

27/3/82
118845

REPORT BY THE
Comptroller General
OF THE UNITED STATES

Weaknesses Found In Timber Sale Practices On The Plumas National Forest

In investigating complaints by small loggers and mill operators about the Department of Agriculture's Forest Service timber sale activities at the Plumas National Forest in California, GAO confirmed that some problems existed regarding

- preparation and administration of timber sales,
- accountability over Government logs stored at purchasers' mills, and
- treatment of small companies purchasing Forest Service timber.

GAO is making recommendations to alleviate these problems. On other complaints, GAO found that Plumas' actions were appropriate.



022595

GAO/CED-82-88
JUNE 23, 1982

Request for copies of GAO reports should be sent to:

**U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760**

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are \$3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are \$1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-207845

The Honorable Toby Moffett
Chairman, Subcommittee on Environment,
Energy, and Natural Resources
House Committee on Government
Operations

The Honorable Paul N. McCloskey, Jr.
House of Representatives

The Honorable Eugene A. Chappie
House of Representatives

This report discusses the results of our review of complaints made by small loggers and mill operators alleging mismanagement of the Department of Agriculture's Forest Service timber sales in the Plumas National Forest and includes recommendations for improvement. We made this review in response to your joint request of December 10, 1980.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 3 days from the date of the report. At that time we will send copies of the report to the Director, Office of Management and Budget; the Secretary of Agriculture; the Administrator, Small Business Administration; and other interested parties and we will make copies available to others upon request.

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Comptroller General
of the United States



D I G E S T

Complaints made by small loggers and mill operators about certain aspects of Forest Service timber sale operations in northern California--particularly the Plumas National Forest--during 1977-80 prompted Toby Moffett, Chairman, Subcommittee on Environment, Energy, and Natural Resources, House Committee on Government Operations, and Congressmen Paul N. McCloskey, Jr., and Eugene A. Chappie to request a GAO review of the situation.

GAO confirmed that some problems existed regarding

- preparation and administration of timber sales,
- accountability over Government logs stored at purchasers' mills, and
- treatment of small companies purchasing Forest Service timber.

Other areas of complaint dealing with delays in cutting and removing timber and practices used in bidding on Forest Service timber are being addressed in separate ongoing GAO reviews.

INADEQUATE TIMBER SALE PREPARATION
AND ADMINISTRATION

Experienced timber staff were not detailed to Plumas to handle the increased timber sale workload caused by epidemic insect infestation and dying tree conditions resulting from the 1976 and 1977 droughts. During 1977-80 Plumas sold 768 million board feet of timber valued at about \$175 million.

In the absence of effective sale supervision and clear instructions on marking trees for harvest, some undesignated trees were cut and some questionable tree-marking (designation) and cutting occurred. Also, the logging systems (such as tractor logging, helicopter logging, and cable logging) used on some sales to move the logs from stump to loading areas were not adequately monitored to ensure that contractors used the logging system specified in the sales

contracts and that appropriate price adjustments were made for significant deviations from the logging system or systems on which the appraised values of the sales were based. (See pp. 4 to 10.) Recommendations addressing these problems are on page 15.

Plumas adopted liberal sales extension policies and permitted substantial harvest overruns between 1978 and 1980 to expedite the sale and removal of insect-infested timber. Sales of green timber (healthy trees) were extended to enable large timber purchasers to shift their logging activities to salvage timber sales; salvage sales were extended to maximize the volume of insect-infested timber that could be harvested. Harvest overruns were permitted on salvage sales to enable recovery of substantial amounts of insect-infested timber that otherwise would have likely rotted in the forest. For the most part, Plumas' actions in this regard were appropriate and beneficial. (See pp. 10 to 14.)

MILL-DECK-DEFERRED SCALING IS DISADVANTAGEOUS TO THE GOVERNMENT

Under mill-deck-deferred-scaling arrangements with some purchasers of Plumas timber, the timber is not scaled (measured) for final payment until the logs are made ready for sawing into lumber at the purchaser's mill. Up to this point, the Service retains ownership and incurs the financial risks and losses for its logs at the mill. The Service is the only major U.S. timber seller that sells timber on this basis.

This form of scaling creates additional problems in administering timber sales, does not provide adequate accountability over Government logs, and results in financial loss to the Government because of inventory shortages and losses. GAO believes that the Service should use alternative scaling methods that will provide uniform treatment to all purchasers of Forest Service timber and reduce the risk of financial loss to the Government. (See pp. 16 to 21.) GAO's recommendation on this matter is on page 21.

TREATMENT OF SMALL COMPANIES PURCHASING FOREST SERVICE TIMBER

Purchasers of small timber sales on the Plumas were required to provide higher percentages

of their contract prices as performance deposits than were purchasers of large sales and their deposits exceeded the Forest Service's estimates of the performance risks involved. Also, incremental advance payments (stumpage deposits) for timber cut each month were not authorized on small sales. Advance payment procedures have been made uniform, but performance deposit requirements need adjustment to ensure consistent and equitable treatment of all purchasers. (See pp. 23 to 25.)

Plumas exceeded timber volume sales goals to small businesses with less than 500 employees. However, no goals or criteria existed for assessing whether the smaller businesses in this group--for example, those with less than 100 employees--received a reasonable share of the timber sales. GAO believes the feasibility of establishing such goals or criteria should be explored. (See pp. 25 to 31.)

Regulations for a special salvage timber sale program, which Plumas was administering for small businesses with 25 or less employees, do not prohibit small businesses from acting as agents for large businesses to obtain timber from sales specifically reserved for such small businesses. GAO identified cases where this may have happened but could not document what the purchasers' intentions were. GAO believes the regulations need to be revised to correct the present loophole whereby the purpose of this special program, intended to stimulate and strengthen the competitive position of small businesses, can be circumvented. (See pp. 31 and 32.) Recommendations addressing these matters are on page 33.

OTHER COMPLAINTS

Two other complaints about the Plumas timber program involved (1) whether additional dead or dying trees should have been harvested on existing green timber sales and (2) whether Plumas had a timber management plan. Plumas harvested substantial amounts of dead and dying trees on its green timber sales. Some additional salvage timber might have been recovered through more timely harvesting. Plumas has a timber management plan prepared in accordance with Forest Service procedures. (See pp. 35 and 36.)

AGENCY COMMENTS

Forest Service comments have been incorporated in the report. The Service stated that GAO's recommendations and conclusions generally seem appropriate for the problems discussed in the report but that it had not yet made the detailed analyses needed to present specific comments on the recommendations. The Service advised that it would present its detailed views and action plans in its statement of actions taken as required by section 236 of the Legislative Reorganization Act of 1970. (See app. IV.)

The Small Business Administration agreed with a GAO recommendation to close the loophole in the special salvage timber sale program which could allow small businesses to act as agents for large businesses, and it has begun the process for a rule change along the lines suggested in the report. It did not agree with a GAO recommendation to explore the feasibility of establishing goals for timber sales within the present 500-employee set-aside criterion. However, subsequent discussions with Forest Service and Small Business Administration officials disclosed that a joint study, presently under way, is exploring various aspects of the timber sale set-aside program, including the feasibility of establishing goals for timber sales within the present criterion. GAO believes its recommendation continues to have merit. (See app. V.)

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	National forest timber production in California	1
	Objectives, scope, and methodology	2
2	INADEQUATE PREPARATION AND ADMINISTRATION OF TIMBER SALES IN THE PLUMAS NATIONAL FOREST	4
	Effect of California drought on timber sales and staff needs	4
	Harvesting of undesignated trees	7
	Improper marking and harvesting of green trees on salvage sales	8
	Loss of revenue from lax monitoring of logging systems	10
	Relaxing timber sale practices to maximize harvest of dying trees resulted in sale extensions and harvest overruns	10
	Conclusions	14
	Recommendations to the Secretary of Agriculture	15
3	MILL-DECK-DEFERRED SCALING IS DISADVANTAGEOUS TO THE GOVERNMENT	16
	Scaling determines payment to the Government	16
	Deferred scaling results in duplicate scaling of logs	17
	Deferred scaling requires additional administrative work to account for Government logs	17
	Accountability for Government logs stored at mill decks is unsatisfactory	18
	Deferred scaling creates a competitive advantage for a few purchasers	19
	Studies critical of mill-deck-deferred scaling	20
	Conclusions	20
	Recommendation to the Secretary of Agriculture	21
4	TREATMENT OF SMALL COMPANIES PURCHASING FOREST SERVICE TIMBER	22
	Treatment of small loggers and mill operators	23

		<u>Page</u>
CHAPTER		
4	Purchase of Plumas timber by small loggers and mills	25
	Small companies acting as agents for large companies	31
	Conclusions	32
	Recommendations to the Secretary of Agriculture and the Administrator of the Small Business Administration	33
	Agency comments and our evaluation	33
5	OTHER COMPLAINTS	35
	Harvesting salvage timber on green sales	35
	Plumas National Forest timber manage- ment plan	35
	Conclusions	36
APPENDIX		
I	Forest Service Pacific Southwest Region timber sales, fiscal year 1980	37
II	Plumas National Forest timber sales reviewed in depth	38
III	Plumas and Lassen National Forests green and salvage timber sales, calendar years 1977-80	39
IV	Letter dated June 7, 1982, from Chief, Forest Service, Department of Agriculture	40
V	Letter dated May 28, 1982, from the Adminis- trator, Small Business Administration	43

ABBREVIATIONS

CETA	Comprehensive Employment and Training Act
GAO	General Accounting Office
SBA	Small Business Administration

CHAPTER 1

INTRODUCTION

In a letter dated December 10, 1980, Toby Moffett, Chairman of the Subcommittee on Environment, Energy, and Natural Resources, House Committee on Government Operations, and Congressmen Paul N. McCloskey, Jr., and Eugene A. Chappie asked us to review certain aspects of Forest Service timber operations in northern California. They provided us with a series of newspaper articles, background material, and other papers dealing with complaints of small loggers and mill operators alleging mismanagement of Federal timber sales in northern California. We later met with representatives of the requestors and agreed that our review would be directed principally to five general areas dealing with timber sales on the Plumas National Forest.

1. Forest Service timber sale preparation and administration.
2. Accountability on mill-deck-deferred-scaled 1/ timber sales.
3. Treatment afforded small versus large businesses purchasing Forest Service timber.
4. Recovery of salvage timber on green timber sales.
5. Existence of a timber management plan for the Plumas National Forest.

Three other matters whose impact extends beyond the national forests in California were excluded from this review. These matters, which we are addressing in separate ongoing reviews of Forest Service timber sale practices, deal with the extent and impact of (1) delays in cutting and removing timber, (2) speculative bidding, and (3) highly skewed bidding.

NATIONAL FOREST TIMBER PRODUCTION IN CALIFORNIA

Consumption of wood in its various manufactured forms has been steadily increasing. Projections indicate that this upward trend will continue. Demand nationally is expected to increase about 60 percent to 130 billion board feet of timber by the year 2030. Timber harvests on California national forests are expected to increase gradually by 5 to 25 percent annually in response to rising demand.

1/Practice of measuring timber for payment just before it is cut into lumber.

National forests cover about 20 million acres of the 100 million acres of land in California and provide about 40 percent of the 4.6 billion board feet of timber annually harvested in the State. The California national forests' current annual timber harvest of 1.9 billion board feet comes from 5.5 million acres of land located predominantly in 13 northern and central California national forests. Land in the four southern California national forests generally is not suitable for growing commercial timber. Data on the amount of timber sold from California's national forests in fiscal year 1980 is in appendix I.

