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REPORT TO THE CONGRESS

Audit Of Commodity Credit Corporation, Fiscal Year 1970

B-114824

Department of Agriculture

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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JAN. 15, 1971

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

B-114824

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the audit of the Commodity Credit Corporation, Department of Agriculture, for the fiscal year ended June 30, 1970. The audit was made pursuant to the Government Corporation Control Act (31 U.S.C. 841).

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of Agriculture.

Elmer B. Staats
Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

AUDIT OF COMMODITY CREDIT CORPORATION, FISCAL YEAR 1970
Department of Agriculture B-114824

D I G E S T

WHY THE AUDIT WAS MADE

The Government Corporation Control Act requires that the General Accounting Office (GAO) make an annual financial audit of the Commodity Credit Corporation (CCC). The audit consists of an examination of CCC's financial statements and a review of the manner in which CCC carries out selected programs and activities.

FINDINGS AND CONCLUSIONS

Financial statements

In view of the character and scope of CCC's operations--particularly commodity inventories and loan collateral--it was not practicable for GAO to perform all the steps of examination and verification needed to reach an independent, overall opinion concerning the accuracy and fairness of the financial statements. (See p. 28.)

Therefore, GAO cannot express an opinion that the accompanying financial statements present fairly CCC's financial position at June 30, 1970, and the results of its operations for the year then ended. GAO believes, however, that

--CCC's accounting methods provided a generally satisfactory record of its financial transactions and

--CCC's financial reporting system generally was adequate to supply management with information for conducting its affairs. (See p. 30.)

CCC reported a record-high loss of $4.2 billion for fiscal year 1970. (Price-support and related operations normally result in a loss.) Such losses are reimbursable through appropriations. At June 30, 1970, unreimbursed losses totaled $7.5 billion--$4.2 billion for fiscal year 1970 and $3.3 billion for prior years. (See p. 18.)

Matters reported by GAO to the Congress or brought to the attention of CCC

CCC needed to obtain from Federal sources information on domestic rice production, sales, and inventories and more precise information on world market prices for use in establishing export subsidy rates. In the absence of Federal information, the Department relied primarily on unofficial and inadequate data. There was also a need for information on exports by types of rice. (See p. 6.)

CCC needed to (1) revise its feed grain program regulations to exclude from the program all land devoted to, or designated for, nonagricultural uses and (2) establish procedures to ensure that program regulations were uniformly and consistently applied at the county level. Under this program, CCC made questionable payments for diversion of land used (or designated for use) for such nonagricultural purposes as housing and commercial development, recreation, hobby farms, country estates, sod nurseries, garbage dumps, and gravel pits. This diversion did not contribute to the program goals of controlling production and maintaining farm income and of conserving land for future agricultural or related uses. GAO expressed the belief that such payments might be widespread and significant. (See p. 9.)

CCC needed to eliminate promptly inconsistencies in price-support regulations. The price-support rate for wheat at Gulf of Mexico ports was equivalent to that paid at interior points plus handling charges and interstate freight charges of railroads for shipping the wheat to the Gulf. The availability of substantial storage space at the Gulf combined with transportation (barge, truck, or export rail) charges that were lower than interstate rail rates gave producers an advantage of 15 to 20 cents a bushel if they placed their wheat under price support at the Gulf rather than at inland points. The Department took action to eliminate this undue advantage but 2 days later rescinded the action when it was informed by farm and trade groups that the movement of large quantities of wheat had already been negotiated. This rescission resulted in a greater investment by CCC in price-support loans. (See p. 12.)

CCC pays billions of dollars annually to farmers and others by use of sight drafts. Weaknesses existed in accounting for and safeguarding sight draft forms and in preparation and issuance procedures. (See p. 15.)

CCC needed to document significant changes in contract terms. CCC paid damages to millers (and others) because of failure to issue delivery notices on time. It appeared that CCC did not have a legal liability because any damages were caused by a longshoremen's strike and not by CCC's failure to issue the notices. CCC explained that the payments were made because it had informally advised the trade that, if delivery was not feasible because of the strike, it would pay for storing the commodities on the same basis established for liquidated damages. (See p. 15.)

RECOMMENDATIONS OR SUGGESTIONS

GAO recommended or suggested corrective action with respect to the preceding matters. (See pp. 7, 11, 13, 15, and 17.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

Generally, corrective action was taken or planned. In connection with rice export subsidy rates, a new policy and revised procedures were adopted for establishing such rates. GAO estimated that the changes reduced commercial rice export subsidy payments by about $23 million in fiscal year 1970 and that substantial reductions would recur in varying amounts each year. (See p. 8.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report includes no recommendations or suggestions requiring action by the Congress. It is submitted to the Congress, as required by law, to disclose the results of the annual audit of CCC's financial statements and such other information as necessary to keep the Congress informed on the operations and financial condition of the Corporation.

Contents

ABBREVIATIONS

ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
GAO	General Accounting Office

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CHAPTER 1

INTRODUCTION

The General Accounting Office has made an audit of the Commodity Credit Corporation for the fiscal year ended June 30, 1970. The scope of the audit is described on pages 28 and 29.

CCC, a wholly owned Government corporation, was created as a corporation under a Delaware charter in 1933 to stabilize, support, and protect farm income and prices; to assist in the maintenance of balanced and adequate supplies of agricultural commodities; and to facilitate the orderly distribution of such commodities. CCC was reincorporated in 1948 as a Federal corporation within the Department of Agriculture, by the Commodity Credit Corporation Charter Act (15 U.S.C. 714).

The principal operations conducted by CCC are price-support programs for agricultural commodities, including the storage, handling, and disposition of commodities acquired under the programs; acreage-diversion programs; and export activities under the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1691)--commonly known as Public Law 480--which are financed by appropriations authorized under statutes providing for the activities.

CHAPTER 2

ORGANIZATION AND MANAGEMENT

Management of CCC is vested in a Board of Directors, subject to the general supervision and direction of the Secretary of Agriculture who is an ex officio Director and Chairman of the Board. The Board consists of six members, in addition to the Secretary, who are appointed by the President of the United States by and with the advice and consent of the Senate.

A bipartisan advisory board of five members, also appointed by the President, surveys the general policies of CCC and advises the Secretary. Officers of CCC are designated according to their positions in the Department of Agriculture. The names of principal officials of CCC during fiscal year 1970 are listed in appendix I. (See p. 49.)

CCC has no operating personnel of its own. Its activities are carried out mainly by the personnel, and through the facilities, of the Agricultural Stabilization and Conservation Service (ASCS) and the Agricultural Stabilization and Conservation State and county committees. Other agencies and offices of the Department and commercial agents also carry out certain phases of CCC's activities.

ASCS administers CCC's activities through its central office in Washington, D.C., and its three commodity offices located in Kansas City, Missouri; Minneapolis, Minnesota; and New Orleans, Louisiana. Responsibilities of the commodity offices include acquisition, storage, transportation, and disposition of agricultural commodities.

The Agricultural Stabilization and Conservation State and county committees carry out certain of CCC's price-support and related activities within the States and counties. There are 50 State offices, an area office in Puerto Rico, and about 2,900 county offices. The State committees supervise the activities of the county committees in their respective States.

CHAPTER 3

SUMMARY OF CERTAIN MATTERS REPORTED BY GAO TO THE CONGRESS OR BROUGHT TO THE ATTENTION OF CCC

RICE EXPORT SUBSIDIES REDUCED SUBSTANTIALLY

Our review of CCC's policy and procedures for establishing weekly rice export subsidy rates resulted in the adoption of a new policy and revised procedures for establishing such rates--the first substantive changes in the administration of the rice export program since its inception in 1959. We estimated that the changes reduced commercial rice export subsidy payments by about $23 million in fiscal year 1970. Substantial reductions will recur in varying amounts each year.

Prior to the change in policy, the objective of the Department's rice export program was to make U.S. rice available in world markets at competitive prices by providing export subsidies to bridge the difference between the lower of U.S. domestic prices or price-support rates and world market prices. Inasmuch as price-support rates had been consistently below U.S. domestic prices, export subsidy rates represented the difference between U.S. price-support rates and the generally lower world market prices. During fiscal years 1964 through 1967--the period covered by our review--CCC paid subsidies of about $142 million on commercial exports of rice.

