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Statement of

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Comptroller General of the United States

before the

Subcommittees on Foreign Agricultural Policy and
on Agricultural Production, Marketing, and

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Stabilization of Prices

of the

Committee on Agriculture and Forestry

United States Senate

on

[The National Grain Inspection System]

Mr. Chairmen and Members of the Subcommittees:

We welcome your invitation to be here today to discuss our report to you and to the House Committee on Agriculture assessing the national grain inspection system supervised by the Department of Agriculture.

In hearings last summer, your Subcommittees heard testimony on grain inspection irregularities and problems.

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Because of widespread concern about the impact of these irregularities, particularly on foreign purchases of U.S. grain--vitally important to this country's balance-of-trade--you asked that we evaluate the grain-marketing system and provide you with a report for your use in considering permanent changes in the existing U.S. Grain Standards Act, the U.S. Warehouse Act, and other statutes. We are here today to summarize the results of our study and to answer questions you may have.

Our observations relate primarily to the grain inspection system established by the Grain Standards Act. We will discuss comments received from grain buyers and others in nine foreign countries about U.S. grain shipments and the Department of Agriculture's handling of complaints about those shipments. And we will offer some observations on the U.S. grain standards.

GRAIN INSPECTION SYSTEM

Disclosure in the world press and in the previous hearings of extensive criminal abuses involving intentional misgrading of grain, shortweighing, and use of improperly inspected carriers has resulted in an erosion of confidence in the national grain inspection system, both in this country and overseas. Action is needed to restore credibility and to achieve the system's objectives of

- promoting orderly grain marketing,
- protecting buyers' and sellers' interests, and
- building confidence in the quality and consistency of U.S. grain in domestic and world markets.

Basically, the problems can be attributed to the way in which the system has been designed to operate, and has operated, through more than 100 widely dispersed State and private agencies and trade associations without effective procedures, controls, or lines of authority.

The Federal role was conceived as that of overall supervisor and appeal referee. Responsibility for day-to-day operations--sampling, inspecting, and grading of grain and the issuance of inspection certificates attesting to the grade of the grain--is carried out by non-Federal official inspection agencies designated by the Department of Agriculture to operate at specific inspection points. The agencies employ inspectors, samplers, and technicians who are licensed by the Department.

A small force of Federal supervisors was provided to insure that the system functioned in accordance with requirements of the Grain Standards Act and the Department's regulations, including the official U.S. grain standards.

Recent experience has shown that the system can function only as well as the agencies and the grain trade choose to make it function.

We recognize that improvements can be made in the system's operations under the present organizational structure and the Department is trying to carry these out. Additional supervisory personnel are being hired and will be trained; new supervisory procedures are being developed; and Department officials are working with individual grain firms on plans to improve grain-marketing practices. These long overdue efforts would be worthwhile. We recognize also that the additional authorities, which some legislative proposals now before the Congress would give the Department, would increase the possibilities for strengthening the system.

We question, however, whether the Department's present actions or the actions it proposes, if the legislation it supports is enacted, will be sufficient to enable it to effectively monitor the national grain inspection system operating as it does through the diverse and complex system of State and private agencies and trade associations. There are important inherent limitations and problems involved that cannot readily be overcome by the Department's plans for increased Federal supervision, more extensive regulations, more severe penalties, and more extensive investigational efforts. These problems include

- insuring the avoidance of conflicts of interest;
- increasing the integrity, competency, and consistency in the sampling, weighing, grading, and stowage examination processes; and
- insuring adequacy and uniformity in personnel administration, such as recruiting, training, work standards, supervision, and rotation of inspection personnel.

I will now discuss these matters.

Conflicts of interest

One of the underlying causes of the system's weaknesses is its toleration of conflicts of interest between grain inspection and grain merchandising operations. The present act and regulations prohibit conflicts of interest on the part of grain inspection personnel. They do not prohibit grain companies or their officers or employees from having a direct or indirect financial or other interest in an official inspection agency. Also boards of trade in which grain companies hold memberships or influential positions can be designated as official inspection agencies. The Department has proposed some changes in its conflict-of-interest regulations but, because such situations have been permitted to exist, individuals holding responsible positions in grain companies have acted as directors or committee members in the agencies which make inspections for the same companies.