Receipts from Forest Service timber sales in California managed by the Service's Pacific Southwest Region totaled \$140.1 million in fiscal year 1980.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review objectives were to assess on the Plumas National Forest (1) the adequacy of Forest Service preparation and administration of timber sales, (2) controls and accountability on mill-deck-deferred-scaled timber sales, (3) the treatment of small businesses and their opportunity to purchase Forest Service timber, (4) harvesting of salvage timber on sales of green timber (healthy trees), and (5) the existence and comparability of timber management plans for Plumas and Lassen National Forests.

We made the review in accordance with GAO's current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." We reviewed legislation, regulations, and procedures relating to the Forest Service timber program. We interviewed Forest Service headquarters officials; field personnel at the regional, forest supervisor, and ranger district office levels; regional officials of the Department of Agriculture's Office of Inspector General; and Small Business Administration (SBA) regional and central office staffs. We also discussed Forest Service timber sale practices with industry trade association officials, mill operators, and small independent loggers. In addition, we met with local representatives of the Federal Bureau of Investigation and arranged our work to avoid any possible interference with the Bureau's investigation of certain aspects of Forest Service timber sales in California.

We selected the forests and districts included in our review based on one or more of the following criteria:

- Specifically mentioned in the congressional request.
- Size and significance of timber sales.
- Involvement in the timber sale practices complaints.

We did our detailed fieldwork at the following national forest supervisor offices and ranger districts in California.

National forests

Plumas

Lassen

Location

Quincy, Calif.

Susanville, Calif.

Plumas National Forest
ranger districts

Greenville

La Porte

Location

Greenville, Calif.

Challenge, Calif.

These two ranger districts annually account for over half the timber sold by the Plumas National Forest's six ranger districts.

Our detailed work was limited to sales awarded during calendar years 1977-80 and/or sales with timber harvest activities during these years. We examined in detail 10 Plumas National Forest timber sales at which complaints were directed in the material the Congressmen furnished us. These 10 sales are summarized in appendix II.

CHAPTER 2

INADEQUATE PREPARATION AND ADMINISTRATION OF TIMBER

SALES IN THE PLUMAS NATIONAL FOREST

Forest Service management of timber sales in the Plumas National Forest during calendar years 1977-80 was deficient in some respects and resulted in, or aggravated, major problems and public complaints. The relaxing of some timber sale practices resulted in liberal sale extensions and timber harvest overruns but had beneficial results in that it helped control insect-infestation spread and increased the recovery of timber from dying trees. The problems involved the following.

- Experienced timber staff were not detailed to Plumas to handle an increased timber sale workload caused by epidemic insect infestation and dying tree conditions resulting from the 1976 and 1977 droughts.
- In the absence of effective supervision of timber harvests, undesignated trees were cut on some timber sales.
- The use of unclear and subjective tree-marking instructions resulted in the improper cutting of green trees on some salvage timber sales.
- Inadequate monitoring of logging systems used to harvest timber resulted in the loss of Government sales revenues.

EFFECT OF CALIFORNIA DROUGHT ON TIMBER SALES AND STAFF NEEDS

California was one of the Western States hit hardest by the 1976 and 1977 droughts. The shortage of water weakened the trees in the forests and left them highly susceptible to insect infestation--especially by bark beetles. The forests in northern California were especially hard hit and experienced substantial drought- and/or pest-caused tree mortality. Forest Service studies have estimated that 13.4 million trees containing 9.6 billion board feet of timber were killed in 12 northern California national forests from July 1975 through June 1979. This is more than the total volume of timber harvested in 1980 from all 154 national forests. Tree mortality was especially critical during the year ended June 1978 when an estimated 5.8 million trees containing 5.5 billion board feet of timber died.

In 1978 the Plumas National Forest office reacted to the California drought and associated bark beetle infestation with a blitz of salvage timber sales to harvest dead and dying trees. Timber sales (green and salvage) with contract award values of \$2,000 or more increased from 39 sales in 1977 to 70 sales in both 1978 and 1979. Of the 70 sales in 1978, 62 were salvage timber

sales. These 62 sales accounted for 89 percent of Plumas' timber sales that year and half of the estimated timber volume sold. (See app. III.)

For timber sale contracts of \$2,000 or more, the chart on page 6 shows the impact of the salvage timber sales in the Plumas National Forest during the period 1977-80, as compared with the adjacent Lassen National Forest. According to Lassen timber management officials, Lassen was not hit as hard by the insect infestation as was Plumas, which they described as looking as though the whole forest was dying.

Because trees harvested on salvage sales are often scattered in small clusters over large areas, these sales are more difficult to administer and have a greater impact on staff workloads than green timber sales which usually involve concentrations of healthy trees in smaller areas. Also, because dead and dying trees need to be harvested quickly to recover as much merchantable timber as possible and control the spread of insect infestation, the established timber sale performance periods on salvage sales are relatively short--generally several months to a year. As was the case in Plumas during the period 1978-80, trees in a salvage sale are often not premarked before contract award but instead are marked concurrently with actual harvesting to expedite salvage sale awards. In such situations, however, disputes can arise between a purchaser's loggers and Forest Service markers about which trees are dying and therefore should be marked for harvest.

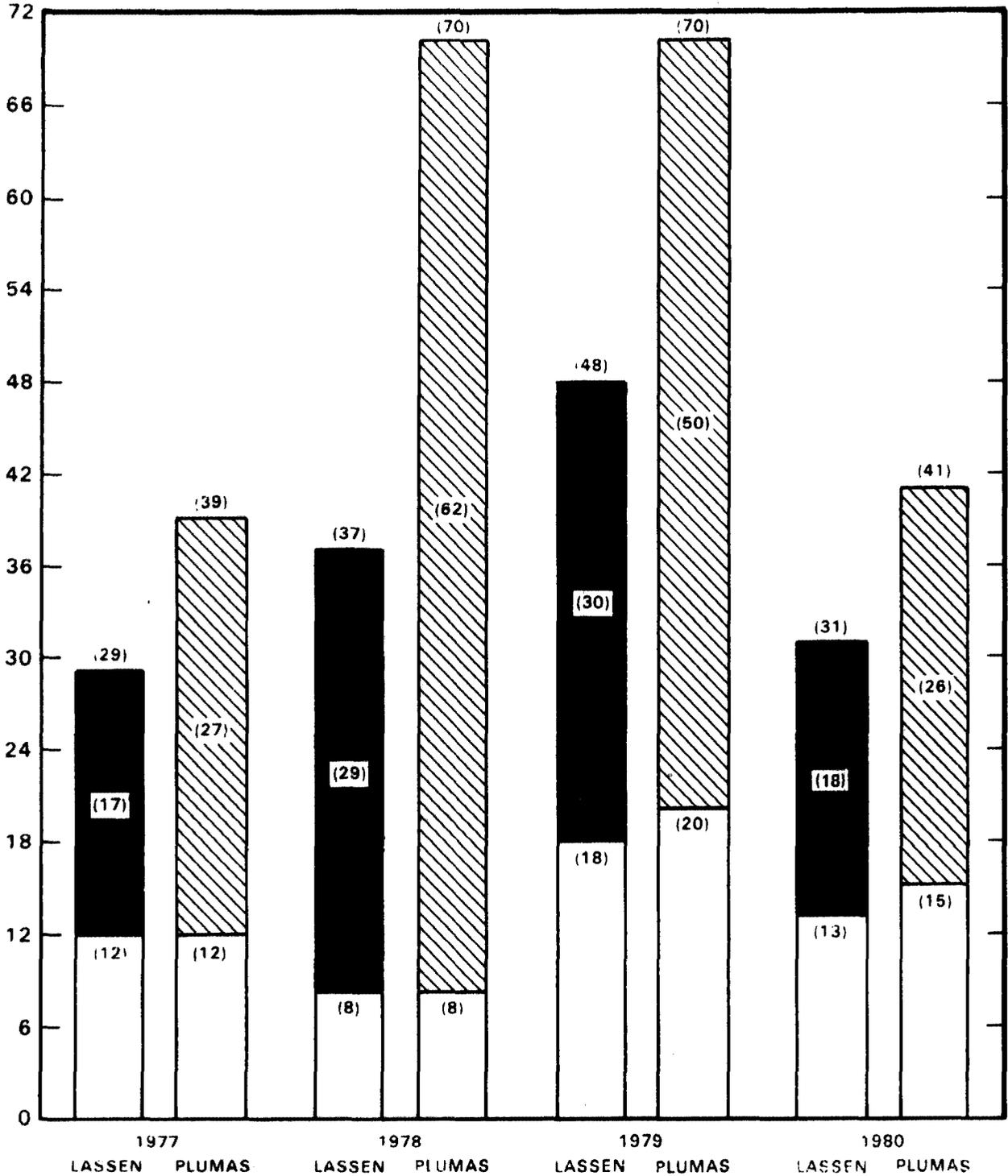
The increase in Plumas' salvage sales in 1978 and 1979 was not accompanied by a corresponding increase in experienced staff to handle the additional work. According to the Plumas timber officer, Plumas asked the region for additional staff to help with the 1978 salvage program but the region provided 12 inexperienced persons who were temporary summer hires or Comprehensive Employment and Training Act (CETA) employees. No experienced timber staff were detailed from other national forests. Excluding sale administration officers in the forest office and ranger district offices, about 40 percent of the Plumas timber staff in 1978 and 1979 were in their first year of timber sale administration.

Inexperienced timber sale administration staffing was particularly prevalent on Plumas' La Porte Ranger District in 1978--7 of the 11 staff workers were in their first year of timber sale work--and on its Greenville Ranger District in 1979--10 of the 14 staff workers were in their first year. Trying to use a proportionately large number of inexperienced staff workers affects the work output of even the more experienced staff because more time must be devoted to training and supervision.

The Forest Service Pacific Southwest Region did not have formal contingency plans to deal with emergency insect infestation conditions. According to the region's timber management staff, the region relied on the national forests' entomologists to

**COMPARISON OF NUMBER OF TIMBER SALES (CONTRACTS OVER \$2,000)
LASSEN AND PLUMAS NATIONAL FORESTS
CALENDAR YEARS 1977-80**

NUMBER OF SALES



 GREEN SALES

 LASSEN SALVAGE SALES

 PLUMAS SALVAGE SALES

report insect conditions promptly, at which time regional and national forest staffs were to meet to decide what action was needed. Regional staff told us that the region did not have experienced timber staff available to detail to the Plumas National Forest because all regional forests were experiencing similar problems, only to a lesser extent.

The relatively low experience level of Plumas' timber staff coupled with the increased sale workloads adversely affected the forest's timber sales program during a critical 4-year period.

HARVESTING OF UNDESIGNATED TREES

Complaints were raised about harvesting undesignated trees, especially green trees on salvage timber sales. Some green trees normally are harvested on all salvage timber sales to provide clearance near loading areas and roads and for specific purposes such as controlling the spread of infestation. However, additional cutting of undesignated green trees took place in some cases and was not discovered by sale administrators during their normal supervision of timber harvest operations.

A 1977 multiregion Forest Service report on log accountability practices commented on staff complacency about cutting undesignated trees and the failure to regard this as a major concern of sale administration. The report noted that most timber sale administration staff believed undesignated trees were being cut but claimed they did not have enough time to check for it.

We examined available files on 10 Plumas timber sales on which complaints were raised in material furnished for our consideration. (See app. II.) On 3 of the 10 sales, the sale files documented that undesignated trees had been cut. Following is a discussion of the three sales.

