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AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE AUDITOR GENERAL

10p.

REPORT OF AUDIT

OF

INDUSTRY DEVELOPMENT

Project No. 439-11-290-074

January 1, 1969 to March 31, 1971

(Laos Program)

Report No. 8-439-72-53

OCT 29 1971

EasC Asia Area Office
c/o USAID/Korea

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REPORT OF AUDIT

OF

INDUSTRY DEVELOPMENT

Project No. 439-11-290-074

January 1, 1969 to March 31, 1971

(Laos Program)

I. SCOPE OF EXAMINATION

We have performed an interim audit of Project No. 439-11-290-074, Industry Development, in accordance with AID M.O. 793.1. The audit was made for the purpose of identifying and reporting on any procedures, practices, or problems adversely affecting project implementation and to verify compliance with the terms of the agreements, pertinent AID manual orders and other U.S. Government regulations.

Our audit covered transactions for the period January 1, 1969 to March 31, 1971 and included (a) review of records, documents and reports of USAID/Laos, (b) an examination of records and accounts maintained by the Development Bank of Laos (DBL) in connection with the Industry Loan Fund (ILF), (c) review of documents and property records of Lao Forest Service, (d) physical inspection of selected commodities purchased for the project, (e) discussions with responsible officials, and (f) other audit procedures as deemed necessary under the circumstances.

Significant matters disclosed by the audit are presented in Section IV, Findings and Recommendations.

II. BACKGROUND INFORMATION

The main objectives of the Industry Development Project are to encourage and assist the development of private industrial establishments in Laos, primarily by providing technical advisory, financial, and commodity assistance. Because priority is attached to the development of forest products industries, an ancillary objective is to provide support and assistance to the Lao Forest Survey and Forest Inventory, undertaken by the Directorate of Water and Forestry in the Ministry of National Economy, in order to assess the nature, quantity, and location of forest resources. The other objectives of this project are to assist the development of mechanized farming activities and assist the Development Bank of Laos (DBL) to grow in capability as an intermediary for the flow of loan capital to private industry and agriculture.

In 1965, a small industry survey was made by Continental-Allied Company, Inc. under Contract No. AID/fe-150 dated March 16, 1965. The purpose of the survey was to develop specific and detailed proposals for the creation of small industries and other commercial enterprises in Laos, which could be put into operation within one to two years and would not require major-scale investment or external assistance. The survey report identified 40 first priority and 16 second priority potential industries that appeared to meet the given conditions. It was also pointed out that Laos had no adequate arrangement for short or long-term industrial credit and that financial assistance would become a critical factor in the initial stages of the Industry Development Program. Additionally, outside technical assistance would have to be made available, since technical know-how was almost completely lacking in Laos.

The formation of the Industry and Manpower Division (IMD), formerly known as Small Industry Branch in FY 1967, sought to coordinate the undertakings of the Industry Development Program. In September, 1970, the Industry Division was abolished as an organizational unit and the

Various functions of this division were transferred to the Agro-Industry Branch within the Agriculture Division, the Office of Program and Economic Affairs, Economic Affairs Division (EAD) and to the Office of Management, Supply Management Branch (arrival accounting).

FAO (Food and Agriculture Organization) involvement in the project has resulted in agreement to provide an expert to study overall forestry activity in Laos and prepare plans for a long-range UNDP forestry project.

From inception of the project in Fiscal Year 1967 to March 31, 1971, dollar obligations and expenditures totaled \$1,147,354 and \$964,477 respectively. During the same period, local currency obligations and expenditures totaled K265,976,042 (\$1,108,233) and K91,828,516 (\$382,618) respectively (Exhibit I). Included in the local currency amounts are loan fund obligations of K261,139,742 (\$1,088,082) and expenditures of K87,132,029 (\$363,050).

The current audit covers dollar expenditures of \$687,322 and local currency expenditures of K27,619,578 or an equivalent amount of \$115,081.

III. FOLLOW-UP ON PRIOR AUDITS

Prior Audit Report No. 70-1, issued by the USAID/Laos Audit Branch, covered the period from July 1, 1966 to December 31, 1968. There were no recommendations in that report.

IV. FINDINGS AND RECOMMENDATION

A. Property Records

Adequate records for the control of non-expendable property were not maintained by the RLG/DWF in Vientiane.