To be effective, an inspection system must avoid situations that compromise or appear to compromise its independence. Under a system which tolerates actual or potential conflict-of-interest situations, there can be little confidence in the independence and credibility of those charged with inspection responsibilities.

Sampling grain

The inspection function starts with the drawing of a sample, either mechanically or manually, from the lot of grain to be graded. It is essential that the sample is representative and that it is not switched or tampered with so that the grade assigned describes accurately the sampled lot. Because the number of samples to be drawn depends on the lot size, it is important that the person taking the sample be aware of all quantities loaded.

Controlling the taking and handling of samples is difficult. Under the present system, the Department must rely largely on the integrity of licensed personnel and elevator management to execute sampling procedures properly. Conditions at nearly every location we visited, however, compromised the integrity of the sampling operations. Officials of the Department's Agricultural Marketing Service told us that their efforts to prevent deceptive practices through increased or tighter supervision usually were countered by new deceptive practices or variations of them.

They said they could not achieve a high degree of reliability in sampling operations through the existing level of supervision and that supervisory control would not be effective unless it were on a 100-percent basis.

Weighing grain

The Grain Standards Act does not authorize the Department to supervise, or inspection agency personnel to control, grain weighing. It does not provide that grain weighing be coordinated with sampling. In preparing official grading certificates, the inspectors generally accept weights furnished by elevator operators to describe the quantities of grain inspected. The inspectors have no means of independently verifying these amounts or assuring themselves that all quantities are sampled.

Because weighing is not controlled or supervised effectively, those who must market grain on the basis of destination weights, and foreign buyers who must purchase grain on the basis of weights determined at the time the grain is loaded aboard vessels, have not been reasonably assured that the weights assigned are correct. Our interviews with foreign grain buyers and responses from country elevator operators showed widespread dissatisfaction with the weights assigned to grain shipments. Recent Department and FBI investigations have disclosed that grain was shortweighed at some ports through

- manipulating scales immediately before loading to register incorrect weights;
- representing that grain had been removed from storage bins, weighed, and loaded aboard ship when, in fact, the grain had been diverted back to the storage bins; and
- manually altering the official weight tape to indicate weights of grain which were not loaded.

In one case, the investigations disclosed that it was company policy to shortweigh outbound ships as they were loaded. At one elevator, 100 pounds was frequently deducted in weighing the contents of arriving railcars. From August 1974 through December 1975, 21 individuals pleaded guilty to, or were found guilty of, improper weighing operations.

To control grain inspections effectively and to increase the marketability of grain in this country and overseas, control and supervision of grain weighing should be coordinated with the responsibility for inspecting grain. Department officials agreed with the need for coordination at port elevators.

Grading grain

In regrading samples previously graded by licensed inspectors during fiscal year 1975, Agricultural Marketing Service supervisors found incorrect grades averaging between 10 and 20 percent of the time and, at some locations,

ranging to over 30 percent. For those people who must rely on grades as a basis for settling large-dollar-value transactions--such as country elevator operators and foreign buyers--this rate of inaccuracy does not offer a reasonable degree of reliability. Grain merchandisers are often critical of the lack of grading uniformity among inspection agencies. Considering that large volumes of grain may be purchased and sold at different locations and that different agencies are responsible for the grading, the merchandisers' concern for uniform grading practices is warranted.

Attaining a higher degree of accuracy and uniformity in grading depends somewhat on refining grain standards and improving grading technology. Progress on these matters has been slow, as we will discuss later. Until refinements make possible the measuring of grain quality through mechanical or more scientific methods, it is essential that the inspectors' capability to recognize and describe quality characteristics uniformly be improved.

Stowage examinations

No matter how clean grain may be when loaded aboard a vessel, it can be contaminated or deteriorate in quality if the storage space is wet, dirty, infested by insects or vermin, or if it contains residues from previous cargoes, such as petroleum or toxic materials. Examinations by

licensed personnel of the suitability of stowage space on vessels to receive grain for export have sometimes been deficient. During 1974 and 1975, six licensed personnel at Gulf ports were found guilty of, or pleaded guilty to, charges of certifying falsely to stowage conditions. The charges included accepting bribes ranging up to \$3,500 each from ships' officers or agents. Two individuals and one firm were found guilty of bribery.