On one salvage timber sale, a Forest Service investigation team found that possibly 140 undesignated green trees had been cut, representing about 6 percent of the presale estimated timber volume. Timber sale administration staff had not identified this widespread occurrence. Instead, the matter surfaced when a Forest Service inspector noted numerous unmarked tree stumps and green cut trees while checking on a complaint about a possible trespass into the salvage sale area by loggers harvesting trees on adjacent private land. Two months earlier the sale administration staff had reported that it was unable to monitor the sale effectively because of the difficulty of systematically checking on the purchaser's loggers who were felling trees and logging primarily by helicopter in remote areas away from roads.

The penalty assessed against the salvage contractor for cutting green trees was \$6,192 and did not cover unmarked stumps where logs had been removed from the sale area. The penalty was assessed on only about 90 unmarked cut green trees (182,000

board feet) still in the sale area. Most of these trees were pines for which the contractor was penalized an additional \$3 per 1,000 board feet--the bid price for salvage pine. The contractor has appealed the matter to the Department of Agriculture's Board of Contract Appeals.

On another salvage timber sale, the same contractor was cited for cutting 21 undesignated trees. The penalty, totaling only \$187, was canceled because of confusion about tree marking on the sale and the small timber volume involved.

The third sale was a green timber sale on which a penalty of \$20,047 was assessed for cutting a tree that was protected and fenced and was of a specie on which the contractor had bid a very high price. The contractor has appealed the penalty.

IMPROPER MARKING AND HARVESTING OF GREEN TREES ON SALVAGE SALES

Tree-marking practices during the insect-infestation period also contributed to complaints about improper cutting of green trees on salvage timber sales. Although we were unable to firmly establish the magnitude of the problem, indications were that green trees were often being cut on salvage sales because tree-marking instructions were unclear and difficult to carry out. Also, some confusion about the instructions to contractors, in cases where cutting unmarked trees was authorized, resulted in different interpretations among Plumas timber staff. According to the Forest Service, while some green healthy trees must be cut near loading areas, skid trails, and roads and to control the spread of insect infestation, they should not be cut for other than essential purposes on a salvage sale.

Identifying insect-infested trees to be marked for cutting on a salvage sale is a highly subjective process. Even among experienced timber staff, opinions often differ about whether a specific tree should be marked for cutting. It is not surprising that problems surfaced when Plumas used inexperienced staff, including temporary hires and CETA employees, to mark trees on salvage sales--often concurrently with actual harvest operations. Under such circumstances, contractors could have had some influence on tree-marking decisions. One private timber company representative characterized the Plumas markers as "inexperienced" and questioned whether they could withstand "the pressure and friendly persuasion" of contractors.

Confusion also existed among Plumas staff about which trees to mark as high-risk live trees. These are green trees of poor vigor that are not expected to live until the next planned entry into a sale area. On other than helicopter-logged sales, the practice at Plumas was to mark high-risk live trees on salvage sales only when required to satisfy timber volume guarantees provided for in timber sale contracts.

A Forest Service Pacific Southwest Region report on the management of one Plumas salvage sale noted the lack of experienced staff to fill critical jobs and commented on misunderstandings that existed about the marking of high-risk live trees. On that sale, trees marked for harvest included high-risk live trees not needed to satisfy timber volume guarantees. The report also said that the purchaser had exerted influence on two inexperienced Forest Service staff marking the sale.

On helicopter-logged salvage sales, the practice at Plumas was to harvest both dead trees and live high-risk trees concurrently because of the cost associated with helicopter logging and the infrequency of entries into areas where such logging is the only environmentally acceptable alternative. The objective is to minimize insect-infestation spread and recover as much commercially merchantable timber as possible from trees that would otherwise die and deteriorate before the next harvest in the sale area. Therefore, on helicopter-logged salvage sales, some green trees will be marked and cut even though they are not insect infested.

In June 1978 the Plumas timber officer authorized the use of certain shortcut procedures to enable the preparation and administration of additional salvage timber sales. Under these procedures contractors were allowed to cut dead unmarked trees, which were described as those without any green limbs. Subsequent salvage sale marking guidelines issued in August 1978 provided that unmarked straw-colored, brown, and red trees, as well as trees with no green needles, could be cut. While the procedures authorizing the cutting of unmarked dead trees may have expedited the salvage program, they also created confusion because they were interpreted differently by different members of the Plumas timber staff. Also, while contractors were authorized to cut unmarked trees, the timber staff did not monitor timber harvests sufficiently to ensure that only dead unmarked trees were cut.

Forest Service records on one timber sale that we checked indicated that a district sale administrator interpreted the August 1978 procedures as permitting the cutting of slightly faded trees and that authorizing the purchaser to cut such trees resulted in live trees being cut. Regional Forest Service staff investigating the sale concluded that the Plumas timber staff's surveillance of harvesting operations on the sale was inadequate and that the purchaser could have interpreted the cutting instruction as authorizing the cutting of certain unmarked trees that were not dead.

The Plumas Forest Supervisor subsequently revised the definition of a dead tree--as being a tree that is completely dead with no green needles--and directed that where staffing permitted, all trees should be marked and that frequent inspections should be made of harvesting operations in those cases where the cutting of unmarked trees was authorized.

LOSS OF REVENUE FROM LAX
MONITORING OF LOGGING SYSTEMS

The Plumas timber staff's monitoring of logging systems used to yard 1/ timber on helicopter sales was inadequate and did not protect the Government's interests.

The cost of helicopter logging, which is greater than the cost of other methods such as tractor logging, is taken into account by the Forest Service in computing appraised timber sale values. Generally, other things being equal, timber would have a lower appraised value on helicopter sales than on tractor sales. Consequently, a timber sale awarded on a helicopter-logging basis but subsequently tractor logged results in lost sales revenue to the Government unless there is a price adjustment.

Seven of the 10 Plumas timber sales we reviewed were appraised and awarded on the basis of 50 to 100 percent of the timber being yarded by helicopter. On three of the seven sales, Plumas staff authorized additional tractor logging after the sales were awarded. With one exception, the Plumas staff was unable to provide information on how much timber was actually logged by tractor on these sales.

On the one sale for which information was available, we estimated that the Government lost \$155,000 because the sale was appraised and sold on the basis that the timber would be two-thirds helicopter logged but was subsequently 70-percent tractor logged without a price adjustment. Helicopter yarding and loading costs had been appraised at \$55 per 1,000 board feet more than tractor logging. The purchaser thus was awarded the sale based on helicopter costs but logged the timber mostly by the less costly tractor method.

Because Plumas did not have procedures to account for how much timber was harvested on a sale under different logging systems and did not always account for how much was authorized under different methods, there was no assurance that the timber was being logged in the manner prescribed for the sale or that contract price adjustments were made where appropriate. We were able to estimate the lost revenue for the sale discussed above only because tractor logging was essentially completed before any helicopter logging was done.

RELAXING TIMBER SALE PRACTICES TO MAXIMIZE
HARVEST OF DYING TREES RESULTED IN SALE
EXTENSIONS AND HARVEST OVERRUNS

Complaints and considerable controversy have been directed at contract extensions and harvest overruns on Plumas timber

1/Haul logs from stump to loading area.

sales. For the most part, Forest Service actions to extend contracts and permit harvest overruns seem appropriate and beneficial.

From July 1977 through June 1980, substantial volume overruns were common on Plumas' salvage sales. Of the more than 200 salvage sales during this period, we identified 95 salvage sales where the volume of timber harvested and paid for exceeded the sale volume estimate by at least 50 percent. On sales during the previous 5 years, overruns of this magnitude were rare at Plumas. While the shortcomings in timber sale administration discussed earlier may have contributed in part to the harvest overruns, two other factors appear to have played a major role in causing overruns: (1) abandoning normal timber volume estimating procedures to expedite the awarding of salvage sales and (2) extending salvage sale harvest periods to maximize the recovery of timber from dead and dying trees.

The harvest overruns generally were beneficial in that Plumas recovered substantial amounts of timber from dead and dying trees that otherwise would have likely rotted in the forest. The overruns and sale extensions occurred on salvage sales awarded to both large and small purchasers; we did not find evidence of any pattern of preferential treatment of either large or small timber operators. Bid values obtained on sales with harvest overruns seemed generally in line with those on sales without large overruns except for helicopter-logged sales where competition was often absent.

Deviation from normal estimating procedures

In 1978 when the insect infestation reached epidemic proportions, Plumas stopped conducting its salvage sales program on a business-as-usual basis. Management established special objectives to contend with the high tree mortality rates and modified and relaxed its sales preparation standards to enable available staff to achieve those objectives. To control the spread of bark beetles and recover the economic value of the affected timber before it rotted, Plumas worked toward removing as much of the infested timber as possible within a year of its death.

Normal procedures for estimating timber volumes on salvage sales were described by one Forest Service representative as being "painfully slow." Normally, each tree to be included in a sale is required to be marked before the sale is advertised and the timber volume is estimated by cruising 1/ the sale area.

Under the relaxed salvage sale procedures, trees in sale areas were often not premarked but instead were marked concurrently with logging activities. Presale timber volume estimates

1/Surveying forest land to locate timber and estimate its quantity by specie.

were still made but were cautious and conservative. Recognizing that timber volume could not reasonably be measured until the trees were marked, Plumas offered guaranteed timber volumes. The guarantees provided that at least 75 percent of the estimated volume would be marked. If less timber volume was marked, the difference was to be made up by marking higher value green timber. Consequently, to reduce the possibilities of including green timber in salvage sales, the timber staff estimated intentionally low volumes without considering tree mortality rates.

Extensions of timber sale periods

Plumas also adopted liberal sale extension policies between 1978 and 1980 to expedite the sale and removal of insect-infested timber. The adoption of these policies seems appropriate given the circumstances at the time. Time extensions were granted in both green sales and salvage sales while staff continued to prepare new salvage sales in other areas.

Plumas extended green timber sale periods to enable large timber purchasers to shift their logging activities from green sales to salvage timber sales. Plumas' objectives from 1978 to 1980 were to sell and harvest as much of the insect-infested salvage timber as possible. To do this, Plumas deemed it necessary to obtain the cooperation of the large, high-capacity timber companies that were harvesting green timber under other Forest Service contracts. By extending the time periods on these green sales when the firms bought salvage sales, Plumas enabled the firms to participate in its salvage program. The length of the extension was based on the time needed to complete the salvage sale.

Plumas granted salvage sale extensions to maximize the volume of insect-infested timber that could be harvested. Extending these sales helped stop the further spread of insect infestation and related tree mortality during the time it would have taken otherwise to close down the existing sales and prepare and award new sales. This policy also allowed Plumas to use its limited staff resources for preparing and offering sales in other areas where logging was not already in progress.

Timber harvested on salvage sales substantially overran presale estimates

Active timber sale listings for Plumas for the period July 1977 through June 1980 contained 95 salvage sales where timber harvest volumes exceeded presale estimates by at least 50 percent. Overruns of this magnitude occurred only on salvage sales and exceeded presale estimates by some 119 million board feet of timber. Had these sales been closed when presale volume estimates were attained, much of this timber would have been lost during the time it would have taken Plumas timber staff to close existing sales and prepare and award new sales.

As illustrated in the table below, the distribution of overrun sales by size of purchaser does not indicate any pattern of favoritism to either large or small purchasers.

Overrun Distribution by Purchaser Size,
1977-80 Salvage Sales, Plumas National Forest (note a)

<u>Purchaser size by number of employees</u>	<u>Number of overrun sales</u>	<u>Average percent of overrun</u>	<u>Percent of total overrun volume</u>
0- 50	52	232	15
51-100	15	315	23
101-250	2	261	5
251-500	14	358	30
Over 500	<u>12</u>	212	<u>27</u>
Total	<u>95</u>	264	<u>100</u>

a/Timber sales where presale timber volume estimates were exceeded by 50 percent or more.