In our review we noted the following questionable subsidy rate decisions which were made by CCC principally on the basis of inadequate sales and inventory data or unofficial world market information.

1. Export subsidy payments were continued and, in some instances, increased during the period November 1966 to May 1967, although such subsidies were generally not needed because the United States had practically no competition from Thailand, its leading long-grain-rice competitor.

2. Rice export subsidy rates were substantially increased primarily on the basis of unofficial pricing and other information provided by representatives of the rice industry.

3. Subsidy rates were increased for export of all medium- and short-grain rice on the basis of negotiations for a specific export transaction, rather than on the basis of more comprehensive world market pricing data.

In November 1968 we proposed that the Secretary of Agriculture take appropriate action to obtain, from Federal sources, information on domestic rice production, sales, and inventories along with more precise world market price data for use in establishing export subsidy rates. We had pointed out earlier the need for information on exports by types--long-grain, medium-grain, short-grain, and mixed rice--for use in establishing subsidy rates.

The Department advised us in December 1968 that (1) the Bureau of the Census would initiate, in January 1969, the reporting of rice exports by types, (2) efforts to obtain improved world price information would continue, and (3) a further determination would be made on the practicability of obtaining production data through Government channels. The Department did not indicate that any specific change would be made in the method of computing export subsidy rates.

Following our discussions with Department officials, however, the General Sales Manager of the Export Marketing Service--a Department of Agriculture agency created in 1969 to place new emphasis on agricultural export programs--advised us, in letters dated May 7 and July 2, 1970, that a new policy and revised procedures had been adopted by CCC for establishing weekly export subsidy rates.

The new policy is designed to ensure that U.S. rice is generally competitive in world markets. Therefore, export subsidies tend to bridge only part of the difference between domestic and world market prices for rice. In contrast, the previous policy had been designed to provide export subsidies which would make U.S. rice fully competitive in world markets; but, as previously pointed out, such subsidies were, in some instances, higher than necessary to make U.S. rice fully competitive. Notwithstanding the substantial reduction in subsidies resulting from the new policy, U.S. commercial rice export sales in fiscal year 1970 were about the same as the annual average during 1964-67, the period covered by our review.

Under the procedures now being followed, the Department continues to rely on an advisory committee of its rice marketing specialists. In arriving at its recommendations for weekly rice subsidy rates, the committee considers several factors not previously considered, including (1) the availability of U.S. rice for export, by types, (2) the relationship of export sales to export subsidy rates, by types of rice, for use in determining if U.S. rice is generally competitive in world markets, and (3) the degree to which U.S. rice has become established in foreign markets. These factors are consistent with the information which we proposed should be obtained and used in establishing subsidy rates.

The General Sales Manager estimated that, under the new policy and revised procedures, subsidies for fiscal year 1970 commercial rice exports would be about $12.5 million. This amount was about $23 million less than the annual average of $35.5 million in commercial export subsidy payments made during the 1964-67 period for about the same quantities.

In our opinion, the estimated $23 million reduction in subsidy payments under the new policy is conservative because (1) if the previous method of computing export subsidies had been applied to fiscal year 1970 exports, the resulting subsidy payments would have been considerably higher than the annual average of $35.5 million for the 1964-67 period, in view of increasing world rice production and decreasing world rice prices and (2) it does not include any amount for the reduction in subsidies paid on Public Law 480 rice exports since the competitive situation for such exports is not the same as for commercial exports, although the subsidy rates are the same. Subsidies paid on Public Law 480 rice exports during the 1964-67 period amounted to about $84 million.

IMPROVEMENTS IN ADMINISTRATION OF ACREAGE-DIVERSION PROGRAM

In a report to the Congress on objectives of the feed grain program not being attained because of inclusion of nonagricultural land (B-114824, January 1971), we commented that, in 14 counties in 6 States covered by our review, we had identified substantial payments for the diversion of land from agricultural production although the land was being used, or designated for use, for nonagricultural purposes.

From discussions with program officials, reviews of local ASCS records, and information otherwise coming to our attention, we identified for the 1969 crop year questionable diversion payments totaling about $618,000 made to 938 farm owners or operators in the 14 counties covered by our review. Of these payments, we selected for detailed review payments totaling about $189,000 made to 215 individuals or organizations.

We identified 136 payments totaling about $116,000 which were made for the diversion of land used, or designated for use, for such nonagricultural purposes as housing and commercial development, recreation, hobby farms, country estates, sod nurseries, garbage dumps, and gravel pits. About $87,000 was paid for the diversion of certain of these tracts in prior years.

Because these uses of the land prevented the growing of feed grains or because the intended future uses were inconsistent with crop production, the diversion payments did not contribute to the accomplishment of the principal objective of the diversion portion of the feed grain program--controlling production. Because most of the diversion payments identified were made to recipients engaged in nonagricultural businesses or occupations, such payments also were inconsistent with the program objective of maintaining farm income.

Further, the making of diversion payments for land already being used, or intended for use, for nonagricultural purposes did not aid in attaining the secondary program objective, set forth in program regulations, of conserving land for future agricultural uses or related uses.

Examples of diversion payments for nonagricultural land enrolled in the feed grain program were as follows:

--$1,484 was paid in 1969 for the diversion of 25 acres which were being developed as part of a residential community. During visits to the property in 1970, we found that a substantial amount of construction had been completed and that much of the land was not suitable for cultivation due to construction activities.

--$1,000 was paid over an 8-year period on a 7-acre tract which had been converted from agricultural land to a nudist camp.

--$1,400 was paid over a 2-year period to a garbage disposal company. We inspected the diverted acreage and found that the owner was selling the topsoil and that he planned to use the excavated area as a garbage dump.

--$2,000 was paid in 1969 to a participant for the diversion of leased land within a privately owned ordnance proving ground. The ordnance manufacturer had described the proving ground--which was not readily accessible because of fences and padlocked gates--as a completely equipped facility for the loading and testing of ordnance devices ranging from small caliber ammunition to bomblets, grenades, land mines, and fuses of all types.

We found that the ASCS regulations governing the eligibility of land for diversion payments were being subjected to various interpretations by ASCS county offices and Agricultural Stabilization and Conservation county committees, both of which had responsibilities over the local administration of the program. Also, ASCS's national and State offices were not providing needed guidance to the county offices and committees in interpreting the regulations uniformly.

Because the diversion payments we reviewed were selected on a judgment rather than a random basis, our findings did not permit statistical projections either nationwide or by State or county. Yet, because of the payments made for nonagricultural land in each of the 6 States included in our review and because of the weaknesses noted in ASCS regulations and procedures, we stated our belief that such payments were widespread and could be significant.

We recommended that ASCS (1) revise the feed grain program regulations with a view toward excluding from the program all land devoted to, or designated for, nonagricultural uses and (2) establish review procedures at the State and national organizational levels to ensure that adequate surveillance was being maintained over the land placed in the program and that regulations were being uniformly and consistently applied.

In a reply dated September 23, 1970, the agency informed us that it agreed with our conclusions and that certain actions had been taken or planned to implement our recommendations, namely (1) State offices were instructed to direct county committees to review all cases of the type described in our report and to recover, where appropriate, any overpayments or unearned payments, (2) regulations were to be reviewed with the aim of more clearly defining farms ineligible for the program, and (3) administrative controls at the national and State levels were to be strengthened to ensure that county committees uniformly applied the regulations and maintained adequate surveillance of land and promptly identified those tracts shifting from agricultural to nonagricultural uses.

BASIS FOR WHEAT PRICE-SUPPORT LOAN RATES REVISED

In a letter dated March 23, 1970, to the Executive Vice President, CCC, we commented on a decision made by the Department of Agriculture in June 1969 to rescind an announcement involving a proposed reduction in the CCC price-support loan rate on wheat stored at terminal warehouses located at ports on the Gulf of Mexico. We recommended that CCC adopt a policy which would provide for the prompt elimination of inconsistencies in price-support regulations that result from differences in freight rates or other factors.