We accompanied Agricultural Marketing Service supervisors at some locations during their supervisions of stowage examinations. One supervisor on August 4, 1975, found rust and live insects in five of the six holds of a ship waiting to be loaded with grain. A licensed inspector's prior examinations of the ship's holds on July 24 and of one hold earlier on August 4 had failed to disclose these conditions. Several days elapsed while the holds were fumigated--six times in the case of one hold--to destroy the insects. The Service supervisor concluded that the inspector had been negligent and issued him a corrective action report.

Personnel administration

The involvement of over 100 agencies in the inspection system, some providing inspection services to only 1 or 2 elevators, leads to a lack of uniformity in recruiting and training, uneven distribution of workloads, and limited opportunities for rotating personnel.

Uniform application of grain standards, although difficult, is extremely important because grain may move over long distances and between markets. Lack of uniformity between origin and destination grading has frequently led to disputes between buyers and sellers and to distrust in the integrity of the system.

Obtaining uniform inspection results is complicated when individual inspectors are burdened with heavy workloads, due to seasonal or other periodic fluctuations. Prompt completion of inspections is extremely critical because any backlogs can delay elevator operations. In one case, an inspector had made 116 inspections during 1 day and did not complete all required grading steps. In another case, one agency's inspectors averaged 100 inspections a day over a 1-month period. Although the Agricultural Marketing Service had not developed guidelines on maximum inspection workloads, its officials questioned whether proper inspections could have been made in these circumstances.

Personnel rotation is needed in any inspection activity to help prevent a buildup of conflicting interests and preserve an independent attitude. Of the 26 agencies inspecting export shipments, 17 made inspections at only 1 or 2 elevators and had little or no opportunity for rotating inspectors. Some inspectors have remained at a single elevator for 15 years.

Service officials recognized the need for improvements in recruiting, training, and rotating personnel and in distributing workloads but said that it was not possible under the present system.

Department administration and supervision

The effectiveness of the Department's administration and supervision of the grain inspection system has been limited for two reasons. First, because the system has been designed and is operated essentially to facilitate grain marketing. Second, because the Agricultural Marketing Service

- has not had an adequate number of people to carry out its heavy workload responsibilities,
- has not taken aggressive action to correct identified weaknesses or to determine the extent of indicated weaknesses, or
- has not established specific criteria on actions to be taken when grading, sampling, or other inspection irregularities occur.

As of July 1975, 223 Service field office employees were responsible for supervising the work of about 2,655 inspectors, samplers, and technicians. Only about 40 percent of their time--an equivalent of about 88 staff-years--was devoted on the average to such supervision in fiscal year 1975. The rest was spent making original inspections of processed grain commodities under the Agricultural Marketing Act of 1946; responding to appeals for grain inspections; and carrying out miscellaneous activities.

Although the grain inspection workload increased greatly beginning in fiscal year 1973, the number of field supervisors has remained relatively unchanged since 1968. After weaknesses in the inspection system had been publicized, the Congress in October 1975 appropriated \$5 million for the Service to employ about 200 additional supervisory personnel to improve and strengthen inspection procedures. Service officials said in January that 65 persons had been hired and they hoped to have all additional persons hired by March 15.

During recent years, several internal Department reports, particularly the Browning report and the May 1973 report by the Department's Office of Audit, identified potential or existing weaknesses in the grain inspection system. Both of these reports were discussed in your Subcommittee's earlier hearings. Although the reports contained no outright evidence of unlawful or fraudulent practices, they pointed to foreign buyers' problems with the quality of U.S. grain and certain deficiencies and weaknesses in the inspection system. Some deficiencies were corrected; others continued. Aggressive action was not taken to determine the extent of some of the system weaknesses, so that appropriate corrective action could be devised.

While supervising the work of licensed personnel, Service supervisors found many grading, sampling, and other irregularities. Service officials told us that, because such personnel were employees of inspection agencies, they often

ignored or refused the supervisors' direct advice and that frequently the inspection agencies' management refused to cooperate with the Service.

Conclusion

These numerous problems, deficiencies, and criminal abuses in the present national grain inspection system have led to strong demands that the integrity of the system be restored. Should this remedial action be directed to administrative inadequacies on the part of the Department and its inspection agencies? To the alignment and definitions of responsibilities between the Department and its designees? Or, to some combination of both.