Bid values for Plumas salvage sales with substantial overruns were generally in line with those on nonoverrun sales, with the exception of helicopter-logged sales on which competition was often absent. We compared the average bid values on salvage sales awarded during calendar years 1977-80 where the winning bid was \$2,000 or more. On non-helicopter-logged sales, the average appraisal and bid values on salvage sales with substantial harvest overruns were about the same as on other salvage sales. In both cases, the average bid value was about \$80 per 1,000 board feet, as summarized in the following table.

Non-Helicopter-Logged Salvage Sales
Awarded During Calendar Years 1977-80
Plumas National Forest

	<u>Number of sales</u>	<u>Average appraised value (note a)</u>	<u>Average bid value (note a)</u>
Sales with harvest overruns of 50 percent or more	55	\$36.20	\$76.62
Other salvage sales	96	37.08	82.22

a/Per 1,000 board feet.

On helicopter-logged salvage sales, the average bid value was considerably less--particularly on sales with substantial harvest overruns--and may reflect the absence of competition on most of these sales. The following table summarizes the average bid values on Plumas' 16 helicopter-logged salvage sales that were active during the quarter ended June 1980.

Active Helicopter-Logged Salvage Sales
Quarter Ended June 1980
Plumas National Forest

	Number of <u>sales</u>	Average appraised value <u>(note a)</u>	Average bid value <u>(note a)</u>
Sales with harvest overruns of 50 percent or more	7	\$8.12	\$17.31
Sales without overruns	9	4.77	48.27

a/Per 1,000 board feet.

The average bid value on helicopter salvage sales on which there was competition was \$81 per 1,000 board feet compared with only \$9 on helicopter salvage sales with only one bid.

Plumas timber managers emphasized that their primary objective was to recover as much timber as possible from the dead and dying trees. Salvage sales requiring helicopter logging were prepared in those cases where it was known there was an interested buyer--even if there was only one potential buyer. Without competition only minimum bid values were obtained, but the alternative was not to award a sale and have the timber rot in the forest. With the high tree mortality resulting from the drought and bark beetle infestation, considerable timber would have been lost.

CONCLUSIONS

The Pacific Southwest Region needs to be better prepared to deal with future insect infestation epidemics in Plumas. Regional contingency plans need to be developed to facilitate the detailing of experienced timber staff to assist those national forests facing epidemic conditions. The contingency plan needs to define specific emergency procedures for preparing and administering insect salvage timber sales so timber staffs have a clear understanding of their responsibilities.

Also, Plumas needs to improve its timber sale administration to ensure that timber harvests are adequately monitored. Emphasis needs to be placed on the timely inspection of harvested areas to identify any cases of cutting undesignated trees. In addition,

logging systems used on a sale need to be closely monitored to ensure compliance with sale requirements and appropriate price adjustments for any significant deviations from the logging systems prescribed at the time of award. This is especially important when less costly tractor logging is substituted for helicopter or other logging originally used to appraise the sale.

- - - -

Because our review only covered certain activities of the Pacific Southwest Region and more specifically those of Plumas, we are not making Service-wide recommendations. However, because Forest Service activities covered by our review are conducted nationwide and operate within the general policies and procedures provided in the Forest Service Manual, conditions similar to those found in Plumas and the Pacific Southwest Region may be occurring elsewhere. Accordingly, we believe that the Secretary should require the Forest Service to determine if the following recommendations would be appropriate for other regions or Service-wide.

RECOMMENDATIONS TO THE SECRETARY
OF AGRICULTURE

We recommend that the Secretary of Agriculture require the Forest Service to improve its timber sale preparation and administration program in its Pacific Southwest Region by:

- Developing formal contingency plans to deal with future insect-infestation epidemics. The plans should provide for the timely detailing of experienced timber staff to national forests facing insect epidemic conditions. Also, formal written emergency procedures should be developed for preparing and administering insect salvage timber sales.
- Developing specific procedures for administering timber sales with multiple logging systems. These procedures should provide for closer monitoring of the timber volume harvested under various logging systems to facilitate price adjustments where appropriate. Unless special controls are provided, tractor logging should not generally be allowed until helicopter logging requirements on a sale are satisfied.
- Reemphasizing the need to closely monitor timber harvest operations to ensure that only designated trees are harvested on salvage sales and violations can be identified more timely.

CHAPTER 3

MILL-DECK-DEFERRED SCALING IS

DISADVANTAGEOUS TO THE GOVERNMENT

Elimination of mill-deck-deferred scaling would help assure that the Government is paid for all timber harvested on Forest Service sales. Small loggers and mill operators have complained that some large companies receive preferential treatment because they are able to defer paying for timber harvested under mill-deck-deferred-scaling arrangements. Despite previous Forest Service attempts to eliminate this arrangement, it has been allowed to continue for some large mills. The resulting financial loss to the Government is difficult to estimate because two unknown factors are involved: (1) the normal inventory loss rate of each mill with deferred scaling and (2) the volume of unaccounted-for Government timber that is milled as company timber. Significant discrepancies between company and Forest Service inventories of national forest timber have been common and have resulted in unexplained downward adjustments in Forest Service timber volume involving millions of board feet of Service timber.

The Forest Service is the only major U.S. timber seller that deals on a deferred-scale-for-payment basis. Despite the added administrative efforts involved in trying to maintain timber inventory records for deferred-scale sales, the Forest Service does not know the value and volume of Government logs stored at purchasers' mills. In view of the weak accountability and other inadequacies and disadvantages associated with deferred scaling, we believe immediate steps should be taken to discontinue this practice.

SCALING DETERMINES PAYMENT TO THE GOVERNMENT

Normally, the Government is paid for national forest timber and transfers ownership of the harvested logs to the purchaser at the time logs are scaled to determine their volume of merchantable timber. When title to the logs is transferred, the purchaser absorbs any subsequent volume losses in holding the logs or processing them into lumber. Of the 147 million board feet of timber scaled in 1980 on the Plumas National Forest, 56 percent was scaled for volume and payment at the time the logging trucks were leaving the sale area and an additional 13 percent was scaled as logs were delivered at mill yards. The remaining 31 percent was scaled under mill-deck-deferred-scaling arrangements.

A timber purchaser with a deferred-scaling agreement stores the logs at the mill but does not make final payment for or accept ownership of the logs until they are scaled and made ready for cutting into lumber. However, the Forest Service requires that advanced cash deposits be made for all timber that has been removed from the sale area for more than a month. For periods that can range up to a year or more, the Government retains ownership and

incurs the financial risks and losses for the unscaled logs stored at the purchaser's mill.

According to Pacific Southwest Region officials, the timber industry has resisted the region's attempts to add stronger accountability controls to deferred-scaling arrangements. Deferred-scaling arrangements benefit 13 mills in northern California which purchase about 25 percent of the region's annual timber volume.

DEFERRED SCALING RESULTS IN DUPLICATE SCALING OF LOGS

Deferred scaling results in duplicate scaling of Government logs--once by the purchaser and again by the Forest Service. Logs are first scaled by either company or bureau 1/ scalers as they are received at the mill yard. The purchaser uses the scale for inventory, tax, and other accounting purposes; the Forest Service uses it to estimate the value, volume, and species of Government logs entering the mill deck. The same logs, however, are scaled again by Forest Service scalers just before the logs are to be cut into lumber. The Forest Service scale is the basis for determining payment due the Government.

Scaling the same logs twice is wasteful. Company or bureau scalers are present whenever loads of logs are delivered to the mill and Forest Service scalers also make sample check-scales at this time. Subsequently, when logs are to be cut into lumber, a Forest Service scaler must be present to scale Government logs and, even if Government logs are not being cut, to ensure that no Government logs are milled as company logs.

The duplication of effort could be avoided if the initial scale was used as the basis for determining payment. For example, a few mills that previously operated under a mill-deck-deferred-scaling arrangement have changed to a procedure where logs are scaled by a bureau scaler, check-scaled by the Forest Service, and paid for by the purchaser when the logs arrive at the mill yard. Forest Service and industry representatives we interviewed believe this would be a feasible alternative for mills currently under a deferred-scaling arrangement.

DEFERRED SCALING REQUIRES ADDITIONAL ADMINISTRATIVE WORK TO ACCOUNT FOR GOVERNMENT LOGS

When deferred scaling is allowed, special administrative requirements not necessary under other forms of scaling are required. Because a year or more can elapse between removing

1/Northern California Scaling Bureau, a third-party organization, provides timber scaling services in California.

logs from a national forest and scaling them for payment, the Forest Service must have an inventory system for determining and recording the volume and value of logs stored at purchasers' mills. This system involves continuous updating of Forest Service records for each deferred-scale sale, including estimates of volume additions and adjustments for actual volume scaled.

Although we found no formal studies quantifying the amount of additional work involved in maintaining these inventory records, a 1977 informal study by the Plumas scaling staff estimated that deferred-scale sales required 20 percent more administrative time than other sales. One Forest Service sales administrator told us that routine recordkeeping on sales with deferred scaling required twice as much time to administer.

The job of keeping inventory records is further complicated on sales where logs from one sale are hauled to two or more different mills. Sales that are split-hauled this way may be subject to different scaling arrangements. These sales require additional recordkeeping to account for the portion of the sale that is deferred-scaled and that portion on which other scaling procedures were used.

The additional attention that has to be given to sales inventory records because of the increased risk to the Government under deferred-scaling arrangements would not be required under other types of arrangements where accounting for unscaled Government logs is not needed.

ACCOUNTABILITY FOR GOVERNMENT LOGS STORED AT MILL DECKS IS UNSATISFACTORY

Under deferred scaling, the Forest Service does not have adequate assurance that all national forest logs harvested will be paid for and credited to the proper timber sale. Logs are identified by sale brands marked on the log end. To maintain log accountability, the logs must be presented for scaling with the identifying brands intact. However, breakage and deterioration as well as commingling of the logs increase the difficulty of accounting for Government logs stored at a mill. Logs stored at a purchaser's mill before scaling are subject to damage from handling during transportation and storage. Once at the mill, the logs may be stored in decks with logs from other Government and private sales.

Studies by Agriculture's Office of Inspector General and the Forest Service have identified large unexplained volume adjustments to Forest Service records on sales to purchasers with deferred scaling. One example from the Plumas National Forest cited by the Office of Inspector General involved unexplained downward adjustments totaling almost 2.6 million board feet of timber valued at over \$400,000. These adjustments were made over a 4-month period on the basis that the Forest Service sale administrator placed more confidence in the company's records than in the Forest Service's own inventory records.

Deferred scaling reduces the Government's assurance that all logs removed from the national forest will be scaled for payment. Because of poor log accountability under deferred scaling, it is difficult for Plumas to be sure that its own inventory records are accurate. Consequently, Plumas has generally relied on a purchaser's record to resolve any volume differences.

Of the 10 sales we reviewed, 2 were deferred-scale sales. Each involved a dispute between the Forest Service and the timber purchaser about the timber volume inventory. In each dispute, the purchaser claimed no remaining log inventory although Plumas records indicated that the purchaser had logs that Plumas had not yet scaled for payment. In one case, involving about 640,000 board feet valued at over \$21,000, Plumas adjusted its records to reflect the purchaser's claim that all timber had been cut and scaled. In the other case, involving about 169,000 board feet of the sale's high-bid species valued at over \$52,000, no agreement had been reached at the time of our review.

