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Audit of Commodity Credit Corporation for Fiscal Year 1977.
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Report to the Congress; by Elmer B. Staats, Comptroller General.

Issue Area: Accounting and Financial Reporting (2800).

Contact: Community and Economic Development Div.

Budget Function: Agriculture: Farm Income Stabilization (351).

Organization Concerned: Department of Agriculture; Commodity Credit Corp.

Congressional Relevance: House Committee on Agriculture; Senate Committee on Agriculture, Nutrition, and Forestry; Congress.

Authority: Government Corporation Control Act (31 U.S.C. 841).

Agricultural Trade Development and Assistance Act of 1954 (P.L. [83]-480; 7 U.S.C. 1691).

An examination of the financial statements of the Commodity Credit Corporation of the Department of Agriculture was directed primarily at their reliability and usefulness. Except as noted, the examination was made in accordance with generally accepted auditing standards and included tests of the accounting records and other auditing procedures that were considered practicable and reasonable. Because of the uniqueness and scope of the Corporation's operations, it was not practicable to perform all examination and verification steps necessary to reach an overall opinion on the accuracy and fairness of the Corporation's statements as of September 30, 1977, and the results of its operations for the year then ended. Findings/Conclusions: The Corporation reported a total realized loss of \$824 million for fiscal year 1977. This loss, reimbursable through appropriations, was \$222 million more than that for fiscal year 1976. The results of operations for fiscal year 1977 did not include costs of \$1.3 billion to be recovered through special appropriations and collections from foreign governments. At September 30, 1977, price-support and storage facility loans made to farmers at the county level totaled about \$420 million; documentation lags resulted in a \$45 million understatement of total assets and liabilities. Because of a problem with receiving prompt responses and reconciling differences, confirmation of accounts and notes receivable was omitted, as was an independent verification of commodities in the Corporation's inventory and those stored as collateral for loans. The reasonableness of the Corporation's allowances for losses on disposition of price-support inventories or loans was also not verified. (RBS)

6097

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Audit Of Commodity Credit Corporation For Fiscal Year 1977

The Corporation reported a realized loss, reimbursable through appropriations, of \$824 million for fiscal year 1977—\$222 million more than that for fiscal year 1976. Also, it incurred costs of \$1.3 billion for special activities, mainly those under Public Law 480, which are financed through special appropriations and collections from foreign governments.

Because of the uniqueness and scope of the Corporation's operations, it was not practicable for GAO to perform all examination and verification steps necessary to reach an overall opinion on the accuracy and fairness of the Corporation's financial statements at September 30, 1977. However, the Corporation's accounting methods provided a satisfactory record of its financial transactions and its financial reporting system was adequate to supply the Corporation's management with information for conducting its affairs.



CEG-78-91
APRIL 14, 1978



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

We examined the financial statements of the Commodity Credit Corporation, Department of Agriculture, for the fiscal year ended September 30, 1977, pursuant to the Government Corporation Control Act (31 U.S.C. 841). This Government-owned Corporation was created in 1933 to (1) stabilize, support, and protect farm income and prices (2) assist in maintaining balanced and adequate supplies of agricultural commodities, and (3) facilitate the orderly distribution of commodities.

The Corporation reported a total realized loss of \$824 million for fiscal year 1977. This loss, reimbursable through appropriations, was \$222 million more than that for fiscal year 1976. The results of operations for fiscal year 1977 (see schedule 2) do not include costs of \$1.3 billion for certain Corporation programs or operations, such as those under the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1691), commonly known as Public Law 480. These costs are mainly recovered through special appropriations and collections from foreign governments.

The Corporation's practice of closing its accounting records promptly at the end of a fiscal year to meet budgetary and other reporting deadlines causes some transactions of that year to be recorded in the next period because of documentation lags. The major lag at September 30, 1977, pertained to price-support and storage facility loans made to farmers at the county level. During September 1977 such loans totaled about \$420 million. The effect of this and other documentation lags at September 30, 1977, was a \$45 million understatement of total assets and total liabilities.