We selected 288 pieces of non-expendable property purchased for the Lao Forest Service, and noted that 235 units valued at approximately \$28,700 were not recorded or accounted for on the property records. These unrecorded items procured under PIO/C numbers 90237, 90238 and 90396 were received by Lao Forest Service as evidenced by receiving reports filed at USAID/SMB.

We found that although the RLG Inventory Section maintains non-expendable property records, the records do not show all non-expendable project commodities received by the Lao Forest Service from the USAID. We were advised that only property actually received by the Inventory Section is recorded and that no record is kept of the property delivered to other locations. In addition, we noted that cost data and related contract or PIO/C number were often omitted and the condition of the property as well as location of use were not always indicated.

In this connection, AID Manual Order No. 793.1 dated December 29, 1967 states, with respect to maintenance of property records: "When title is in the cooperating country or designated agency, the property must be controlled by adequate property management records. The property records are to show the nomenclature and serial number, if any, quantity, date of receipt, landed or local cost, condition and location of each item of accountable property and should relate this data to the payment and/or PIO/C or contract....."

Above findings were discussed with RLG officials who agreed that centralized records should be maintained to ensure that all non-expendable property is adequately controlled.

Recommendation No. 1

We recommend that USAID/Laos request the RLG Directorate of Water and Forestry to (a) take a

physical inventory and record all of its USAID-financed non-expendable property, and (b) establish practices and procedures that will ensure that all non-expendable property is controlled and recorded in the manner prescribed in paragraph IV.B.2.c of M.O. 793.1.

(The USAID has advised us that corrective action as recommended above has been initiated.)

B. Industry Loan Fund

Pursuant to the provisions of Project Agreement No. 7074, dated March 10, 1967, as amended, an Industry Loan Fund (ILF) was established to make available through the Development Bank of Laos (DBL) medium term loans to potential entrepreneurs primarily engaged in the fields of forestry and wood products, textiles, and mechanized farming. The agreement provided that approximately \$127 million would be made available from USAID Trust Account or U.S.-owned local currency account. On March 6, 1968, the obligation of the USAID was increased to \$149 million.

Under the terms of the regulations governing operation of the fund, the USAID is to receive 60% of the borrower's repayment of the loan principal to the fund. In addition, USAID is to receive four percent of the interest, one percent of the commission of guarantee and one-third of the credit guarantee commission paid to DBL by the borrower.

As of March 31, 1971, a total of \$4,841,988 had accumulated to the credit of the USAID and was being held in a Reserve for Amortization, USAID account at the DBL. These funds have been accumulating since December, 1967. Upon inquiry, the Director General, DBL stated that these funds would be released upon demand by USAID.

We recommended in a draft report that USAID/Laos (a) request reimbursement from the DBL of all amounts due USAID from operation of the Industry Loan Fund (ILF) for deposit in the USAID Trust Fund Account or U.S.-owned local currency account as appropriate, and (b) also request that the DBL forward amounts subsequently determined to be due USAID from operation of the ILF as they are received. The USAID took the above action prior to completion of the audit and the DBL remitted a ₩4,841,988 check for deposit in the USAID Trust Fund Account. Accordingly, no further recommendation is necessary.

INDUSTRY DEVELOPMENT IN LAOS
Project No. 439-11-290-074

EXHIBIT I

SUMMARY OF OBLIGATIONS & EXPENDITURES
From Inception FY 1967 to March 31, 1971

<u>Dollar Assistance</u>	<u>Obligations</u>	<u>Expenditures</u>
Personnel Services	\$ 470,622	\$ 436,647
Contract Services	328,973	268,655
Participating Agency Service Agreement	100,154	75,432
Participants	56,652	42,512
Other Costs	76,469	42,190
Commodities	<u>114,484</u>	<u>99,041</u>
Total	<u>\$ 1,147,354</u>	<u>\$ 964,477</u>
<u>Local Currency (Trust Fund)</u>		
Personnel Services	₭ 2,611,439	₭ 2,511,974
Commodities	791,970	791,970
Other Costs	1,432,891	1,392,543
Industry Loan Fund	<u>261,139,742</u>	<u>87,132,029</u>
Total	<u>₭265,976,042</u>	<u>₭91,828,516</u>
Dollar Equivalent	<u>\$ 1,108,233</u>	<u>\$ 382,618</u>
TOTAL ASSISTANCE	<u>\$ 2,255,587</u>	<u>\$ 1,347,095</u>

Conversion Rate: ₭240=\$1.00

INDUSTRY DEVELOPMENT IN LAOS
Project No. 439-11-290-074

SCHEDULE I

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