Some volume differences may be explained by log breakage and the subjective nature of scaling, and some differences may be due to Forest Service error. Nevertheless, the existence of such large discrepancies is disturbing and illustrates the significance of the problem of maintaining adequate accountability for Government logs under deferred-scaling arrangements.

The Forest Service is aware of the accountability problems caused by deferred scaling. The objective of a recent regional Forest Service review of four mill deck sites is to recommend procedures to improve log accountability at the mill decks within the current deferred-scaling framework. We believe a preferable alternative is to discontinue deferred scaling.

DEFERRED SCALING CREATES A COMPETITIVE ADVANTAGE FOR A FEW PURCHASERS

Deferred scaling provides preferential treatment to a select group of large timber purchasers and can provide a competitive advantage over those without deferred scaling.

According to Pacific Southwest Region officials, mill-deck-deferred scaling generally results in a net scale about 3 to 6 percent lower than would be obtained under other scaling methods and consequently lower payments by the purchaser to the Government. The lower net scale can be attributed in part to such factors as the increased log damage caused by deterioration, the extra handling during transportation and storage at the mill, and the more stringent examination of logs for defects when logs are debarked and presented individually for scaling.

Mills with deferred-scaling arrangements may also benefit from timber sale contract price adjustment clauses. Many Forest Service timber sale contracts provide for quarterly price

adjustments based on changes in lumber market selling prices. Purchasers of national forest timber are charged on the basis of the prices in effect at the time the timber is scaled for payment. Under this procedure, a downturn in the market can result in lower prices paid.

In this regard, we noted that in a 1970 report, Agriculture's Office of Inspector General pointed out that the Government suffered a loss by not charging the rates in effect when timber was cut and removed from the national forest. The report estimated an annual loss of hundreds of thousands of dollars in sales revenues to the Government for the 20 mills studied. However, this report is over 10 years old, and we are not certain to what extent its findings may reflect today's conditions.

STUDIES CRITICAL OF MILL-DECK-DEFERRED SCALING

During the past 10 years, studies by Agriculture's Office of Inspector General and by Forest Service staff have concluded that mill-deck-deferred scaling is not in the Government's best interests. Four of the five reports we reviewed recommended that the Forest Service discontinue mill-deck-deferred scaling. The reports cited many of the problems discussed above and stressed the difficulty of maintaining adequate log accountability under mill-deck-deferred-scaling conditions. However, the Forest Service still permits this arrangement notwithstanding the problems that have been reported.

Although the Forest Service has tried to eliminate this arrangement, the current Forest Service policy is that existing arrangements will be maintained but no new mill-deck-deferred-scaling arrangements will be authorized. During the past 9 years the number of deferred-scaling sites in the Pacific Southwest Region has dropped from 41 mills representing 75 percent of the region's total sales volume to 13 mills accounting for 25 percent of total volume. According to regional representatives, these remaining purchasers are strong advocates of deferred scaling.

Several purchasers with mill-deck-deferred-scaling arrangements told us that this arrangement provides the Government with the most accurate scale of national forest logs and allows Forest Service scalers year-round employment under the best scaling conditions. We believe, however, that the disadvantages of mill-deck-deferred scaling to the Government and the preferential treatment and competitive advantages provided a select group of companies more than offset any advantages.

CONCLUSIONS

Mill-deck-deferred scaling is a Forest Service practice that needs to be discontinued. This form of scaling creates additional problems in administering timber sales, does not provide adequate accountability over Government logs, and results in

financial loss to the Government. The Forest Service needs to use other approved scaling arrangements that will provide equitable treatment to all Forest Service timber purchasers and reduce the risk of financial loss to the Government.

RECOMMENDATION TO THE SECRETARY
OF AGRICULTURE

We recommend that the Secretary of Agriculture require the Forest Service to discontinue mill-deck-deferred-scaling arrangements on future Forest Service timber sales.

CHAPTER 4

TREATMENT OF SMALL COMPANIES PURCHASING

FOREST SERVICE TIMBER

Complaints have been raised about the Forest Service timber sale program on the Plumas National Forest concerning (1) the financial requirements imposed on small versus large loggers and mill operators, (2) the opportunities given small loggers and mill operators to purchase national forest timber, and (3) the use of small companies as agents or brokers by large companies on sales reserved for small companies.

We identified differences in the treatment of large versus small timber sales on Plumas timber involving the cash required for performance deposits and advance stumpage (timber) deposits and arrangements for deferred final payment for timber harvested. While large and small firms can buy both large and small sales, small sales generally are purchased by small businesses. The Plumas National Forest has modified advance stumpage deposit requirements for small companies; however, performance deposits seem out of line and inconsistent and, as discussed in chapter 3, certain large companies still are allowed to defer final payment for harvested timber.

The Small Business Administration considers a small business in the timber industry to be one that has less than 500 employees. Our analysis of timber sales on the Plumas and Lassen National Forests during calendar years 1977-80 showed that companies meeting this criterion were awarded timber sales in excess of the goals established jointly by the Forest Service and SBA. No specific criteria exist about the desirable levels of timber sales for different sized firms within this group. Much of the timber purchased by small businesses has been on salvage timber sales. With the California forests recovering from the drought, the timber available through salvage sales will decline, which may significantly reduce the opportunities for small businesses to purchase national forest timber in the future in Plumas and perhaps other California forests.

National forest timber sales cannot be transferred without Forest Service approval. However, Forest Service and SBA regulations do not require a small buyer to perform any logging on a timber sale prior to selling the timber to a large company that is ineligible for the small business program. We identified situations in our review where little or no logging was done before timber was sold to a large ineligible company. We believe some restrictions to prevent these transactions are in order.

TREATMENT OF SMALL LOGGERS AND MILL OPERATORS

Performance bonds or deposits

Performance bonds or deposits made at the time of contract award protect the Government from purchaser default on contract obligations. In addition to agreeing to cut the timber, the purchaser agrees to satisfy other requirements, such as road maintenance and improvement and removing slash (flammable debris) from the logging site. The performance bond or deposit is set by the ranger district making the sale and is intended to represent an estimate of the cost the Forest Service would incur if a timber purchaser fails to complete the specified contract obligations.

A performance bond is required on all sales with a contract bid value exceeding \$2,000. The minimum bond amount is required to be not less than that needed to cover work required of a purchaser after logging is completed. Therefore, the amount of a performance bond may be equivalent to a higher percent of the contract value for a small sale than for a large sale. On larger sales the performance bond is generally set at 10 percent of the total selling price. On smaller sales the percentage can be higher.

Complaints about performance deposit practices center on the alleged unfairness of allowing large purchasers to use bonding to cover the performance deposit requirement, while smaller companies are unable to obtain such bonding and must use cash. Plumas National Forest timber managers maintain that they do not discriminate against small companies but simply seek to protect the Government's interest. They explained that decisions on who may or may not obtain bonding are made by bonding companies and not by the Forest Service, and that bonding has been obtained by some of the smallest operations on the forest. Plumas timber sale files showed that bonding had been obtained by some small operators.

Performance deposits for small sales on two ranger districts we visited were generally greater than the 10 percent of sales price normally charged on large sales. Sale administrators in these districts explained that in setting performance deposits, they try to balance the performance risks to the Forest Service with the financial limitations of the small purchasers. In the ranger district which has been the target of complaints about deposit rates, records for seven sales that we checked showed that the rates being charged were considerably above 10 percent of bid values. They ranged from 23 percent to 100 percent of bid values. District staff explained that, on a smaller sale, a 10-percent rate might not cover the estimated cost of remedying noncompliance with a purchaser's contractual obligations.

We noted that on the seven sales mentioned above, the performance deposits ranged from 13 percent to 208 percent of the Forest Service's estimates of the performance risks. District

staff said, however, that the district's past experience with small business did not show a pattern of nonperformance problems that requires high performance deposits (compared with total sale value). Accordingly, it does not appear necessary to use a higher performance deposit rate on small sales than is necessary to cover the costs the Forest Service must incur if the purchaser fails to complete his specified contractual obligations. Timber sale purchasers will still need to make a cash deposit if they are unable to obtain sufficient bonding.

Stumpage deposits

Stumpage deposits represent advance payments for purchased timber. Small purchasers have complained that deposit procedures on large sales are more favorable than those on small sales. According to the complaints (1) large firms are allowed to pay the deposit in increments over the period of the timber harvest while small firms must often pay the entire deposit in a single payment and (2) large purchasers do not begin their payments until several years after the sale is awarded while small firms pay soon after contract award.

In response to such complaints, Plumas modified its procedures for small sales in 1979 to increase the opportunity for small purchasers to pay stumpage on an incremental basis. The standard contract for small sales, unlike that for large sales, does not require incremental stumpage payments; however, the modified 1979 procedures base deposit payments on a purchaser's harvesting schedule. Accordingly, on sales where harvest activities will exceed 1 month, a purchaser may make incremental payments monthly. The stumpage payment schedules are to be established by mutual agreement between the purchaser and the Forest Service timber sale officer.

Purchasers on large sales are often able to delay paying the initial stumpage deposit for up to several years, while purchasers on small sales often begin payment within a month of contract award. This happens because the initial stumpage deposit date for any sale is based on when the operator chooses to begin timber harvest operations on that sale. Purchasers, whether large or small, have more flexibility to delay harvest activities on larger sales because the larger sales have longer contract performance periods. According to Plumas officials, the longer contract periods are warranted because of:

- The greater volumes of timber sold on large green sales.
- The more complex preharvest requirements, such as road construction. Roads on some sales take over a year to construct.
- The longer economic life of green timber. Salvage timber deteriorates in relatively short time periods and can lose its economic value in as little as 1 year after mortality.

Notwithstanding the above, however, the long performance periods usually provided on large green sales may be excessive and may result in speculative bidding and stockpiling of Federal timber sales. These concerns are addressed in a separate report we are preparing.

PURCHASE OF PLUMAS TIMBER
BY SMALL LOGGERS AND MILLS

Concerns have been raised about the limited opportunity for small loggers and mill operators to purchase Plumas timber. Two Federal efforts--the SBA set-aside program and the Forest Service/SBA special salvage timber sale program--are directed at making timber sales available to small companies. The set-aside program establishes specific timber volume goals for sales to small companies--those with 500 or less employees. The special salvage program, which is specifically designed to serve the smaller companies with 25 or fewer employees, does not have timber volume goals.

During calendar years 1977-80 the Plumas and Lassen National Forests exceeded the set-aside program goals for sales to small businesses established jointly by the Forest Service and SBA. Small businesses received 35 percent and 21 percent, respectively, of the timber volume sold on Plumas and Lassen National Forests. (See graph on p. 26.)

In a review of eight national forests and two Bureau of Land Management districts several years ago, ^{1/} we reported that firms with fewer than 100 employees had benefited less from the set-aside program than had companies with more than 100 employees. In discussing the issues raised in that report, Forest Service officials said that they had long felt that the timber industry size standard for set-asides discriminates against very small firms.