Our examination of the Corporation's financial statements was directed primarily at their reliability and usefulness. The examination, except as noted below, was made in accordance with generally accepted auditing standards and included tests of the accounting records and other auditing procedures that we considered practicable and reasonable. However, because of the uniqueness and vast scope of the Corporation's operations, it was not practicable for us to perform all the

examination and verification steps necessary to reach an overall opinion on the accuracy and fairness of the Corporation's statements on its financial position at September 30, 1977, and the results of its operations for the year then ended.

Because of an inherent problem of receiving prompt responses and reconciling differences, we omitted confirmation of accounts and notes receivable. About 97 percent of the total receivables were due from foreign governments and trade entities under agricultural export programs.

Also omitted was an independent verification of commodities in the Corporation's inventory and those stored as collateral for loans. Such work would have been costly and extremely difficult because of the large number and various locations of storage facilities and the impracticability of determining the quantity and condition of grain stored in public warehouses or on farms.

Further, we did not verify the reasonableness of the Corporation's allowances for losses on disposition of price-support inventories or loans. The allowances are based on estimates which are not susceptible to audit verification. For example, the amounts that the Corporation realizes on disposition of its inventories depend on a number of complicated and interrelated factors, such as changes in domestic and world supply and demand, various legislative restrictions on the disposal of commodities, the time and manner of disposal, and the effect that commodity dispositions have on domestic and world prices. Therefore, the actual losses can differ greatly from the amounts estimated by the Corporation.

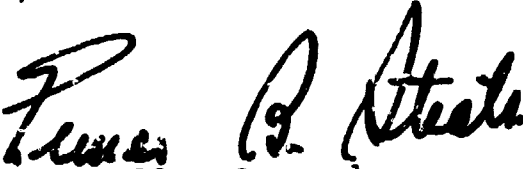
For the reasons explained above, we cannot say whether the accompanying financial statements--Comparative Statement of Financial Condition (schedule 1), Comparative Statement of Income and Expense (schedule 2), Analysis of Deficit (schedule 3), and Statement of Source and Application of Funds (schedule 4)--prepared by the Commodity Credit Corporation present fairly its financial position at September 30, 1977, and the results of its operations for the year then ended. However, the Corporation's accounting

methods provided a satisfactory record of its financial transactions and its financial reporting system was adequate to supply the Corporation's management with information for conducting its affairs. Additional information is included in the Corporation's Report of Financial Condition and Operations, September 30, 1977, which is available at the Corporation's Washington, D.C., office.

We have issued separate reports to the Congress on selected programs and activities of the Corporation. Such reports issued during calendar year 1977 are summarized in appendix I.

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


Comptroller General
of the United States

C o n t e n t s

FINANCIAL STATEMENTS

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ABBREVIATION

CCC	Commodity Credit Corporation
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COMMODITY CREDIT CORPORATIONCOMPARATIVE STATEMENT OF FINANCIAL CONDITIONSEPTEMBER 30, 1977 AND 1976

ASSETS	SEPTEMBER 30	
	1977	1976
CASH	\$ 36,312,563	\$ ^a -59,040,052
LOAN PROGRAMS:		
Commodity (net) (note B)	3,001,954,981	706,925,229
Storage facility and equipment	235,480,903	152,141,318
COMMODITY INVENTORIES (net) (notes A and B)	823,256,404	472,418,958
ACCOUNTS AND NOTES RECEIVABLE (net) (note C)	6,882,836,748	5,972,835,014
ACCRUED INTEREST RECEIVABLE	57,757,670	41,493,448
FIXED ASSETS (net)	2,120	8,793
OTHER ASSETS (net)	93,862,535	3,699,606
TOTAL ASSETS	<u>\$11,131,465,984</u>	<u>\$7,321,482,314</u>