The price-support rate for wheat at Gulf of Mexico ports was equivalent to the price-support rate at interior points plus handling charges and interstate freight charges of railroads for transporting the wheat to the Gulf. The availability of substantial storage space at the Gulf combined with transportation (barge, truck, and export rail) charges that were lower than the interstate rail rates, gave producers an advantage of 15 to 20 cents a bushel if they placed their wheat under price support at the Gulf rather than at inland points.

To discourage this direct flow of wheat to the Gulf, the Department in June 1969 proposed to reduce the loan rate at the Gulf to compensate for the difference in freight rates. The Department estimated that, otherwise, the total direct movement of 1969-crop wheat to the Gulf for price support could be 15 to 20 million bushels. If such a movement of wheat occurred, CCC would disburse about $3 million of additional price-support loans on wheat stored at Gulf locations because of the freight differential. Whether this additional investment would be recovered would ultimately depend on export sales and the extent to which the value of the wheat had been increased by virtue of its location.

The Department also wanted to discourage the direct flow of wheat to the Gulf for storage as loan collateral because the Department believed that wheat handlers who had Gulf storage space available and who controlled barge transportation facilities would have a competitive advantage over other wheat handlers.

The Department, 2 days after announcing the proposed change in wheat price-support regulations, rescinded it on the basis of verbal information received from farm and trade groups indicating that the movement of about 2 or 3 million bushels of wheat had already been negotiated. Agency officials informed us that at this stage the Department, after considering the advisability of establishing a cut-off date for making the proposed change effective, decided that such action would result in inequities among producers. On this basis, it was decided that any adjustment action should be withheld until the 1970 crop.

At September 30, 1969, the quantity of 1969-crop wheat recorded by CCC as in storage at Gulf locations was about 2.9 million bushels. The quantity in storage increased to about 5.1 million bushels at December 31, 1969. This increase of 2.2 million bushels during the quarter ended December 31 indicated that, if the Department had made a timely reduction in the loan rate for wheat at Gulf port terminal warehouses, as was originally contemplated, CCC could have avoided making a greater investment in wheat loans.

We agreed that there should be no inequities in CCC's treatment of producers. We stated the belief, however, that an excessive loan rate for a particular geographical area should be adjusted to the proper level as soon as practicable. Such adjustment would not deny producers the price support to which they were entitled and would avoid extra outlays of CCC funds.

We recommended in our letter of March 23, 1970, that CCC adopt a policy which would provide for the prompt elimination of inconsistencies in price-support regulations that result from differences in freight rates or other factors, with due consideration for commitments already made.

In April 1970 CCC advised us that a broad change was needed in the entire loan structure for several grains and that it had adopted a different method of establishing and applying price-support locational differentials for 1970-crop wheat and other terminal-market-oriented commodities (grain sorghum, barley, rye, and flaxseed).

Under the new method, according to CCC, the locational differentials generally reflect no more than minimum transportation costs to recognized markets and eliminate the inconsistencies in the regulations commented on in our letter. CCC advised us further that the new method would not provide a monetary inducement that could encourage abnormal movements of grain for placement under CCC loan.

IMPROVEMENT IN CONTROLS OVER CCC SIGHT DRAFTS

In a letter dated July 16, 1970, to the Executive Vice President, CCC, we pointed out a need for stronger controls over CCC sight drafts. Sight drafts are issued by ASCS State and county offices to pay farmers and others under CCC and ASCS programs. In calendar year 1969 these offices issued 7.4 million sight drafts amounting to $6.1 billion.

Our review showed weaknesses in (1) procedures and practices regarding blank sight draft forms, (2) safeguarding of sight draft forms, (3) draft preparation and issuance procedures, and (4) accounting for missing sight draft forms. Also, there was a lack of assurance that computer tape reels containing information from certain drafts prepared by the ASCS New Orleans Data Processing Center were being transmitted promptly to the ASCS Kansas City Data Processing Center. These reels are the means for recording the draft transactions in CCC's accounting records maintained at the Kansas City office.

We made specific recommendations for correcting the weaknesses. By letter dated August 31, 1970, the Executive Vice President expressed general concurrence with our recommendations and advised us that actions had been or would be taken to eliminate the weaknesses.

SIGNIFICANT CHANGES IN CONTRACTS TO BE DOCUMENTED

In a letter dated March 12, 1970, to the Executive Vice President, CCC, we expressed views on CCC's payment of liquidated damages claimed by processors, mainly flour millers, on the basis that CCC delayed issuing Notices to Deliver. The liquidated damage payments totaled about $200,000.

CCC entered into contracts with flour millers and other processors to purchase processed commodities for export programs. Under the contractual terms and conditions, the processors were required to make delivery at export points by certain dates specified in the contracts and CCC was required to issue Notices to Deliver to the processors in sufficient time to meet the specified delivery schedule. The contracts provided that failure of CCC to issue Notices to Deliver timely would make CCC liable for payment of liquidated damages.

Processors' shipments of commodities to Atlantic and Gulf ports were stopped about December 20, 1968, because of a rail embargo resulting from a strike by longshoremen at export points. In view of the strike and rail embargo, CCC did not issue Notices to Deliver. Neither the processors nor CCC had any control over the embargo or strike. After the strike was settled at the various ports, around February or March 1969, CCC issued Notices to Deliver.

It appeared to us that CCC had no legal liability to pay liquidated damages because any damages were, in fact, caused by the rail embargo resulting from the strike and not by CCC's failure to issue Notices to Deliver timely. In our letter of March 12, 1970, we proposed, therefore, that CCC take steps to recover the amounts paid as liquidated damages.

The Executive Vice President, by letter dated May 7, 1970, informed us that CCC had advised the processors that, if delivery was not feasible because of the strike, it would pay them for storing the commodities on the basis established for liquidated damages. CCC considered such payment to be less than the costs CCC would incur in taking delivery of the commodities during the strike. The Executive Vice President explained that the processors would have been inclined to increase their bid prices if, in view of the possibility of a longshoremen's strike, CCC had not given assurance of either accepting delivery while the strike was in process or, in some way, reimbursing the processors for storing the commodities.

At no time during our review of this matter at the administering office--the Minneapolis Commodity Office--including discussions with officials and personnel of that office, were we informed that CCC had given the processors such assurance. Also, there was no documentation indicating that the contracts had been so revised.

We were informed by the national office in Washington in response to our inquiry concerning the nature of CCC's advice to the processors that (1) such assurance to the trade was given during a meeting held at the Department of Agriculture with a miller association and (2) other trade groups and vendors were similarly advised in telephone conversations.

The Executive Vice President in his letter of May 7, 1970, explained also that there was no general prohibition against shipping commodities to port in trucks and that, consequently, a processor could have attempted the formality of delivery by truck. Our comparison of transportation charges for a typical shipment of flour by rail and by truck indicated that shipment by truck would have been unlikely because it was prohibitively expensive. Also, we believe that delivery by truck would not have been feasible, even if economical, because of the necessity to cross picket lines established by the strikers and because terminals at many ports do not accept shipside delivery by truck.

In a letter to the Executive Vice President dated June 25, 1970, we expressed the view that the liquidated damage matter might not have been administered in a reasonable manner and suggested that significant changes in contract terms should be documented, rather than handled orally, to ensure that all parties would be treated equitably and would be made fully aware of their rights and obligations.

In August 1970, the Executive Vice President advised us that, in his opinion, the action taken by CCC was in the best interest of the Government and the program. He acknowledged that significant changes in contract terms should be documented so that all parties would be aware of their rights and obligations.

CHAPTER 4

COMMENTS ON SELECTED HIGHLIGHTS

OF FISCAL YEAR 1970 OPERATIONS

RECORD-HIGH REALIZED LOSS REPORTED BY CCC

CCC's price-support and related operations normally result in a loss. For fiscal year 1970, CCC reported a record-high realized loss of $4.2 billion (recorded loss before adjustment of allowances for losses on loans, commodity inventories, and receivables). CCC's comparative statement of income and expenses for fiscal years 1970 and 1969 is presented on page 34.