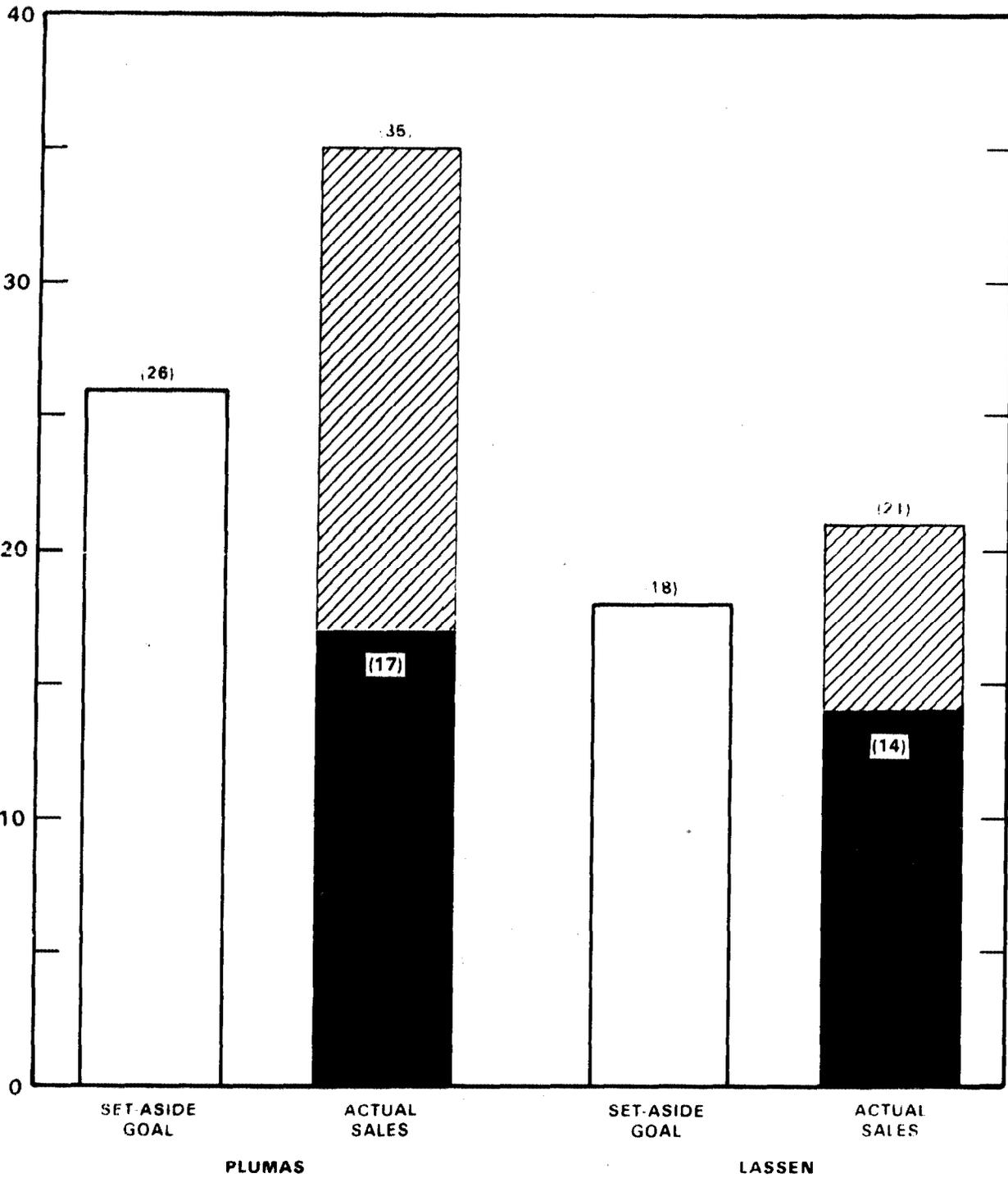
Earlier, in May 1977, Agriculture's Assistant Secretary for Conservation, Research, and Education wrote to SBA on the need for a joint review of the size standard applicable to participation in the timber set-aside program. An SBA official dismissed the need for a joint review. He stated that the issue had been very carefully considered at 1975 public hearings on the size standard, a majority of those attending the hearings had favored retaining the 500-employee standard, and SBA had decided to retain this standard.

Because SBA has no criteria about the desired levels of sales to variously sized small companies, we cannot say whether the smaller companies--for example, those with 100 or less

^{1/}"Allegations Regarding the Small Business Set-Aside Program for Federal Timber Sales" (CED-79-8, Apr. 5, 1979).

**PERCENT OF TIMBER VOLUME SOLD (note a) TO
SMALL BUSINESSES WITH LESS THAN 500 EMPLOYEES
CALENDAR YEARS 1977-80**

PERCENT



SALVAGE TIMBER SALES



GREEN TIMBER SALES

a/ Timber sales with selling value of \$2,000 or more

employees ¹/--are receiving an appropriate share of Forest Service timber sales. Companies with less than 100 employees received about 10 percent of the timber volume sold by Plumas and Lassen during calendar years 1977-80.

The following table classifies the timber volume sold to variously sized purchasers during calendar years 1977-80 on the Plumas and Lassen National Forests.

Timber Sales (note a) by Size of Purchaser
Calendar Years 1977-80

Purchaser size--number of employees	Plumas			Lassen		
	Sales	Volume (note b)	Percent of volume	Sales	Volume (note b)	Percent of volume
1- 25	96	45,615	6	53	29,827	5
26- 99	32	41,822	5	4	24,332	4
100-249	9	9,554	1	11	34,259	5
250-499	28	174,406	23	3	44,730	7
500 and over	<u>56</u>	<u>496,894</u>	<u>65</u>	<u>74</u>	<u>494,182</u>	<u>79</u>
Total timber sales	<u>221</u>	<u>768,291</u>	<u>100</u>	<u>145</u>	<u>627,330</u>	<u>100</u>

a/Timber sales with selling value of \$2,000 or more.

b/Thousand board feet.

Set-aside timber sale program

The set-aside timber sale program is normally only initiated when a small business is not able to acquire its accumulated fair share for the most recent 6-month period. Set-aside sales to small companies (less than 500 employees) on the Plumas National Forest during calendar years 1977-80 represented 6.7 percent of Plumas' total sales volume. However, total sales to small businesses represented 35 percent of total sales volume and exceeded the small business goal of 26 percent established for the program. On the Lassen National Forest set-aside sales represented 11.5

¹/The set-aside program began in 1958 and has had several changes in the criteria on number of employees. For a period of time in 1959, SBA had a 100-employee criterion for the timber set-aside program--the lowest the criteria have been.

percent of Lassen's total sales volume. Lassen's small business goal of 18 percent also was exceeded. (See p. 26.)

The following table presents data on timber sales classified as set-aside sales on the Plumas and Lassen National Forests during calendar years 1977-80.

Timber Volume Sold by Company Size (note a)
Small Business Set-Aside Program
Calendar Years 1977-80

Purchaser size--number of employees	Plumas			Lassen		
	Sales	Volume (note b)	Percent of volume	Sales	Volume (note b)	Percent of volume
1- 25	53	c/23,120	45	3	1,929	3
26- 99	10	27,348	53	2	22,710	31
100-249	2	1,145	2	1	19,490	27
250-499	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>28,130</u>	<u>39</u>
Total set- aside sales	<u>65</u>	<u>51,613</u>	<u>100</u>	<u>8</u>	<u>72,259</u>	<u>100</u>
Percent of total sales		6.7			11.5	

a/Timber sales with selling value of \$2,000 or more.

b/Thousand board feet.

c/Includes special salvage sales.

Special salvage timber sale program

In October 1978 the Forest Service and SBA established a special salvage timber sale program on the Plumas National Forest as a pilot program to reserve certain timber sales for small loggers and mills with 25 or less employees. The first sale under this program was awarded in June 1979. The following table summarizes the timber volume sold to purchasers with 25 or less employees during calendar years 1977-80 on the Plumas National Forest under various types of sale procedures.

Plumas National Forest
Timber Volume Sold to
Businesses with 25 or Less Employees
Calendar Years 1977-80

<u>Type of sale</u>	<u>Calendar year</u>			
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
	----- (1,000 board feet) -----			
Negotiated (note a)	240	710	980	1,500
Open	5,560	9,800	1,830	5,300
Special salvage	0	0	10,240	4,100
Set-aside	<u>150</u>	<u>5,080</u>	<u>1,810</u>	<u>1,730</u>
Total	<u>5,950</u>	<u>15,590</u>	<u>14,860</u>	<u>12,630</u>
Percent of total volume sold to all buyers	3.5	8.4	8.1	7.2

a/Includes sales valued at less than \$2,000. Information on sales less than \$2,000 from one ranger district was not readily available.

The reasonableness of the level of timber sales to small businesses with 25 employees or less is unclear because Plumas had not formally identified the existing market capacity and volume goals for the special salvage program. Forest Service regulations specify that the size of the special salvage program be geared to the existing capability of local qualifying businesses. Plumas timber staff told us that they do not have enough salvage sales that would qualify for the special salvage program to satisfy the capacity of local qualifying loggers and mills.

The timber volume sold under the special salvage program in 1980 was less than half that sold in 1979. To try to increase special salvage sales, the Plumas supervisor directed in December 1980 that all salvage sales involving timber volumes capable of being harvested by small loggers but not involving extensive road construction costs were to be designated as special salvage sales.

The Plumas supervisor told us that the greatest help to small operators would be for Plumas to sell some green timber under the special salvage program. Present SBA regulations do not permit the use of special salvage sale funding for this purpose. The Plumas supervisor has recommended to the regional forester that the Service seek to have the SBA regulations changed to allow green sales under the special salvage program. SBA has advised us that it does not agree that the sale of green timber should be incorporated into the special salvage sale program.

Green timber sales to small business

The following table shows that during calendar years 1977-80, small businesses with less than 100 employees were less successful in purchasing green timber sales than salvage timber sales on the Plumas. These small businesses purchased about 4 percent of the total green timber volume sold compared with 31 percent of the total salvage volume sold. There is no special program designating green timber sales specifically for this category of small businesses. However, about 75 percent of the total green timber volume small businesses obtained was bought under the set-aside program and accounted for all of the green timber sold under the set-aside program on Plumas for the 4-year period.

The following table summarizes the volume of salvage and green timber purchased by variously sized firms during calendar years 1977-80.

Plumas National Forest
Green and Salvage Volume Sold
Calendar Years 1977-80

<u>Purchaser</u> <u>size--number</u> <u>of employees</u>	<u>Green</u>		<u>Salvage</u>	
	<u>Volume</u> <u>(note a)</u>	<u>Percent</u>	<u>Volume</u> <u>(note a)</u>	<u>Percent</u>
1- 25	4,509	1	41,106	20
26- 99	18,959	3	22,863	11
100-249	0	0	9,554	5
250-499	107,766	19	66,640	32
500 and over	<u>430,404</u>	<u>77</u>	<u>66,490</u>	<u>32</u>
Total	<u>561,638</u>	<u>100</u>	<u>206,653</u>	<u>100</u>

a/Thousand board feet.

The Plumas supervisor expressed concern about the future availability of national forest green timber sales to the very small loggers and mill operators. He explained that as the volume of salvage timber sold declines with the forest recovery from the drought, there is no assurance that smaller businesses will be able to continue purchasing the volume of Plumas timber they did during calendar years 1977-80.

As early as 1978 the Forest Service recognized that timber sale offerings in the Pacific Southwest Region, and more specifically the Plumas National Forest, were too large to adequately accommodate smaller businesses. To try to increase timber availability to small businesses, the Service asked Plumas to reduce the size of its individual green timber sales. In October 1980,

as one of its key forest objectives, Plumas provided for a sustained program of small green timber sales, ranging in size from 500,000 board feet to 3 million board feet. The minimum volume target level generally established for the ranger districts under this program is 10 percent of programmed harvest or 3 million board feet, whichever is less.

The extent to which this program will give the smaller businesses opportunities to purchase more green timber sales is uncertain because the program started only recently and these sales are open to all sized companies. However, initial sale awards on one ranger district are encouraging because small businesses with less than 100 employees purchased about half the 3.3 million board feet of green timber sold under the new small-volume green timber sale program.