LIABILITIES

ACCOUNTS PAYABLE	\$ 163,784,737	\$ 107,759,525
ACCRUED INTEREST ON U.S. TREASURY BORROWINGS	124,832,236	72,597,708
ACCRUED LIABILITIES	9,339,923	10,168,720
TRUST AND DEPOSIT LIABILITIES	800,042,554	366,457,317
DEFERRED CREDIT FOR P.L. 480 RECEIVABLES-- CREDIT SALES FOR DOLLARS (note E)	5,413,082,039	4,805,453,783
OTHER LIABILITIES	81,212,708	42,417,979
TOTAL LIABILITIES	<u>6,592,294,197</u>	<u>5,104,855,032</u>

INVESTMENT OF U.S. GOVERNMENT

BORROWINGS FROM U.S. TREASURY (note G)	6,128,456,588	3,555,993,316
CAPITAL STOCK	100,000,000	100,000,000
	<u>6,228,456,588</u>	<u>3,655,993,316</u>
Less deficit (schedule 3)	1,689,284,801	1,739,366,036
TOTAL INVESTMENT OF U.S. GOVERNMENT	<u>4,539,171,787</u>	<u>1,916,627,282</u>
TOTAL LIABILITIES AND INVESTMENT OF U.S. GOVERNMENT	<u>\$11,131,465,984</u>	<u>\$7,321,482,314</u>

^aThe negative cash position at September 30, 1976, resulted from cash transfers to other Government agencies as recorded by the United States Treasury as of that date although processed in October 1976. The Corporation cannot borrow from the Treasury retroactively, thus borrowings to cover the transfers were made and recorded by the Corporation in October 1976.

The notes on pages 5 to 10 are an integral part of this statement.

The General Accounting Office has not expressed an opinion on this statement for the reasons explained in the accompanying letter.

COMMODITY CREDIT CORPORATION

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

12-MONTH PERIODS ENDED SEPTEMBER 30, 1977 and 1976

	<u>1977</u>	<u>1976</u>
REALIZED GAINS AND LOSSES--PROGRAM:		
Commodity inventory operations (note N):		
Sales of commodities	\$580,852,428	\$438,737,486
Cost of sales	580,428,971	419,521,259
Net gain (-) on sales	-423,457	-19,216,227
Cost of commodities donated	59,795,535	188,213,367
Storage and handling expense	29,698,211	26,485,903
Transportation expense	<u>18,852,680</u>	<u>18,091,569</u>
Net loss on commodity inventory operations	<u>107,922,969</u>	<u>213,574,612</u>
Producer payments:		
Cotton	95,701,821	103,875,952
Feed grain	232,892,733	116,827,807
Rice	128,983,847	10,655
Wheat	<u>136,907,031</u>	<u>99,207,019</u>
Total producer payments	<u>594,485,432</u>	<u>319,921,433</u>
National Wool Act payments	6,822,919	41,798,472
Loan and other charge-offs	45,466,208	1,250,324
Other program recoveries (-)	-796,385	-1,021,953
Special recovery authorized for National Wool Act (-)	<u>-6,822,919</u>	<u>-41,798,472</u>
Net realized loss--program	<u>747,078,224</u>	<u>533,724,416</u>
INCOME AND EXPENSE--GENERAL:		
Income:		
Interest on loans	54,328,978	36,369,197
Other interest income	105,865,864	83,821,562
Other income	10,578	268,523
Total income	<u>160,205,420</u>	<u>120,459,282</u>
Expense:		
Interest expense	158,053,197	111,213,084
General overhead expense (net) (note O)	79,188,510	77,499,827
Other expense	134,254	267,332
Total expense	<u>237,375,961</u>	<u>188,980,243</u>
Net expense--general	<u>77,170,541</u>	<u>68,520,961</u>
TOTAL REALIZED LOSS	<u>824,248,765</u>	<u>602,245,377</u>
ADJUSTMENTS (- GAINS) OF ALLOWANCES FOR LOSSES--PROGRAM:		
Allowance for losses on loans	6,299,000	-1,494,000
Allowance for losses on commodity inventories	26,863,000	-117,793,000
Allowance for losses on accounts and notes receivable	<u>-8,439,000</u>	<u>9,425,000</u>
Total adjustment of allowances for losses--program	<u>24,723,000</u>	<u>-109,862,000</u>
NET LOSS TRANSFERRED TO DEFICIT (schedule 3)	<u>\$848,971,765</u>	<u>\$492,383,377</u>

The notes on pages 5 to 10 are an integral part of this statement.