Most of the loss resulted from direct price-support and acreage-diversion payments to producers, totaling about $3 billion. Also, interest expense amounted to $616 million, of which $578 million was on borrowings from the U.S. Treasury. The Treasury interest rates ranged from 7 to 8-1/4 percent, compared with a range of 5-3/8 to 6-3/8 percent in fiscal year 1969.

In fiscal year 1969 CCC made a change in its accounting policy (with which we agreed) to provide that advance payments to producers for acreage diversion or price support be recorded as an asset and be written off as an expense upon compliance by the producers with program provisions. Under this policy, advances totaling $369 million that had been treated as expenses for acreage diversions in fiscal year 1968 would have been expenses in fiscal year 1969. Therefore the realized loss for 1969 comparable to that for 1970 would be $3.5 billion rather than $3.1 billion as shown in the comparative statement of income and expenses on page 34. At June 30, 1970, there were no advance payments to producers.

In fiscal year 1970 the Congress appropriated $5.2 billion to reimburse CCC for realized losses, compared with a reimbursement of $4.2 billion in fiscal year 1969. A summary of changes in the amount of unreimbursed losses during fiscal year 1970 follows.

	Amount (billions)
Unreimbursed losses, June 30, 1969	$8.5
Less reimbursements in fiscal year 1970	5.2
	3.3
Plus realized loss in fiscal year 1970	4.2
Unreimbursed losses, June 30, 1970 (sch. 3, p. 35)	$7.5

In addition to incurring a realized loss of $4.2 billion in fiscal year 1970, CCC incurred costs of $1.3 billion for special activities authorized by various statutes and financed through special appropriations. Comments on these activities begin on page 24.

$5.7 BILLION EXPENDED FOR PRICE SUPPORT AND ACREAGE DIVERSION

In fiscal year 1970 CCC expended $4.7 billion for the price support of agricultural commodities through nonrecourse loans,[1] purchases, and direct payments. Also, CCC made direct payments totaling $1 billion to producers for diverting acreage from production of certain crops.

Most of the expenditures pertained to feed grains, upland cotton, and wheat. Loans to producers and purchases of commodities totaled $2.7 billion; direct payments to producers totaled $3 billion.

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[1]The loans are referred to as nonrecourse because CCC will accept the commodity collateral in full settlement of a loan.

A summary of the expenditures by commodity follows.

	Total expenditures	Price support: Total	Price support: Loans	Price support: Purchases	Price support: Direct payments	Acreage diversion--direct payments
	(000,000 omitted)					
Feed grains	$2,236	$1,320	$ 582	$ 10	$ 728	$ 916
Cotton, upland	1,211	1,184	383	-	801	27[a]
Wheat	996	925	519	4	402[b]	71
Soybeans	422	422	407	15	-	-
Dairy products	253	253	-	253	-	-
Tobacco	217	217	217	-	-	-
Rice	132	132	113	19	-	-
Peanuts	80	80	54	26	-	-
Wool	53	53	-	-	53	-
Flaxseed	35	35	34	1	-	-
Other	99	99	29	70	-	-
Total	$5,734	$4,720	$2,338	$398	$1,984	$1,014

[a] This amount was paid to operators of small farms on the basis of the projected yield from a portion of their cotton acreage. Payments were made under statutory provisions pertaining to acreage diversion, but diversion was not required.

[b] Net after deduction of $389 million collected by CCC for certificates sold to wheat processors under the wheat marketing allocation program.

$546 MILLION REDUCTION IN COMMODITY LOANS

At June 30, 1970, CCC's investment in commodity loans amounted to $2.8 billion, a reduction of $546 million from the investment at June 30, 1969. The major loan decreases were $447 million for soybeans and $153 million for upland cotton.

Commodity loan activity during fiscal year 1970 is summarized as follows:

	Total	Feed grains	Tobacco	Wheat	Soybeans	Upland cotton	Other commodities
	(000,000 omitted)						
Loan balance, June 30, 1969	$3,334	$871	$761	$583	$755	$322	$ 42
1970 fiscal year activity:							
Loans made	2,338	582	217	519	407	383	230
Repayments	−1,786	−467	−127	−326	−439	−248	−179
Loans canceled by CCC's acquisition of collateral	−1,073	−119	−5	−200	−414	−288	−47
Loans charged off	−23	-	−1	-	-	-	−22
Other transactions	−2	−1	-	-	−1	-	-
Net change	−546	−5	84	−7	−447	−153	−18
Loan balance, June 30, 1970	$2,788	$866	$845	$576	$308	$169	$ 24

CCC's investment in grain loans at June 30, 1970, totaled $1.8 billion. Of this amount, $1.3 billion represented loans that had been extended by CCC beyond their original maturity dates.

The collateral for the grain loans of $1.8 billion aggregated 1.6 billion bushels of grain, of which 1.2 billion bushels, or 75 percent, were stored on farms and the remainder were stored in commercial warehouses. Producers were earning storage income from CCC on about 800 million bushels of farm-stored grain serving as collateral for loans that had been extended beyond their original maturity dates.

$608 MILLION INCREASE IN COMMODITY INVENTORIES

At June 30, 1970, CCC's investment in commodity inventories amounted to $1.9 billion, an increase of $608 million over the investment at June 30, 1969. The major increases were $239 million in soybeans and $206 million in upland cotton.

CCC's inventory activities during the year ended June 30, 1970, are summarized in the following tabulation.

		Additions		Deductions		
Commodity	Inventory June 30, 1969	Purchases	Loan collateral acquired (note a)	Inventory sold	Donations (note b)	Inventory June 30, 1970
	(000,000 omitted)					
Feed grains	$ 588	$ 11	$ 130	$126	$ 2	$ 601
Wheat	229	7	213	44	-	405
Soybeans	138	15	422	195	3	377
Cotton, upland	2	-	302	96	-	208
Dairy products	169	261	-	176	120	134
Flaxseed	20	1	27	-	-	48
Rice, rough	30	9	7	4	1	41
Oils, mainly tung and linseed	40	28	11	44	10	25
Other	36	220	7	193	49	21
Total	$1,252	$552	$1,119	$878	$185	$1,860

[a]Includes $46 million of collateral in excess of value of loans ($1,073 million) defaulted.

[b]Includes inventory adjustments.

STORAGE, HANDLING, AND TRANSPORTATION EXPENSES INCREASED SUBSTANTIALLY

Costs incurred by CCC for storing, handling, and transporting its commodity inventories and for storing grain collateral for its price-support reseal loans (loans extended beyond the original maturity dates) totaled $356 million in fiscal year 1970, an increase of $108 million over the costs for fiscal year 1969. The major increase in costs was $57 million for the storage and handling of CCC inventories.

The cost for storing collateral on reseal loans increased by $21 million to a record high of $144 million. These costs consisted of $104 million for collateral stored on farms and $40 million for collateral stored in commercial warehouses.

A summary of CCC expenses for storing, handling, and transporting commodities in fiscal years 1970 and 1969 follows.

	1970					1969				
		Storage and handling			Transportation of CCC inventories		Storage and handling			Transportation of CCC inventories
Commodity	Total expense	Total	CCC inventories	Reseal loan collateral		Total expense	Total	CCC inventories	Reseal loan collateral	
	(000,000 omitted)									
Feed grains	$172	$149	$ 69	$ 80	$23	$141	$130	$55	$ 75	$11
Wheat	99	76	27	49	23	66	55	17	38	11
Soybeans	47	39	24	15	8	23	18	8	10	5
Cotton, upland	15	13	13	-	2	-	-	-	-	-
Dairy products	11	3	3	-	8	13	5	5	-	8
Other	12	9	9	-	3	5	3	3	-	2
Total	$356	$289	$145	$144	$67	$248	$211	$88	$123	$37

$1.3 BILLION IN REIMBURSABLE COSTS INCURRED BY CCC FOR SPECIAL ACTIVITIES

Under various laws, CCC performs special activities and receives appropriated funds either as partial reimbursement for costs incurred or as advances. Because the special activities are financed separately from CCC's price-support and related programs, the costs of special activities are not included in CCC's loss from operations, as shown in schedule 2.

