52 each	26.00
{ G & C Keys Square 1-3/4"	5 each	2.50
{ G & C Keys Square 3"	2 each	1.00
27. G & C Cap Screws 2"	88 each	10.00

Description of Item	Quantity Short	Estimated Value
28. G & C Cap Screws 3/4"	300 each	29.60
29. G & C Cap Screws 1-1/2"	88 each	9.00
30. G & C Lock Washers 1/2"	476 each	11.45
31. G & C Flat Washers 1/2"	476 each	10.00
32. G & C Flat Washers 3/4"	10 each	.20
33. G & C Flat Washers 1-1/4"	100 each	6.00
34. G & C Cotter Pins 1/8" x 2"	110 each	5.75
35. G & C Nuts, Hex. 1/2"	476 each	20.00
	Total	<u>\$9,471.58</u>

## Description of Item

Quantity  
ShortEstimated  
ValueAcknowledged Shortages From:Caterpillar Overseas

1. Parts Catalog Form 34920	1 each	\$ 2.00
2. Superior Lubricants Form 32167	2 each	2.00
3. Diesel Fuel Form 9952	1 each	Unknown
4. Operation & Maintenance Instructions Form 33504.3	1 each	2.00
5. Forms for Extended Track Service Life	1 each	Unknown

McDonough Manufacturing Company

1. Adjustable Stand for Levelling Blocks	12 each	42.00
2. Level Gauge	3 each	10.00
3. Power Tooth Cutter	3 sets	Unknown
4. Welding Clamp	1 each	1.50
5. Welding Outfit, Complete w/Torch Tips, Hose, Oxygen and Acetylene Regulators	1 set	75.00
6. Broken Base Plate for Saw Sharpener	1 each	Unknown
7. 24 feet sections of 18" x 3" Dead Rolls	1 each	Unknown

Description of Item	Quantity Short	Estimated Value
<u>Northcast Ohio Machine Builders Inc.</u>		
1. Aluminium Saw Fences	12 each	130.00
2. Push Buttons or Hand Levers for carriage drive manipulation	12 each	600.00
3. Saw Table Covers for removal and mounting of Saw on Saw Spindle	28 each	840.00
<u>Slide Top Benches</u>		
4. Cleveland Machine control electrical drive system installation (circuit diagram) and maintenance manuals	4 sets	20.00
5. Automatic pneumatic fence air control system installation diagram (also indication as to normally where the air control lever is mounted)	1 set	-
<u>Band Mill Carriages</u>		
6. Pantographs and all related accessories for both carriages	2 sets	1,000.00
7. Installation, operation and maintenance instructions manuals for Sel-Set Carriage set works for item 17 A(2) 18' LH Carriage	6 sets	120,00
<u>Carriage Drives</u>		
8. Drive base comprising for one Falk Double helical gear speed reducer	1 set	10,000.00
9. 'Redco' Controller	1 each	150.00
10. Over-Travel limit switches for all 4 drives	8 each	200.00

Description of Item	Quantity Short	Estimated Value
11. Steel wire Rope 6-37 7/8" diameter	1,000 ft. drum	1,500.00
<u>Breast Benches</u>		
12. Micrometer controlled saw fences for 48" benches	8 each	800.00
13. Micrometer controlled saw fences for 42" benches	7 each	700.00
14. Micrometer Controlled saw fences for 36" benches	1 each	80.00
15. Saw table covers for 48" benches	8 each	} Value shown against item 1, page 5 (Same items)
16. Saw table covers for 42" benches	7 each	
17. Saw table covers for 36" benches	1 each	
18. Splitter knives for 48" benches	8 each	40.00
19. Splitter knives for 42" benches	7 each	35.00
20. Splitter knives for 36" benches	1 each	5.00
21. Installation, Operation Manuals 48"	2 each	} Value shown against item 4, page 5
22. Installation, Operation Manuals 42"	2 each	
23. Installation, Operation Manuals 36"	2 each	
<u>Cross-Cut Saws</u>		
24. Quick setting multi-length devices for timber stops were not according to specification. Mechanical devices were expected but hand operated were received.	5 each	2,500.00

Description of Item	Quantity Short	Estimated Value
<u>Electricals</u>		
25. Fluorescent Tubes	200 each	320.00
26. 10 HP Motors	4 each	2,000.00
<u>Log Deck Equipment</u>		
27. Log Shop, Loader and Turner	1 set	6,000.00
<u>Slide Top Saw Benches</u>		
28. Air Pressure Regulators	12 each	60.00
Total		<u>\$27,234.50</u>