The prime consideration should be to design a system which

- will offer reasonable assurance of working well;
- in time will rebuild a reputation for integrity and competency within the United States and throughout the world; and
- fixes responsibilities for any deficiencies or abuses.

Such a system should be controlled and, wherever practicable, operated directly by the Department of Agriculture.

My conclusion is based on the premise that, as a single entity, the Department could best cope with the formidable problem of establishing and maintaining uniformity, consistency, and high standards of performance within the system.

Department officials conceded that they would not recreate the present system were it not already in place and that, from a management control standpoint, a federally controlled and operated system would be best.

It is difficult to estimate precisely the cost of a federally operated system. Numerous matters need to be resolved, such as the system's organization, inspection and weighing standards and procedures, fees, qualifications of employees, and implications of employee rotation. However, a Federal system under single-agency administration appears to offer ample opportunity for efficiencies and economies not attainable under a system involving over 100 State and private agencies and a growing Federal supervisory structure.

A more effective and reliable system administered by a single agency, for example, should reduce the inspection workload as the number of inspections now made are reduced. It is not uncommon for grain now to be inspected and reinspected on multiple occasions as it moves from one inspection area to another. Export grain is often inspected four or five times. A highly reliable single-agency inspection system at major destination points should reduce the need for origin inspections and for inspections of samples from country elevators.

The adoption of a federally operated system should result also in a reduced number of appeal inspections. Appeals usually are made because grades arrived at by the

licensed inspectors are questionable, because grain buyers lack confidence in the licensed inspectors' abilities, or because the buyers want the assurance of a Federal inspection. In fiscal year 1975, Service employees spent the equivalent of about 60 staff-years responding to appeals.

Those using inspection services now are assessed fees or charges. Fees and charges for Federal services can be fixed in reasonable amounts that will recover the fair costs of providing these services.

Although none of the possible alternatives to the present system is without some disadvantage, the gravity of the problem demands placing the national interest first. Many persons--from American farmers to foreign buyers--are looking to the Federal Government to restore integrity to the system, and thereby facilitate the orderly marketing of grain domestically and promote the continued expansion of foreign agricultural markets. A federally operated grain inspection system soundly established should be positive evidence of the U.S. commitment to a stable, reliable system.

In summary, an essentially all-Federal inspection system would:

- Restore integrity and confidence in the inspection system.
- Provide greater uniformity and consistency in inspection procedures and operations.
- Eliminate actual and potential conflicts of interest.

- Develop an inspection force conforming to uniform hiring and training requirements.
- Permit rotation of the inspection force among specific localities.
- Provide greater flexibility in use of inspection personnel, especially where seasonal work may be involved.
- Provide for maximum use of standardized equipment and better maintenance of equipment.
- Reduce the number of multiple or duplicate inspections presently required.
- Reduce the number of inspection agencies to increase administrative efficiency.
- Increase foreign trade or at least reduce chances of customers choosing to buy from other sources.
- Place inspectors under the Department's direct control to provide more effective authority to deal with inspector deficiencies.
- Eliminate present inequities whereby some inspectors earn large annual salaries or incomes.
- Give the Department direct responsibility and authority to deal with elevators whose complex grain-handling systems allow for easy circumvention of controls over drawing of representative grain samples.
- And insure, insofar as possible, that grain trading within the United States and with foreign countries

is conducted in an orderly manner and that the interests of all parties concerned are adequately protected.

Recommendations

The Congress should establish a Federal grain inspection system. Recognizing that creating such a system will take time and that some changes, although urgently needed, will for practical reasons take more time to fully accomplish than others, we recommend that the system be established in phases, as follows.

Phase I: Provide the Department with authority to take over inspection services immediately from those States or firms where serious problems are disclosed. Direct the Department to intensify surveillance over ongoing inspection services being provided by the States, trade associations, and private agencies until phases II and III are implemented.

Phase II: Authorize and direct the Department to assume responsibility, at the earliest possible date, for providing inspection services--sampling, grading, and weighing--and for issuing official inspection certificates at all port elevators. Recent disclosures of extensive criminal abuses and other shortcomings in the inspection system have primarily involved port elevators. Prolonging or postponing the development of a reliable inspection

system at such elevators could have a lasting effect on foreign sales.