Costs of the special activities were $1.3 billion for fiscal year 1970--about the same as for fiscal year 1969. This represents a leveling off of costs after a downtrend since fiscal year 1962 when such costs were $2.3 billion. The principal special activity pertained to exports of agricultural commodities--at a total cost of $1.2 billion--under Public Law 480. Title I of the law provides for CCC to finance the sale of agricultural commodities for dollars on credit terms or for foreign currencies. Title II of the law provides for Government donations of agricultural commodities for distribution in foreign countries.

A summary of costs incurred under Public Law 480 during fiscal year 1970 follows.

	Title I	Title II	Total
	(000,000 omitted)		
Commercial export sales of agricultural commodities (suppliers' invoices)	$781	$ -	$ 781
Payments to suppliers for export differentials	41	-	41
Disposition of CCC inventories (included as sales in CCC's statement of income and expense)	-	262	262
Ocean transportation	73	87	160
Other	-	2	2
Total	$895	$351	$1,246

About 45 percent of the total cost under Public Law 480 pertained to the export of wheat and wheat products. The following tabulation shows the total cost by commodity or by other category.

Item	Amount (000,000 omitted)
Wheat (and products)	$ 538
Rice	182
Cotton	112
Dairy products	93
Feed grains	76
Soybean oil	63
Vegetable oil products	30
Blended food products	25
Tobacco	23
Tallow	10
Other	46
	1,198
Ocean transportation on commodities donated through nonprofit voluntary agencies	46
Other	2
Total	$1,246

A summary showing the costs incurred and the funds received by CCC for the special activities during fiscal year 1970 follows.

Activity and authority	Unreimbursed costs (appropriated funds in advance of expenditure(—)) at June 30, 1969	Fiscal year 1970 activity: Costs incurred	Fiscal year 1970 activity: Appropriations and other funds received	Unreimbursed costs (appropriated funds in advance of expenditure(—)) at June 30, 1970
	(000,000 omitted)			
Public Law 480 (7 U.S.C. 1691):				
Title I--sales of commodities for foreign currencies and for dollars on credit terms	—$168	$ 895	$ 729	$ —2
Title II--donations to furnish emergency assistance to friendly peoples	198	351	500	49
	30	1,246	1,229	47
National Wool Act of 1954 (7 U.S.C. 1781)	68	56	68	56
Other	-	1	1	-
Total	$ 98	$1,303	$1,298	$103

RECEIVABLES FOR PUBLIC LAW 480 CREDIT SALES INCREASED SUBSTANTIALLY

At June 30, 1970, CCC's accounts and notes receivable amounted to \$2.6 billion, including \$1.8 billion in receivables (principal and interest) for Public Law 480 credit sales for dollars, an increase of about \$500 million during fiscal year 1970.

Under this sales program, CCC finances commercial exports of agricultural commodities under long-term credit agreements. Payments are to be made periodically in dollars by the purchasing governments or foreign trade entities over periods not to exceed 40 years.

The accounting treatment for these Public Law 480 receivables is explained in note D to the financial statements. (See p. 39.) As stated in the note, past due installments on principal and interest at June 30, 1970, amounted to \$8.4 million. The most significant delinquencies were (1) \$645,000 due from the Dominican Republic whose debt was \$31.6 million and (2) \$3.7 million due from the United Arab Republic whose debt was \$16 million. In July and August 1970, CCC collected \$4 million on delinquent accounts but none of this amount pertained to these two debts.

A summary of the activity in the Public Law 480 accounts during fiscal year 1970 and the balances due from the debtors at June 30, 1970, follows.

	Balance June 30, 1969	1970 fiscal year activity: Financing by CCC	Collections	Net increase or decrease(–)	Balance June 30, 1970
	(millions)				
Principal	$1,301.9	$494.9	$48.7	$446.2	$1,748.1
Interest	16.2	32.8	26.2	6.6	22.8
Total	$1,318.1	$527.7	$74.9	$452.8	$1,770.9

Analysis by debtor

	Net increase or decrease(–)	Balance June 30, 1970
Foreign governments:		
Indonesia	$126.7	$ 329.0
India	92.3	264.5
Yugoslavia	–7.8	231.9
Brazil	16.2	103.5
Israel	40.6	103.3
Korea	39.1	96.7
Pakistan	50.4	90.7
Chile	7.1	48.1
Turkey	29.4	43.8
Morocco	2.7	37.0
Tunisia	14.5	35.8
Ceylon	7.2	35.6
Dominican Republic	4.8	31.6
Congo	1.5	29.9
China	–1.9	27.9
Philippines	5.7	25.5
Columbia	4.1	24.4
Uruguay	.3	19.0
Bolivia	6.5	18.4
Greece	–1.1	16.2
United Arab Republic (increase in 1970 was for interest)	.4	16.0
Ghana	8.5	14.1
Iran	–.8	11.0
Guinea	2.2	10.9
Other (23 governments, each under $10 million)	1.6	82.7
	450.2	1,747.5
Foreign trade entities	2.6	23.4
Total	$452.8	$1,770.9

CHAPTER 5

SCOPE OF AUDIT

Our audit of the Commodity Credit Corporation consisted of two major phases: (1) an examination of CCC's financial statements as of June 30, 1970, modified as required by circumstances (see below) and (2) a review of the manner in which CCC carried out selected commodity programs and activities, including the controls for safeguarding CCC's assets and protecting the Government's interests.

Our examination of the financial statements was made in accordance with the principles and procedures applicable to commercial corporate transactions. It was performed at the headquarters office in Washington, D.C.; the commodity offices in Kansas City, Missouri; and New Orleans, Louisiana; and the data processing center in Kansas City. We reviewed and appraised work performed by the Office of the Inspector General, Department of Agriculture. Where appropriate, we relied on this work and modified the scope of our audit.

EXAMINATION OF CCC FINANCIAL STATEMENTS

Our examination of the CCC financial statements was directed primarily toward arriving at a conclusion as to their reliability and usefulness for disclosing financial information with respect to CCC's affairs. The examination included such tests of the accounting records and such other auditing procedures as we considered practicable and reasonable in view of the effectiveness of CCC's internal control and the audit work of the Office of the Inspector General, Department of Agriculture.

In view of the unique character and vast scope of CCC's operations--particularly commodity inventories and loan collateral--it was not practicable for us to perform all the examination and verification steps which would be necessary to reach an independent, overall opinion concerning the accuracy and fairness of the financial statements in presenting the financial position of CCC at June 30, 1970, and the results of its operations for the year then ended.

The principal step omitted was an independent verification of CCC-owned commodities and of commodities stored as collateral for loans. Such work would have been not only costly but extremely difficult because of such factors as the great number and diversity of storage facilities and locations; the general impracticability of determining by independent confirmation, inspection, or other means the quantity and condition of grain stored in public warehouses on a commingled basis or stored on farms; and the large quantities of commodities in transit.

Periodically, the Consumer and Marketing Service, Department of Agriculture, physically examines CCC commodity inventories and collateral stored in commercial warehouses to verify the quantity and quality of these commodities. During fiscal year 1970, examinations by the Consumer and Marketing Service covered 10,000 warehouses storing grain, cotton, and other agricultural commodities. This number included 1,900 warehouses examined by States under cooperative agreements. On the average, the warehouses were examined twice during the year.

We did not verify the reasonableness of CCC's substantial allowances for losses on disposition of price-support inventories and loans. The allowances are based on estimates which are not susceptible of audit verification. For example, the amounts that CCC realizes on disposition of its commodity inventories depend on a number of complicated and interrelated factors; such as changes in domestic and worldwide supply and demand, various legislative restrictions on disposal of commodities, time and manner of disposal, and effect of commodity dispositions on domestic and world prices. For these reasons, the actual losses can differ materially from the amounts estimated by CCC even though the procedures followed in computing the allowances indicate that the estimates are reasonable in the light of the information available at the time they were prepared.