Depending on the extent to which this new program successfully serves the needs of smaller businesses, the Forest Service should consider expanding the program to other national forests that do not have similar programs. If the program is unsuccessful or only minimally successful, consideration should be given to establishing a program that would reserve some green timber sales specifically for small businesses--as is currently done under the special salvage sale program.

SMALL COMPANIES ACTING AS AGENTS FOR LARGE COMPANIES

Complaints have been raised that large companies are using small companies as agents to obtain Plumas National Forest timber sales reserved for small companies. We identified some special salvage timber program sales where this may have happened, but we could not document what the purchasers' intentions were. It is difficult to distinguish when a logger is functioning as a small independent business versus acting as an agent for a large company. Also, as we previously reported in April 1979, loggers purchasing Forest Service timber often act as log brokers. They buy timber, log it, and then sell the logs where they can obtain the best price. Forest Service and SBA regulations do not require a small timber purchaser to perform any logging before selling the timber to a large timber company.

We reviewed set-aside and special salvage timber sales awarded during 1979 and 1980 to the four small companies that were alleged to have served as agents for a large company to enable the large company to obtain timber on sales reserved for small businesses. One of the small companies that was awarded sales under the set-aside program sold timber to a number of different mills and was actively competing with the larger company for which it was alleged to be an agent. Accordingly, we did not examine this company's sales in detail.

For the other three companies, we identified and examined in detail the seven sales which were awarded them during the

2 years and on which the timber was later sold to larger firms not eligible for the special salvage timber sale program. On six of the seven sales, the small firms sold the timber to the same large company; the timber from the remaining sale went to a different buyer. The extent of actual involvement of the small companies in the logging operations on these sales varied; however, in all cases the large firms were responsible for loading and hauling the timber to the mills for processing. The activities of the small companies ranged from doing all work prior to loading (such as cutting and skidding timber to the loading area) to performing no logging prior to selling the timber to the large company, which did all the logging. For example, on one sale involving 50,000 board feet, the purchaser sold the timber to the large company without performing any logging. On another sale, also involving 50,000 board feet, the small company cut the trees and the large company performed all the other logging work. On a third sale the small company did all the logging except for loading and hauling the timber to the mills for processing.

Although these sales involved small volumes of timber, they represent a potential problem area in the special salvage timber sale program. Forest Service and SBA representatives told us that under present regulations, a small company can act as an agent or broker for a large company as long as it qualifies as being "primarily engaged" in the timber business. They agreed, however, that this represents a program "loophole" which could circumvent the purpose of the program, intended to stimulate and strengthen the competitive position of small businesses, and therefore needs to be addressed.

CONCLUSIONS

The Plumas National Forest has taken some action to modify stumpage deposit requirements on its small timber sales to bring them in line with those for large timber sales. However, further action is needed on Plumas to ensure consistent and fair treatment of all sized purchasers in establishing performance deposit requirements on timber sales.

Plumas National Forest exceeded timber volume sales goals to small businesses with less than 500 employees. However, there are no goals or criteria for assessing whether the smaller businesses in this group (for example, those with less than 100 employees) are receiving a reasonable share of the timber sales. During the period 1977-80 these small logging and mill operations purchased about 11 percent of the timber volume sold, primarily on salvage timber sales. With Plumas and the other California forests recovering from the 1976-77 drought and insect infestation, salvage timber sales should decline and this may significantly reduce timber sale opportunities to the smaller businesses. The program Plumas recently initiated to reduce the size of some green timber sales may lessen this impact on Plumas.

Regulations for the special salvage timber sale program do not prohibit small businesses with 25 or less employees from acting as agents for large businesses to obtain timber from sales specifically reserved for such small businesses. The purchasers of these small sales can sell the timber to an ineligible large company without doing any or only minimal logging on the sale. Regulations for the special salvage timber sale program need to be revised to correct the present loophole whereby the purpose of this special program, intended to stimulate and strengthen the competitive position of small businesses, can be circumvented.

The Forest Service and SBA need to explore the feasibility of establishing timber volume sales goals for smaller businesses within the 500-employee set-aside criterion. The Forest Service should also track the results of the Plumas small-volume green timber sale program for possible implementation elsewhere if needed.

RECOMMENDATIONS TO THE SECRETARY
OF AGRICULTURE AND THE ADMINISTRATOR
OF THE SMALL BUSINESS ADMINISTRATION

We recommend that the Secretary of Agriculture and the Administrator of SBA take the following actions to strengthen the Forest Service's small business timber sale programs.

- Explore the feasibility, including whether legislation is necessary, of establishing goals for timber sales to the smaller logging and mill operations within the present 500-employee set-aside criterion.
- Strengthen the special salvage timber sale program regulations to prevent small timber companies from acting as brokers or agents for large companies. This might be achieved by requiring purchasers to perform some or all of the logging on such sales.

We also recommend that the Secretary of Agriculture require the Forest Service to revise its timber sale performance deposit/bond procedures on Plumas to provide equitable and consistent treatment to all sized purchasers of Federal timber--giving consideration to the financial capability of the buyer and the potential loss to the Government from nonperformance. The Forest Service should ensure through its internal reviews that equitable and consistent treatment in this area and in regard to incorporating incremental stumpage deposits in small timber sale provisions is provided on all forests.

AGENCY COMMENTS AND OUR EVALUATION

SBA agreed with our recommendation regarding the special salvage timber sale program and said that it has begun the required process for a rule change amending the size standard for this program in accordance with the Administrative Procedures

Act. SBA also said that, in addition to the present requirements, the proposed amendment will require that an eligible small business participating in the program perform all requisite tasks of the sale with its own personnel, hauling excepted.

SBA did not agree with the recommendation to explore the feasibility of establishing goals for timber sales within the present 500-employee set-aside criterion. SBA said that a "two-tiered" system would be administratively infeasible and would preclude a reasonable distribution of available timber rather than enhance distribution to small business.

Subsequent discussions with Service and SBA officials have disclosed that a joint Forest Service/SBA study is being made of the size standard for the timber set-aside program with a view toward determining if the present size standard is proper or if some kind of tiered system would be viable. Forest Service officials agreed that under a tiered system, some additional administrative effort would be needed but felt that if the results of the study showed the need for such a system, it would be worth the additional effort and would not preclude a reasonable distribution of timber. Accordingly, we continue to believe that our recommendation has merit.

CHAPTER 5

OTHER COMPLAINTS

Two other complaints about the Plumas timber program involved whether (1) dead or dying trees had been harvested on existing green timber sales and (2) Plumas had a timber management plan.

HARVESTING SALVAGE TIMBER ON GREEN SALES

During the period 1978-80, Plumas had 61 active green sales and took action to recover salvage timber on 39 (64 percent) of the sales which were considered to have extensive concentrations of salvage timber. To do this, Plumas invoked the insect control clause of the 39 sales contracts. Plumas timber managers told us that there were insufficient concentrations of salvage timber on the remaining 22 sales to warrant invoking the insect control clause but that salvable timber would be removed under the existing harvest schedules for the green timber on those sales.

The insect control clause gives the purchaser the option to remove the dead and dying timber in the sale area and to agree on a logging schedule that would enable removal of such timber promptly. If the purchaser declines, the Forest Service will award a separate contract to another firm for this purpose. Plumas timber records showed that on 10 of the 39 sales, the purchasers declined the option and Plumas awarded separate contracts which resulted in the recovery of 20,339,000 board feet of salvable timber. Since the Forest Service does not account separately for salvage timber harvested on green sales, we were unable to identify the actual total salvage volume harvested on the other 29 sales where the purchaser agreed to exercise the contract option.

Plumas timber staff estimated that about 15 percent of the timber volume on the 29 sales was salvage timber--which would amount to about 30 million board feet of timber. However, they said that because some large purchasers did not harvest the salvage timber promptly, some of it deteriorated and less timber was recovered than otherwise might have been. This was particularly true on one sale on which complaints had been raised and on which the Forest Service had invoked the insect control clause. Although the Forest Service and the purchaser agreed that the purchaser would harvest the salvage timber during the 1978 season, the purchaser delayed harvesting until the following year. According to Plumas timber managers' estimates, about 200,000 of the sale area's estimated 500,000 board feet of salvage timber rotted beyond merchantability.

PLUMAS NATIONAL FOREST TIMBER MANAGEMENT PLAN

Plumas has a 10-year timber management plan, prepared in accordance with Forest Service procedures, which covers fiscal

years 1976-85 and supersedes a previous plan adopted in 1960. The plan states that small businesses should be able to purchase a fair share of timber offered for sale. Although recovery of salvage timber on green sales is not specifically mentioned, the plan emphasizes the prompt harvest of timber from disease-, insect-, and fire-killed trees. The plan also includes objectives which are similar to those contained in the Lassen National Forest Plan and which were identified as good program plan objectives in the material given to us. Included among these objectives are (1) encouraging better use of timber products, (2) obtaining optimum growth and yield by harvesting mature timber stands and thinning young timber stands, and (3) enlarging the salvage timber program to utilize dead and dying trees and timber not meeting utilization standards.

CONCLUSIONS

Plumas took action following the 1976-77 California drought to harvest substantial amounts of dead and dying trees on its green timber sales. Some additional salvage timber might have been recovered if Plumas had required more timely harvesting of salvage timber, possibly through separate contracts with small companies where timely harvesting could otherwise not be obtained. However, Forest Service actions resulted in recovering considerable salvage timber from green sales.

Plumas has a timber management plan prepared in accordance with Forest Service procedures along the same general lines as the Lassen National Forest's plan.

FOREST SERVICE PACIFIC SOUTHWEST REGIONTIMBER SALESFISCAL YEAR 1980

<u>National forest</u>	<u>California region</u>	<u>Board feet of timber sold</u>
Klamath	Northern	255,300,860
Plumas	Northern	251,775,870
Lassen	Northern	180,315,650
Tahoe	Northern	158,315,460
El Dorado	Northern	148,839,980
Six Rivers	Northern	146,986,000
Stanislaus	Central	136,693,250
Sierra	Central	135,184,350
Trinity	Northern	126,063,260
Modoc	Northern	111,922,850
Shasta	Northern	86,222,270
Mendocino	Northern	81,815,330
Sequoia	Central	66,631,230
San Bernardino	Southern	12,992,930
Los Padres	Southern	2,054,260
Angeles	Southern	1,624,390
Cleveland	Southern	1,103,000
Tahoe Management Unit	Northern	<u>1,975,770</u>
Total		<u><u>1,920,978,710</u></u>

PLUMAS NATIONAL FOREST TIMBER SALES REVIEWED IN DEPTH

Sale	Type of sale	Prescribed logging system	Sales date	Bids received	Winning bid	Timber volume (note a)	
						Advertised	Cut
Big Hill	Green	100 percent tractor	6-75	10	\$ 940,646	9,500,000	10,107,000
Canyon	Salvage	100 percent helicopter	8-79	1	1,290	200,000	979,000
Claremont	Insect salvage	84 percent helicopter 16 percent tractor	9-79	3	729,000	5,000,000	3,144,000
Cup	Salvage	100 percent tractor	7-80	b/1	b/1,690	45,000	154,000
Gen Wheel	Insect salvage	94 percent helicopter 6 percent tractor	8-78	1	36,734	3,075,000	11,878,000
Light Arm	Insect salvage	99 percent helicopter 1 percent tractor	6-78	2	251,300	4,460,000	8,224,000
Long	Salvage	100 percent helicopter	12-78	3	1,355	129,000	1,999,000
North Canyon	Green	100 percent helicopter	5-75	7	363,100	12,900,000	12,413,000
Overlook	Insect salvage	67 percent helicopter 33 percent tractor	6-78	1	100,121	3,000,000	5,423,000
Sunnyside	Insect salvage	50 percent cable 50 percent tractor	8-78	4	99,313	1,750,000	9,369,000

a/board feet of timber.

b/Negotiated sale with no competition.