Phase III: Authorize and direct the Department to extend the Federal inspection system (including sampling, grading, and weighing) to the main inland terminals, after sufficient experience has been obtained at the ports. The Department should be directed also to provide inspection services, on a request basis and under contracting or licensing arrangements, at minor inland terminal and country elevators. These services should be provided under Department-prescribed standards and procedures, subject to departmental review and supervision.

The need to distinguish between major and minor terminals and to thereafter designate supplementary non-Federal inspection agencies will, of necessity, call for considerable discretion and judgment on the Department's part. Of the volume of grain inspected during fiscal year 1975, about 85 percent was inspected at the 36 domestic ports and 25 largest inland inspection points. Only about 15 percent was inspected at the 122 smaller inland inspection points. At these locations and at country elevators, the cost of employing enough inspection personnel to insure reliable sampling would be excessive. To accommodate their needs, inspection services on either a contracting or licensing basis could be provided by either State inspection

agencies (first preference) or carefully selected and screened private agencies.

Inspection services should be provided on a reimbursable basis under a system of fees designed to recover the fair costs of operating the system; the Department should use distinctively colored and worded inspection certificates which are not authorized for use by any State or other agency; and grain weighing should be made an integral part of the inspection system.

Our report also sets forth a number of matters which the Congress and the Department should consider in developing standards and procedures for a Federal grain inspection system, either by legislation or by regulation. These matters deal with conflicts of interest; sampling, grading, and weighing grain; personnel administration; and general administration.

The Department disagreed that the system's basic organizational structure needed to be changed. It said that our recommendations were technically and organizationally feasible to implement and that it agreed with most other aspects of our recommendations.

FOREIGN BUYERS' COMPLAINTS

Our inquiries in nine foreign countries, where we talked to grain buyers and to representatives of grain trade associations and arbitration boards, revealed much dissatisfaction with U.S. grain sold abroad. Both the

quantity and value of our grain exports have risen dramatically in the past few years. However, competition for world grain markets is likely to grow as production potential is developed in other countries.

Many customers believed they regularly received lower quality and weight than they paid for. Evidence suggests that these problems have existed for many years but have become more critical recently. The cost of these problems in terms of diminished foreign sales and other effects is not calculable. Many buyers said the United States would continue to be their principal grain supplier but that they had reduced their purchases of U.S. grain and were buying more from other countries. A few said they had stopped buying U.S. grain altogether.

The Department of Agriculture has not been sufficiently sensitive to foreign buyers' problems and has offered little assistance to them. Most Foreign Agricultural Service attaches we talked with were not aware of the extent of foreign buyers' problems. They said they lacked the authority, expertise, and resources for investigating complaints. The Department's procedures for handling foreign complaints generally were ineffectual. There was no central coordinating agency to record, investigate, and respond to complaints or to analyze them for possible use in reexamining inspection procedures.

The changes we are recommending in the national grain inspection system should go a long way toward alleviating the types of problems foreign customers have experienced. Recognizing that problems and complaints may arise from time to time, however, we also are recommending improvements in the way the Department handles foreign complaints. The Department agreed with these and said it was taking, or would take, steps to put them into action.

U.S. GRAIN STANDARDS

Many persons we interviewed or sent questionnaires to pointed out that the existing U.S. grain standards do not include certain important grain quality indicators but include other relatively unimportant or unreliable indicators. One authority said the standards were developed over the years primarily to meet the minimal needs of grain merchandisers, not to consider the needs of growers and food processors.

Some respondents said greater emphasis was needed on developing standards stressing qualities relating to grain's end use, such as protein in wheat, and oil and protein in soybeans, and which provide incentives to farmers to produce higher quality grain. Before refinements or changes can be made to the grain standards, however, new equipment or inspection techniques must be developed to ascertain grade readily in accordance with the proposed standards.

The Secretary should intensify research and development on the U.S. grain standards and provide for greater coordination among the departmental agencies with research and marketing responsibilities. The Department concurred in our recommendation and said its agencies would jointly design and cost out priority research proposals.

Mr. Chairman, that concludes my statement. I will be pleased to respond to questions.