CHAPTER 6

OPINION OF CCC FINANCIAL STATEMENTS

The financial statements--Comparative Statement of Financial Condition (schedule 1), Comparative Statement of Income and Expense (schedule 2), Analysis of Deficit (schedule 3), and Statement of Source and Application of Funds (schedule 4)--and the notes to financial statements are the same as those published in the Commodity Credit Corporation's Report of Financial Condition and Operations as of June 30, 1970.

CCC's loss from operations does not include costs of special activities carried out by CCC, which are paid by CCC from appropriated funds received in advance of expenditures or as reimbursements for financing extended. Comments on these costs, which are accounted for separately by CCC, begin on page 24.

For the reasons explained under "Examination of CCC Financial Statements" (see p. 28), we cannot express an opinion that CCC's financial statements (schedules 1, 2, 3, and 4) present fairly its financial position at June 30, 1970, and the results of its operations for the year then ended. We believe, however, that CCC's accounting methods provided a generally satisfactory record of its financial transactions and that its system of financial reporting was, in general, adequate for the purpose of supplying CCC's management with information for conducting its affairs.

FINANCIAL STATEMENTS

COMMODITY CREDIT CORPORATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1970 AND 1969

ASSETS	June 30, 1970		June 30, 1969	
CASH		$ 114,075,898		$ 85,416,641
COMMODITY LOANS	$ 2,788,353,901		$ 3,334,024,797	
Less allowance for losses (note B)	25,932,000	2,762,421,901	25,702,000	3,308,322,797
STORAGE FACILITY AND EQUIPMENT LOANS		164,129,970		158,542,540
LOAN TO SECRETARY OF AGRICULTURE		27,200,000		30,000,000
LOAN TO FARMERS HOME ADMINISTRATION		-		30,000,000
COMMODITY INVENTORIES (cost) (note A)	1,860,271,182		1,251,883,964	
Less allowance for losses (note B)	76,620,000	1,783,651,182	122,146,000	1,129,737,964
ACCOUNTS AND NOTES RECEIVABLE	2,592,922,633		2,149,193,171	
Less allowance for losses (note C)	10,607,000	2,582,315,633	12,042,000	2,137,151,171
ACCRUED ASSETS		37,030,356		32,582,936
FIXED ASSETS (net)		13,938,077		17,525,982
ADVANCE PAYMENTS TO PRODUCERS		-		407,639,055
OTHER ASSETS		11,693,649		17,554,792
TOTAL ASSETS		$7,496,456,666		$7,354,473,878
LIABILITIES				
ACCOUNTS PAYABLE		$ 218,189,559		$ 207,899,995
ACCRUED LIABILITIES		636,142,848		389,617,239
TRUST AND DEPOSIT LIABILITIES		178,071,945		351,426,736
OBLIGATION TO REDEEM CERTIFICATES OF INTEREST IN COMMODITY LOANS (note E)		-		1,589,544,965
OBLIGATION TO ISSUE EXPORT WHEAT MARKETING CERTIFICATES (note F)		4,206,569		4,206,569
DEFERRED CREDIT FOR P.L. 480 RECEIVABLES--CREDIT SALES FOR DOLLARS (note D)		1,770,919,065		1,318,150,145
OTHER LIABILITIES		16,987,696		17,519,189
DEFERRED INCOME		-		155,209
INVESTMENT OF U.S. GOVERNMENT:				
Borrowings from United States Treasury	12,261,583,968		12,114,932,669	
Capital stock	100,000,000		100,000,000	
	12,361,583,968		12,214,932,669	
Less deficit (schedule 3)	7,689,644,984	4,671,938,984	8,738,978,838	3,475,953,831
TOTAL LIABILITIES		$7,496,456,666		$7,354,473,878

The notes following schedule 4 are an integral part of this statement.

The General Accounting Office opinion on this statement is included in chapter 6.

SCHEDULE 2

COMMODITY CREDIT CORPORATION

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

FISCAL YEARS 1970 AND 1969

	Fiscal year 1970	Fiscal year 1969
REALIZED GAINS AND LOSSES--PROGRAM:		
Commodity inventory operations (note O):		
Sales of commodities	$ 880,425,422	$ 491,900,049
Cost of sales	881,994,513	541,332,018
Net loss on sales	1,569,091	49,431,969
Cost of commodities donated	184,715,004	236,063,250
Storage and handling expense	145,198,939	88,570,674
Transportation expense	66,784,603	36,650,897
Net loss on commodity inventory operations	398,267,637	410,716,790
Producer and other payments:		
Cotton price-support payments	800,886,656	642,784,058
Feed grain price-support payments	727,750,666	626,424,279
Wheat price-support payments	402,264,804	362,669,922
Export payments	100,719,620	33,003,804
Cotton diversion and small farm payments	26,678,214	88,307,699
Feed grain diversion payments	915,827,252	425,377,214
Wheat diversion payments	71,518,302	−10,614
National Wool Act payments	52,643,584	65,066,535
Total producer and other payments	3,098,289,098	2,243,622,897
Other program costs (−gains) and adjustments:		
Reseal loan storage expense	143,754,503	122,791,333
Research expenses	907,535	−690,699
Loan and other charge-offs	25,012,650	29,045,211
Livestock feed program expense	264,832	−8,962
Other costs	9,306,990	2,852,478
Total other program costs and adjustments	179,246,560	153,989,351
Special recoveries authorized (gains):		
Research expenses	825,576	−951,695
National Wool Act	52,643,584	65,066,535
Total special recoveries authorized	53,469,160	64,114,840
Net realized loss--program	3,622,334,135	2,744,214,208
INCOME AND EXPENSE--GENERAL:		
Income:		
Interest on loans	51,478,646	26,995,881
Other interest income	28,907,799	25,791,958
Other income	479,435	2,241,740
Total income	80,865,880	55,029,579
Expense:		
Interest expense	615,599,404	367,944,792
General overhead expense (net) (note p)	55,350,731	55,139,531
Other expense	912,755	887,217
Total expense	671,862,890	423,971,540
Net expense--general	590,997,010	368,941,961
TOTAL REALIZED LOSS	4,213,331,145	3,113,156,169
ADJUSTMENTS (−GAINS) OF ALLOWANCES FOR LOSSES--PROGRAM:		
Allowance for losses on loans	230,000	−54,225,000
Allowance for losses on commodity inventories	−45,526,000	−133,884,000
Allowance for losses on accounts and notes receivable	−1,435,000	−73,000
Net adjustment of allowances for losses--program	−46,731,000	−188,182,000
NET LOSS TRANSFERRED TO DEFICIT (schedule 3)	$4,166,600,145	$2,924,974,169

The notes following schedule 4 are an integral part of this statement.

The General Accounting Office opinion on this statement is included in chapter 6.

COMMODITY CREDIT CORPORATION

ANALYSIS OF DEFICIT

FROM INCEPTION IN 1933 TO JUNE 30, 1970

	Cumulative to June 30, 1969	Fiscal year 1970	Cumulative to June 30, 1970
TOTAL REALIZED LOSS EXCLUSIVE OF COST OF WARTIME CONSUMER SUBSIDY PROGRAM	$38,097,220,830	$4,213,331,145	$42,310,551,975
COST OF WARTIME CONSUMER SUBSIDY PROGRAM	2,102,281,073	-	2,102,281,073
	40,199,501,903	4,213,331,145	44,412,833,048
ALLOWANCES FOR LOSSES--PROGRAM	159,890,000	-46,731,000[a]	113,159,000
NET OPERATING LOSS	40,359,391,903	4,166,600,145	44,525,992,048
Less:			
Reimbursement for net realized loss (15 U.S.C. 713a)	31,022,257,834	5,215,934,000	36,238,191,834
Appropriation for the postwar price support of agriculture (60 Stat. 8)	500,000,000	-	500,000,000
Loss recovered under the Foreign Aid Act of 1947 (22 U.S.C. 1411)	56,239,432	-	56,239,432
Recovery of emergency feed program losses (69 Stat. 62)	41,915,799	-	41,915,799
	31,620,413,065	5,215,934,000	36,836,347,065
Net deficit (schedule 1)	$ 8,738,978,838	$1,049,333,855	$ 7,689,644,983[b]

[a]Represents adjustment of allowances for losses.