PLUMAS AND LASSEN NATIONAL FORESTS
GREEN AND SALVAGE TIMBER SALES (note a)

CALENDAR YEARS 1977-80

	<u>Plumas</u>		<u>Lassen</u>	
	<u>Sales</u>	<u>Volume (note b)</u>	<u>Sales</u>	<u>Volume (note b)</u>
Green timber sales				
1977	12	142,000,000	12	130,000,000
1978	8	101,000,000	8	149,000,000
1979	20	153,000,000	18	126,000,000
1980	<u>15</u>	<u>165,000,000</u>	<u>13</u>	<u>116,000,000</u>
Total	<u>55</u>	<u>561,000,000</u>	<u>51</u>	<u>521,000,000</u>
Salvage timber sales				
1977	27	29,000,000	17	21,000,000
1978	62	98,000,000	29	35,000,000
1979	50	44,000,000	30	36,000,000
1980	<u>26</u>	<u>36,000,000</u>	<u>18</u>	<u>14,000,000</u>
Total	<u>165</u>	<u>207,000,000</u>	<u>94</u>	<u>106,000,000</u>
Green and salvage timber sales				
1977	39	171,000,000	29	151,000,000
1978	70	199,000,000	37	184,000,000
1979	70	197,000,000	48	163,000,000
1980	<u>41</u>	<u>201,000,000</u>	<u>31</u>	<u>130,000,000</u>
Total	<u>220</u>	<u>768,000,000</u>	<u>145</u>	<u>628,000,000</u>

a/Timber sales with selling value of \$2,000 or more.

b/Board feet of timber.

UNITED STATES DEPARTMENT OF AGRICULTURE

FOREST SERVICE
P.O. Box 2417
Washington, DC 20013

JUN 7 1982

2400



Mr. Henry Eschwege
Director
Community and Economic Development Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Eschwege:

The Department of Agriculture has reviewed the draft of a proposed report on timber sales on the Plumas National Forest. Because of the limited time available for review, we have not been able to ascertain the accuracy of the statistical data, and assume it is correct.

The draft includes meaningful information. We have found no substantial errors in the report, but there are a few areas where more information could be used.

Chapter 4 deals with the treatment of small companies that purchase National Forest timber as compared with large companies. However, the discussion is primarily about the differences in requirements between large and small timber sales. Large and small companies buy both sizes of sales, so requirements for small sales do not only affect small companies.

[GAO COMMENT: Report discussion revised.]

On page 22, paragraph 2, differences involving cash required for performance deposits and arrangements for deferred payment for timber harvested were discussed. A performance bond is required on all sales with a contract bid value exceeding \$2,000. The minimum bond amount will not be less than that needed to cover work required of a purchaser after a logging season is completed, such as soil erosion measures, fire line construction, snag falling, road maintenance, etc. Therefore, the amount of a performance bond may be equivalent to a higher percent of the contract value for a small sale than for a large sale.

[GAO COMMENT: We note in the report that in some cases a higher performance deposit rate may be required to cover performance risks on small sales. However, as pointed out in the report, Plumas has required performance deposits on small timber sales in excess of its estimates of the risks.]

Paragraph 2 also refers to deferred payment by large companies because of mill deck scaling. This is the case. However, the Forest Service requires that advanced cash deposits be made for all timber that has been removed from the sale area for more than a month. A payment bond cannot be used to meet this requirement for timber kept in the mill yard.

[GAO COMMENT: Report revised to recognize advance cash deposit requirement.]

Paragraph 4 of page 22 says that Small Business Administration (SBA) and Forest Service regulations do not prevent small companies from transferring sales to large companies who would be ineligible for the small business program. National Forest timber sales cannot be transferred without Forest Service approval (36 CFR 223.8(e)). Timber sales that are set-aside for preferential bidding by small businesses and purchased by a small business may not be transferred to a large business, unless the large business is successor in interest to the purchaser's entire business. Even in this latter case, the big business must ensure that 70 percent (50 percent in Alaska) of the products from the sale are manufactured by firms qualifying as small business.

[GAO COMMENT: Report wording clarified.]

The operation of the small business program for purchase of National Forest timber sales is prescribed by a 1971 agreement between the Department of Agriculture and SBA. Perhaps a review of this agreement could aid the discussion of small company treatment on the Plumas.

The stumpage deposit discussion on pages 24 and 25 analyzes the complaint of small purchasers that deposit procedures on large sales are more favorable than those on small sales. The differences discussed relate to the type of timber sale contracts and size of the timber sale, rather than to large or small businesses.

[GAO COMMENT: Discussion revised to indicate that Forest Service procedures apply to the size of the sale rather than to the size of the purchaser.]

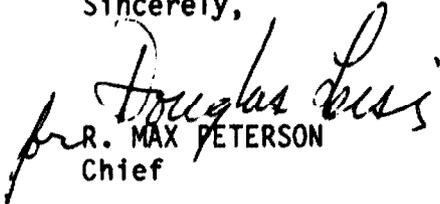
The Forest Service uses several types of timber sale contracts. In all types of contract, the payment has to be made or guaranteed before logging begins. Some sales are lump sum and some are by unit of measure, such as board feet. If the sales are small, the advance payment will probably represent more of the sale value than would be the case in a sale needing several years to complete. Timber sale purchasers, regardless of their size, have to conform to the terms of the timber sale contracts.

[GAO NOTE: Page references have been changed to correspond to the final report.]

Perhaps, if some discussion of the types and sizes of sales and their distribution between small and large businesses were included, it would clarify whether there is a difference between treatment of large and small business.

The recommendations and conclusions in the report generally seem appropriate for the problems discussed in the draft report, but we have not yet made the detailed analyses needed to present specific comments on the recommendations made. We will present our detailed views and action plans in our statement of actions taken as required by section 236 of the Legislative Reorganization Act of 1970.

Sincerely,


R. MAX PETERSON
Chief



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

MAY 28 1982

Mr. Henry Eschwege
Director
Community and Economic Development
Division
U. S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

In response to your letter of May 14, 1982, we are pleased to submit comments on Chapter 4 of the proposed report entitled "Timber Sales on the Plumas National Forest. "Our responses to the two recommendations on page 33 of the report are as follows:

1. "Explore the feasibility of establishing goals for timber sales to the smaller logging and mill operations within the present 500-employee set-aside criteria."

While this recommendation as written does not seek to change the present 500 employee size standard, if it were adopted, it would have the effect of creating a multi-tiered size system. We do not believe this would be in the best interest of the program. As recently as 1980, we again held multiple hearings and invited public comment on the appropriate size standard for the timber set-aside program for small business. A "two-tiered" system was thoroughly reviewed at that time, and our findings were published in the Federal Register of November 12, 1981. These findings read in part: "It is our opinion that a two-tiered system would be administratively unfeasible and would preclude a reasonable distribution of available timber rather than enhance distribution to small business."

[GAO COMMENT: Subsequent discussions with Forest Service and SBA officials disclosed that a joint study of the size standard for timber set-aside sales is in progress and that, as part of the study, consideration will be given to the feasibility of establishing goals for the smaller loggers and mill operations within the present 500-employee set-aside criterion. Accordingly, we continue to believe that our recommendation has merit.

2. "Strengthen the special salvage timber sale program regulations to prevent small timber companies from acting as brokers or agents for large companies. This might be achieved by requiring purchasers to perform some or all of the logging on such sales."

We have previously drawn the same conclusion that your report recommended, and we have already begun the required process for a rule change amending the SSTS size standard, in accordance with the Administrative Procedures Act. In addition to the present requirements, the proposed amendment will require that an eligible small business, for the purpose of participation in the SSTS program, perform all requisite tasks of the sale with its own personnel, hauling excepted.

A further review of the draft indicates that it would be helpful to clarify some of the Small Business Administration (SBA) and U.S. Forest Service (FS) rules, regulations and policies as they pertain to certain issues raised in this report.

At the outset it should be noted that a cursory reading of the report might infer that the set-aside program may not be accomplishing its purpose because only 6.7 percent of the purchases made by small firms were set-aside sales. This inference would be totally inaccurate because the set-aside program is normally only initiated when small business is not able to acquire its accumulated fair share for the most recent six-month period.

In the case of the Plumas National Forest, as opposed to your reference to goals, it should be understood that the historic fair share was 26 percent during the time of this study, and this would represent the proportion of open and set-aside sales that was calculated to be the fair share for small business. In the instant case, 6.7 percent of the timber sold as set asides was needed to protect the small business share. We believe this clarification of the program intent and administration will put this phase of the report in the appropriate perspective.

[GAO COMMENT: Report wording revised.]

In addition the following clarifications are submitted for your consideration:

1. On page 22, the report states that: "Forest Service and SBA regulations do not prevent a small buyer who has done little or no logging on a recently awarded timber sale to transfer the sale to a large company ineligible for the small business program. We identified such situations in our review. Some restrictions to prevent such transactions are in order."

In this regard, 13 CFR 121.3-9 and U.S. Forest Service Manual 2433.34 prohibits the transfer of set-aside sales acquired under preferential bidding "unless the large business is successor in interest to the purchasers entire business." We are not aware of an instance on the Plumas where a transfer of this type did in fact take place.

[GAO COMMENT: Report wording revised.]

2. In the discussion of the SSTS program on page 29, a reference is made to changing SBA regulations to allow green timber sales under the special salvage program.

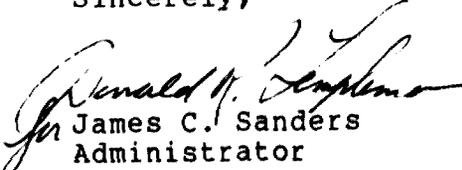
SBA does not agree with the suggestion that the sale of green timber be incorporated into the SSTS Program. The purpose and rationale for the SSTS program continues to be valid and should be maintained to effect an orderly and timely harvest of dead, down, dying and insect infected timber which will benefit small firms, as well as contributing to the improvement of timber utilization and the management of our national forests. Within the present guidelines for the operation of the SSTS program, we will continue to work with the FS to encourage a representative and timely designation of sales of appropriate size that can be best utilized by the small firms in the market area.

While the SSTS program is limited to salvage timber, it does not set minimum or maximum volume amounts, but it is intended to be used wherever and in whatever amounts salvage timber is available. Thus, the only limitations (outside of catastrophic cases) is the amount of salvage timber available. Therefore, small business firms with 25 or less employees have preferential bidding on all the timber offered under the SSTS program and further are also eligible for preferential bidding on the historical small business share as provided in the set-aside program for 500 or less employees. The FS has authorized the implementation of the SSTS program on all national forests.

[GAO COMMENT: SBA's position on this matter is acknowledged in the report. However, we continue to believe that, if necessary (see p. 31), consideration should be given to a special green timber sale program as is currently done under the special salvage sale program.]

Thank you for the opportunity to review and submit comments on the draft report. We will be pleased to further discuss the report if you feel that it would be of assistance.

Sincerely,


for James C. Sanders
Administrator

(021940)



22357

AN EQUAL OPPORTUNITY EMPLOYER

**UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548**

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300**

**POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE**



THIRD CLASS