The General Accounting Office has not expressed an opinion on this statement for the reasons explained in the accompanying letter.

C O M M O D I T Y C R E D I T C O R P O R A T I O N

ANALYSIS OF DEFICIT

FROM INCEPTION IN 1933 TO SEPTEMBER 30, 1977

	<u>Cumulative to September 30, 1976</u>	<u>Fiscal year 1977</u>	<u>Cumulative to September 30, 1977</u>
TOTAL REALIZED LOSS EXCLUSIVE OF COST OF WARTIME CONSUMER SUBSIDY PROGRAM	\$58,079,902,028	\$824,248,765	\$58,904,150,793
COST OF WARTIME CONSUMER SUBSIDY PROGRAM	<u>2,102,281,073</u>	-	<u>2,102,281,073</u>
ALLOWANCES FOR LOSSES--PROGRAM	<u>60,182,183,101</u>	<u>824,248,765</u>	<u>61,006,431,866</u>
NET OPERATING LOSS	<u>149,320,000</u>	<u>^a24,723,000</u>	<u>174,043,000</u>
LESS:	<u>60,331,573,101</u>	<u>848,971,765</u>	<u>61,180,474,866</u>
Reimbursement for net realized loss (15 U.S.C. 713a)	57,993,281,834	899,053,000	58,893,034,834
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)	<u>41,915,799</u>	-	<u>41,915,799</u>
	<u>58,592,137,065</u>	<u>899,053,000</u>	<u>59,491,190,065</u>
Net deficit (schedule 1)	<u>\$ 1,739,366,036</u>	<u>\$^b50,081,235</u>	<u>\$^c1,689,284,801</u>

^aRepresents adjustment of allowances for losses.

^bNet surplus.

^cComprised of the following:

Unrestored realized losses:	
Year ended June 30, 1976	\$ 524,341,998
Transition quarter	166,651,038
Fiscal year 1977	824,248,765
	<u>1,515,241,801</u>
Allowances for losses, September 30, 1977	<u>174,043,000</u>
Net deficit, September 30, 1977	<u>\$1,689,284,801</u>

The notes on pages 5 to 10 are an integral part of this statement.

The General Accounting Office has not expressed an opinion on this statement for the reasons explained in the accompanying letter.

COMMODITY CREDIT CORPORATIONSTATEMENT OF SOURCE AND APPLICATION OF FUNDSFISCAL YEAR 1977

FUNDS PROVIDED:		
Borrowings from U.S. Treasury		\$5,783,997,023
Reimbursement for realized losses by appropriations		999,053,000
Sales of commodities		580,852,428
Inventory settlements for differences in grade, location, and quantity (net)		564,798
Repayment of loans by producers		1,168,273,732
Repayment of loans by Secretary of Agriculture		50,000,000
Interest income		160,194,842
Other		1,794,405
Decrease in working capital items		<u>115,096,602</u>
Total funds provided		<u>\$8,759,826,831</u>
FUNDS APPLIED:		
Repayment of borrowings from U.S. Treasury		\$3,211,533,752
Cost of commodities purchased		973,623,186
Acquisitions of loan collateral in excess of value of loans defaulted		573,857
Storage, transportation, and processing expenses		69,672,627
Loans to producers		3,621,171,830
Loan to Secretary of Agriculture		50,000,000
Extended loan storage expense		412,723
Export payments [Settlements for contingent liability under old, expired program]		136,202
Payments under the cotton, feed grain, rice, and wheat programs		594,485,432
Interest expense		158,053,198
State and county office expenses		37,666,000
Custodian and agency expenses		236,614
Administrative expenses		39,936,895
Purchases of nonexpendable equipment		227,299
Other		<u>2,137,216</u>
Total funds applied		<u>\$8,759,826,831</u>

The notes on pages 5 to 10 are an integral part of this statement.