[b]Comprised of the following:
Unrestored realized losses by fiscal year:

1968	$ 249,998,669
1969	3,113,156,169
1970	4,213,331,145
	7,576,485,983
Allowances for losses, June 30, 1970	113,159,000
Net deficit, June 30, 1970	$ 7,689,644,983

The notes following schedule 4 are an integral part of this statement.

The General Accounting Office opinion on this statement is included in chapter 6.

COMMODITY CREDIT CORPORATION

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FISCAL YEAR 1970

FUNDS PROVIDED:	
Borrowings from U.S. Treasury	$ 7,462,156,169
Reimbursement for realized losses by appropriations	5,215,934,000
Sales of commodities	880,303,551
Inventory settlements for differences in grade, location, and quantity (net)	3,730,094
Proceeds of domestic wheat marketing certificates	389,425,474
Repayment of loans by producers	1,832,930,114
Repayment of loans by Secretary of Agriculture	30,000,000
Repayment of loans by Farmers Home Administration	30,000,000
Interest income	80,386,445
Other	1,973,177
Total funds provided	$15,926,839,024
FUNDS APPLIED:	
Repayment of borrowings from U.S. Treasury	$ 7,315,504,870
Cost of commodities purchased	552,283,409
Acquisitions of loan collateral in excess of value of loans defaulted	46,308,843
Storage, transportation, and processing expenses	215,346,160
Loans to producers	2,388,544,432
Reseal loan storage expense	143,754,503
Loan to Secretary of Agriculture	27,200,000
Export payments	100,719,620
Payments under the cotton, feed grain, and wheat programs	3,334,351,369
Interest expense	615,599,405
State and county office expenses	22,414,682
Custodian and agency expenses	383,074
Administrative expenses	31,962,742
Purchases of nonexpendable equipment	807,427
Other	14,320,182
Increase in working capital items	1,117,338,306
Total funds applied	$15,926,839,024

The notes following schedule 4 are an integral part of this statement.

The General Accounting Office opinion on this financial statement is included in chapter 6.

COMMODITY CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1970

A. Commodity inventories

Inventories are valued at acquisition cost plus the cost of any packaging or processing performed after acquisition. The amount of cost allocated to dispositions of commodities, acquired under price-support programs and generally stored without lot or crop year segregation, is computed on the basis of national average unit cost of the oldest crop year of the commodities for which any quantity remains in the inventory accounts. Cost allocated to other dispositions from price-support inventories is computed on the basis of actual lot cost or average unit cost for the crop year inventory from which the specific lots were removed. Actual lot cost or average cost, without regard to crop year, is the basis for costing dispositions from supply and commodity export program inventories.

B. Allowances for losses on loans and inventories

Allowances for losses on commodity loans and commodity inventories are the estimated loss on ultimate commodity dispositions. However, the corn leaf blight epidemic that has hit most of the main corn-producing areas of the U.S. is a factor which has not been considered in determining these allowances. At the time these allowances were determined, sufficient information was not available to realistically appraise the effect that this epidemic may have on the ultimate disposal of the Corporation's commodity loans and inventories. To the extent practicable, these estimates are based on estimated recoveries from foreseeable dispositions of the commodities. Estimated recoveries for commodities which are in excess of foreseeable dispositions are generally based on the lowest of cost, market price, or the Corporation's price for export sales. Allowances are not established for commodities in the supply and commodity export program inventories because they are usually acquired pursuant to commitments providing for disposition on a basis calculated to recover full costs to the Corporation. (GAO note: The corn leaf blight has no physical effect on previous years' corn serving as collateral for loans or corn owned by CCC. The blight, however, could affect market conditions which in turn could affect the redemption of loan collateral by producers and the sales value of CCC-owned corn.)

C. <u>Allowances for losses on accounts and notes receivable</u>

Allowances for losses on accounts and notes receivable are based on the estimated recovery value of the respective assets.

No allowance has been provided for possible losses on receivables established under the Agricultural Trade and Development and Assistance Act of 1954, P.L. 480 credit sales for dollars, as explained in Note D.

The allowance provided for possible losses under the Corporation's export credit sales program is based on estimates of the recovery value of accounts in default or past due at June 30, 1970. All receivables under the program are covered by commercial bank letters of credit and the Corporation looks primarily to the banks for payment.

Receivables under the export credit sales program covered by letters of credit issued by the New York Branch of Intra Bank, S.A.L., Beirut, Lebanon, which ceased operations October 15, 1966, amounted to about $21 million. Accrued interest through that date totaled $747 thousand. CCC and the three other major creditors of Intra Bank (the Governments of Lebanon, Kuwait, and Qatar) have entered into an agreement for the settlement of claims of CCC and other creditors against Intra Bank. The agreement provides, among other things, that CCC will be an organizing stockholder in a new investment corporation to be established under Lebanese law. The agreement by its terms does not prevent CCC from pursuing its rights under United States law with respect to assets of Intra Bank in the United States, which rights are currently being pursued by the Department of Justice, and also gives recognition to the claim of CCC against Intra Bank, Beirut. The Corporation expects to recover a substantial amount on its claim from the liquidation of assets of Intra Bank in New York by the New York State banking authorities. Although the remainder may ultimately be recovered through the new investment corporation, an estimated amount has been established as an allowance on this receivable.

Drafts equal to 90 percent of installments on receivable under the export credit sales program guaranteed by the National Bank of Egypt, Cairo, which is owned by the Government of the United Arab Republic, have not been honored since the UAR severed diplomatic relations with the United States early in June 1967. Drafts issued for 10 percent of the installments have been honored by the banks in the United States which confirmed 10 percent of the letters of credit. As of June 30, 1970, \$63.0 million in principal and \$15.5 million in interest was due. Pending further developments regarding possible resumption of diplomatic relations between the two governments, the Corporation does not have an adequate basis for estimating the amount of loss, if any, which may be sustained on receivables guaranteed by the National Bank of Egypt.

D. Receivables for Public Law 480, credit sales for dollars

Amount to be paid in dollars by foreign governments and private trade entities for agricultural commodities and products thereof delivered under agreements entered into pursuant to P.L. 480, are carried as receivables on the books of the Corporation, pending payment under long-term credit arrangements. Accrued interest is added to such receivables on June 30 each year. Because collection on such receivables are to be applied as reductions in the amounts to be appropriated by the Congress for P.L. 480 programs, the total amount of the receivables is offset by a deferred credit account. As of June 30, 1970, past-due installments of principal and interest on receivables due from foreign governments amounted to about

$8,426,000. Of this amount, $4,013,000 was paid during July and August 1970.

E. Obligation to redeem certificates of interest in commodity loans

The certificate of interest program was discontinued in fiscal year 1970.

F. Obligation to issue export wheat marketing certificates

Under wheat marketing allocation programs the Corporation collected from wheat exporters the cost of export wheat marketing certificates which the exporters were obligated to acquire. The amount collected or due from exporters on wheat exported during the period July 1, 1968, through June 30, 1969 was first applied to offset the cost of wheat export subsidies earned by exporters during the same period. The amount by which the proceeds of export wheat marketing certificates exceeded the cost of subsidies is recorded as a liability. For the period July 1, 1969, through June 30, 1970, the amount of export wheat marketing certificates did not exceed the cost of wheat export subsidies earned by exporters.

G. Liability for payments under the 1970 feed grain program

Pursuant to legislation applicable to the 1970 crop of feed grains, the Corporation makes diversion and price-support payments to producers by issuing negotiable payment-in-kind certificates, or by making cash advances in lieu of issuing certificates to producers who elect in advance to have the Corporation market their certificate rights. The Corporation was contingently liable at June 30, 1970, to make diversion and price-support payments in an estimated amount of $1,490 million. Such payments were not due and the amounts cannot be determined until compliance with the terms of the program has been accomplished and verified. The estimated amount is not recorded as a liability in the accounts.