The General Accounting Office has not expressed an opinion on this statement for the reasons explained in the accompanying letter.

COMMODITY CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1977

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 stored without specific lot identification, is computed on the basis of average unit cost of the commodity in inventory at the end of the previous month. Cost allocated to other dispositions from price-support inventories is computed on the basis of actual lot cost of the specific lots removed. Actual lot cost or average cost 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. Allowances equal to the full inventory value are established for commodities scheduled for domestic donation. 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.

At September 30, 1977, the estimated allowances for losses amounted to \$7,080,000 on loans and \$161,598,000 on inventories. At September 30, 1976, allowances for losses amounted to \$781,000 on loans and \$134,735,000 on inventories.

C. ALLOWANCES FOR LOSSES ON
ACCOUNTS AND NOTES RECEIVABLE

Allowances for losses on accounts and notes receivable are based on the estimated recovery value of the respective assets. At September 30, 1977, allowances on these assets

totaled \$5,365,000 and at September 30, 1976, amounted to \$4,993,750.

No allowance has been provided for possible losses on dollar credit sales under the Agricultural Trade Development and Assistance Act of 1954, P.L. 83-480, because the full amounts of the receivables will be recovered from appropriations. (See note E.)

D. ALLOWANCES FOR LOSSES ON INVESTMENTS

Under the Corporation's Export Credit Sales Program, letters of credit of \$21.8 million were issued to CCC by the New York Branch of Intra Bank, S.A.L., Beirut, Lebanon. This bank ceased operations October 15, 1966. CCC and the three other major creditors of Intra Bank (the Governments of Lebanon, Kuwait, and Qatar) entered into an agreement for the settlement of claims of CCC and other creditors against Intra Bank. The agreement provided, among other things, that CCC would be an organizing stockholder in a new investment corporation to be established under Lebanese law, and that CCC pursue its rights under United States law with respect to assets of Intra Bank in the United States. The Corporation has recovered a substantial amount of its claim primarily from the liquidation of assets of Intra Bank in New York. As of September 30, 1977, \$13.5 million has been recovered and credited to the investment account to reduce the cost of the investment. In accordance with the terms of the above stated agreement, CCC on June 25, 1974, granted to the Government of Lebanon its request for an option to purchase the shares of capital stock of Intra Investment Co., S.A.L., currently held by CCC. The events of 1975 and 1976 interrupted negotiations. However, discussions with respect to the sale were resumed in 1977, and therefore no allowance for losses has been established for the period ended September 30, 1977.

E. RECEIVABLES FOR PUBLIC LAW 83-480, CREDIT SALES FOR DOLLARS

The amounts due for financing, under long-term credit arrangements, deliveries of agricultural commodities and products thereof under agreements entered into with foreign governments and private trade entities pursuant to P.L. 83-480 are carried on the Corporation's books as receivables. Accrued interest is added on September 30 each year. The principal amount financed during the fiscal year, less amounts of principal and interest installments collected is recovered from annual appropriations made by the Congress for P.L. 480 programs. Therefore, the total amount of the long-term credit receivables is offset by a deferred credit account. As of

September 30, 1977, past-due installments of principal and interest on receivables due from foreign governments (except Khmer Republic and Viet Nam) amounted to about \$7,749,994. Of this amount \$1,699,788 was paid during October 1977.

Foreign government receivables of \$189.7 million from the Khmer Republic and \$32.9 million from the Republic of Viet Nam represent transactions completed prior to April 17, 1975, and May 1, 1975, respectively, the dates on which the Foreign Assets Control Regulations (31 CFR 500) were made applicable to those countries. The receivables also include \$17.2 million for Khmer Republic and \$5.4 million for Viet Nam representing the financed value of commodities shipped to those countries where delivery was frustrated and other disposition was made under the Foreign Assets Control Regulations. Applicable documentation on the disposition has not been received by CCC. In addition, commodities with a financed value of \$2.1 million originally charged to the foreign governments were removed from the receivables and charged to Title II of P.L. 480 on the basis of documentation showing that the commodities had been acquired under the Foreign Assets Control Regulations and diverted to India as a donation under Title II. Accounting disposition of these amounts will be made after the Treasury Department has provided final instructions.