H. Liability for payments under the 1970 wheat program

Pursuant to legislation applicable to the 1970 crop of wheat, the Corporation makes diversion payments to producers for acreage reduction of wheat and will purchase domestic wheat marketing certificates to be issued to producers during the 1970 marketing year. The Corporation was contingently liable at June 30, 1970, to make diversion payments in an estimated amount of $67 million. In addition, the Corporation was contingently liable at June 30, 1970, to purchase wheat marketing certificates from producers in an estimated amount of $832 million of which it is estimated $397.5 million will be recovered by the sale of certificates to processors. Such payments were not due and the amounts cannot be determined until compliance with the terms of the program has been accomplished and verified. These estimated amounts are not recorded as liabilities in the accounts.

I. Liability for payments under the 1970 cotton programs

Pursuant to legislation applicable to the 1970 crops, the Corporation makes price-support and small farm payments to producers of upland cotton and price-support payments to producers of extra long staple cotton. The Corporation was contingently liable at June 30, 1970, to make small farm payments in an estimated amount of $25 million and price-support payments in an estimated amount of $882 million to producers of upland cotton. In addition the Corporation was contingently liable to make price-support payments in an estimated amount of $3.7 million to producers of extra long staple cotton. Such payments were not due and the amounts cannot be determined until compliance with the terms of the program has been accomplished and verified. The estimated amounts are not recorded as liabilities in the accounts.

J. Commitments to acquire or dispose of commodities

Contracts to acquire commodities are not reflected in the accounts, but the amounts of firm contracts are considered as contingent liabilities. The approximate contract values of undelivered commodities and materials under firm contracts to acquire such commodities and materials as of June 30, 1970, were as follows:

Commodity	Value
Blended food products	$ 868,323
Butter	4,954,584
Cheese	8,668,961
Corn products	1,411,657
Milk, dried	24,216,274
Rolled oats	877,621
Wheat products	18,282,429
Strategic and other materials	78,855
Total	$59,358,704

Sales commitments and other disposition commitments are not shown in the accounts but are considered in establishing allowances for losses.

K. Letters of commitment

Letters of commitment issued to banking institutions authorizing the banks to reimburse exporters in dollars for sales of commodities made under P.L. 480, are not shown in the financial statements. As of June 30, 1970, the amount of outstanding letters of commitment was $81,327,342.

L. Export payments

The Corporation was contingently liable at June 30, 1970, to make export payments on sales registered or declared, or export offers accepted, for which documents evidencing exportation had not been submitted, in the following approximate amounts:

Commodity	Amount
Rice	$ 6,406,007
Wheat	17,421,757
Wheat flour	2,108,552

These contingent liabilities are not shown in the financial statements.

M. Claims

Amounts due the Corporation arising from claims that are definitely known or can reasonably be established are recorded currently as accounts receivable. On claims established under programs for which the Corporation will be reimbursed on an actual cost basis and on certain claims established in the maximum amount chargeable, notwithstanding improbability of collection, credit is deferred until actual recovery is made. This deferred credit is shown under "Other Liabilities." An allowance for losses is provided on other claims where collection is doubtful. Amounts of claims on which adequate proof has not been established are not recorded as accounts receivable but are recorded for control purposes. It is estimated that such claims amounted to $13,013,788 as of June 30, 1970.

Claims against the Corporation for which the amounts are definitely known or can reasonably be established are recorded as accounts payable. Amounts of claims which are not considered valid by the Corporation are not shown as accounts payable but are recorded for control purposes. Claims in this category were estimated at $2,495,704 as of June 30, 1970.

N. Potential value of freight transit rights

The Corporation had substantial quantities of grain and relatively small quantities of other commodities stored in commercial warehouses at inland locations with freight bills covering the inbound shipments registered for transit purposes under arrangements which permit use of the registered freight bills to reduce the freight costs on outbound shipments. Because of uncertainty as to when outbound shipments will be made and as to the ultimate destinations, it is not practicable to place a dollar value on the potential freight reductions to be realized from the registered freight bills. No value is recorded in the accounts for such potential savings.

The Corporation also had cotton stored in commercial warehouses at inland locations which had been shipped in by rail under tariffs providing for transit rights. Part of the costs of inbound freight on such cotton may be subject to refund after the cotton is shipped out. The Corporation usually obtains any recoveries of cotton transit value in connection with sales of the cotton. Potential recoveries on cotton in inventory at June 30, 1970, have been estimated at $1,887,356. This amount is not recorded in the accounts.

O. Commodity inventory operations

Cost of sales and cost of commodities donated, as shown in the Comparative Statement of Income and Expense, represent the acquisition cost of the commodities plus the cost of any packaging or processing performed after acquisition. Cost of storing, handling, and transporting inventories are shown separately in this statement.

P. General overhead expense

The general overhead expense for fiscal year 1970 and for 1969 excludes $20.3 million and $20.5 million, respectively, of expenses financed with funds appropriated to the Agricultural Stabilization and Conservation Service (ASCS).

Substantially all of CCC's operating expenses are paid, as authorized by law, from an ASCS consolidated fund account covering operating expenses for both CCC and ASCS activities. This consolidated account is funded by an ASCS appropriation and by transfer of CCC corporate funds subject to limitations specified in the annual appropriation act. The amount of operating expenses is distributed to CCC and ASCS activities on the basis of budgetary workload statistics.

For expenses in fiscal year 1970, CCC transferred the maximum amount authorized--$63,782,000--to the consolidated account. The cost distribution showed that expenses applicable to CCC activities amounted to $84.1 million, or about $20.3 million in excess of the amount contributed to the expense fund by CCC.

Q. Pooled payment-in-kind certificates

Pursuant to legislation authorizing issuance of payment-in-kind certificates, the Corporation assists producers in marketing their certificates by making cash advances to them for the full value of the certificates. The certificates are pooled and marketed from the pools for immediate use by the purchasers to obtain delivery of commodities from the Corporation's inventories. Because the certificate payments for which advances were made have been recorded as expense and the amounts advanced are not repayable, the advance and the offsetting obligation to redeem pooled certificates are not shown in the Statement of Financial Condition. At June 30, 1970, the amount of the obligation to redeem pooled cotton and feed grain certificates was $1,053,314,374 and $7,647,834,079 respectively. The corresponding amounts at June 30, 1969, were $1,137,368,087 and $6,399,595,319. The same amounts had been advanced.

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APPENDIX

PRINCIPAL OFFICIALS OF

THE COMMODITY CREDIT CORPORATION

DEPARTMENT OF AGRICULTURE

FISCAL YEAR 1970

	Appointed
BOARD OF DIRECTORS	
Clifford M. Hardin (Secretary of Agriculture)	Jan. 1969
J. Phil Campbell (Under Secretary of Agriculture)	Jan. 1969
Clarence D. Palmby (Assistant Secretary of Agriculture)	Jan. 1969
Richard E. Lyng (Assistant Secretary of Agriculture)	Mar. 1969
Thomas K. Cowden (Assistant Secretary of Agriculture)	Sept. 1969
Kenneth E. Frick (Administrator, Agricultural Stabilization and Conservation Service)	Apr. 1969
Don Paarlberg, (Director, Agricultural Economics)	Mar. 1969
OFFICERS (note a)	
PRESIDENT:	
Clarence D. Palmby (Assistant Secretary of Agriculture)	Jan. 1969
EXECUTIVE VICE PRESIDENT:	
Kenneth E. Frick (Administrator, Agricultural Stabilization and Conservation Service)	Mar. 1969

PRINCIPAL OFFICIALS OF
THE COMMODITY CREDIT CORPORATION
DEPARTMENT OF AGRICULTURE
FISCAL YEAR 1970 (continued)

	Appointed
OFFICERS (note a) (continued)	
VICE PRESIDENTS:	
Raymond A. Ioanes (Administrator, Foreign Agricultural Service)	Feb. 1962
Roy W. Lennartson (Administrator, Consumer and Marketing Service)	Feb. 1969
Carroll G. Brunthaver (Associate Administrator, Agricultural Stabilization and Conservation Service)	Feb. 1969
Clifford G. Pulvermacher (General Sales Manager, Export Marketing Service)	Apr. 1969

[a]Officers of the Corporation are designated according to their positions in the Department of Agriculture.

U.S. GAO Wash., D.C.