F. EXPORT CREDIT SALES PROGRAM

The CCC Export Credit Sales Program provides for financing export credit sales of agricultural commodities by purchasing exporters' accounts receivable. The registration of a sale enables a U.S. exporter to deliver agricultural commodities to a foreign importer on a deferred payment basis for periods up to a maximum of 36 months. All accounts receivable purchased under the program are covered by U.S. bank and foreign bank letters of credit. As of September 30, 1977, past-due installments of principal and interest amounted to \$10,266,469. Of this amount \$127,141 was paid in October 1977. None of the amounts are due from U.S. banks.

G. BORROWING AUTHORITY

CCC operations are financed by borrowings from the U.S. Treasury under its statutory borrowing authorization of \$14.5 billion, this amount being the limit on borrowings that may be outstanding at any one time. As of September 30, 1977, CCC's actual borrowings from the Treasury amounted to \$6,128,457,000. This left a statutory borrowing authority available of \$8,371,543,000.

H. LIABILITY FOR PAYMENTS UNDER 1977 PROGRAMS FOR FEED GRAINS, WHEAT, UPLAND COTTON, AND RICE

Legislation applicable to 1977 crops authorizes payments to producers of feed grains, wheat, upland cotton, and rice for the deficiency between established target prices (adjusted for cost of production in the case of rice) for the applicable commodity and the higher of the national average market prices for the first five months of the marketing year (for cotton, the average market price for the calendar year 1977) or the national loan level. Based on the relationship between current market prices and the established target prices, it is estimated that no deficiency payments will be made for upland cotton. However, at September 30, 1977, the Corporation was contingently liable to make such payments estimated at \$534 million for feed grains, \$1,098 million for wheat, and \$61 million for rice. This contingency is not recorded as a liability in the accounts.

The legislation also authorizes disaster payments to producers who are prevented from planting feed grains, wheat, upland cotton, or rice because of a natural disaster or condition beyond the control of the producers, or who, because of such a disaster or condition, harvest less than a specified quantity. Payments in accordance with these provisions will be made upon application. It is estimated that \$504.5 million will become due under the disaster provisions of the program. However, the amounts of such payments cannot be determined until claims have been filed and adjudicated, and therefore are not recorded as liabilities in the accounts.

I. LIABILITY FOR PAYMENTS FOR 1977 CROP SUGAR

The Corporation is authorized pursuant to legislation to make payments to sugar processors upon the condition that processors pay producers no less than the support price for sugar beets and sugar cane. The payment rate will be an amount by which the national average market price received by processors (computed on a raw sugar basis) is less than 13.5 cents per pound (the support rate). At September 30, 1977, the contingent liability for such payments is estimated at \$78 million. This contingency is not recorded as a liability 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 under firm contracts to acquire such commodities were as follows:

<u>Commodity</u>	<u>Value</u>
Blended food products	\$ 4,600,509
Corn products	437,859
Cheese	297,486
Milk	125,642
Peanut products	3,099,525
Rice	394,570
Rolled oats	566,656
Sorghum grits	109,223
Soya flour	116,660
Vegetable oil products	482,253
Wheat	6,226,159
Wheat products	<u>6,878,886</u>
Total	<u>\$23,335,428</u>

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 pay exporters for sales of commodities and to pay carriers for ocean freight differential covering shipments made under P.L. 83-480, are not shown in the financial statements. The amount of outstanding letters of commitment issued for sales of commodities was \$100,835,000 as of September 30, 1977. Letters of commitment covering ocean freight differential are issued without stated value.

L. 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 \$1,814,000 as of September 30, 1977.

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 \$1,598,000 as of September 30, 1977.

M. POTENTIAL VALUE OF FREIGHT TRANSIT RIGHTS

The Corporation had 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.

N. 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. Storage and handling and transportation expenses pertaining to inventories are shown separately in this statement.

O. GENERAL OVERHEAD EXPENSE

Substantially all of CCC's operating expenses are paid, as authorized by law, from an Agricultural Stabilization and Conservation Service (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 appropriations act. The amount of operating expenses is distributed to CCC and ASCS activities on the basis of budgetary workload statistics. The budgetary statistics for fiscal year 1977 were not available until after CCC's report was published and, therefore, the amount of CCC expenses, if any, financed with funds appropriated to ASCS was not known as of the statement date. During fiscal year 1977, CCC transferred \$74,861,000 to the consolidated fund. [GAO note: ASCS subsequently determined that \$9.2 million of its expense appropriation had been applied to CCC activities in fiscal year 1977.]

GAO REPORTS ISSUED TO THE CONGRESS
DURING CALENDAR YEAR 1977
ON SELECTED PROGRAMS AND ACTIVITIES
OF THE
COMMODITY CREDIT CORPORATION

NEW APPROACH NEEDED TO CONTROL PRODUCTION
OF MAJOR CROPS IF SURPLUSES AGAIN OCCUR

During the 1971-73 crop years, the Commodity Credit Corporation paid farmers \$7.6 billion to set aside, or not farm, cropland. The purpose of these payments was to prevent excessive supplies of wheat, feed grains, and cotton from accumulating. This was only partly effective in reducing production primarily because some cropland, which would have been set aside anyway (placed in summer fallow) as a normal farming practice, was allowed to qualify for Federal payments. About \$800 million was paid for setting aside wheat land that would not have been farmed anyway.

In a report to the Congress (CED-77-57, Apr. 25, 1977), we recommended that the Secretary of Agriculture develop a legislative and administrative proposal to better control production of crops that might become too plentiful. The Secretary submitted to the applicable legislative committees a proposal that was consistent with our recommendation. The Food and Agriculture Act of 1977 (Public Law 95-113, approved September 29, 1977) provides (1) for a set-aside program based on a percentage of the current year's planted acreage and (2) that the Secretary may require the acreage normally planted to designated crops be reduced by the amount of the set-aside.

FEDERAL DEFICIENCY PAYMENTS SHOULD
NOT BE MADE FOR CROPS NOT GROWN

The Commodity Credit Corporation made \$128 million (final total) in deficiency payments to rice farmers for the 1976 rice crop. These payments were based on the extent that the national average market price received by rice farmers, as determined by the Statistical Reporting Service, Department of Agriculture, was below a target price established by law. The 1975 rice law provided for payments to farmers on the basis of acreage allotments and not on the basis of acres

actually planted. About \$5 million of the total amount was paid for rice not grown and thus not marketed.

The situation in which payments would be made on unplanted and thus unmarketed crops could have arisen for the 1978 and future crops of wheat, feed grains, and rice if existing laws were extended.

In a report to the Congress (CED-77-77, May 24, 1977), we recommended that the Congress adopt legislation that would preclude deficiency payments on crops not grown. The Food and Agriculture Act of 1977 bases deficiency payments for wheat, feed grains, cotton, and rice on planted acreage. Thus, deficiency payments are not to be made for crops not grown.

PRINCIPAL OFFICIALS OF
THE COMMODITY CREDIT CORPORATION
DEPARTMENT OF AGRICULTURE
FISCAL YEAR 1977

	Tenure of office	
	From	To
<u>BOARD OF DIRECTORS</u>		
Earl L. Butz (Secretary of Agriculture)	Dec. 1971	Oct. 1976
John A. Knebel (Secretary of Agriculture)	Nov. 1976	Jan. 1977
John A. Knebel (Deputy Secretary of Agriculture)	Dec. 1975	Oct. 1976
Richard E. Bell (Assistant Secretary of Agriculture)	July 1975	Jan. 1977
Richard L. Feltner (Assistant Secretary of Agriculture)	Mar. 1974	Feb. 1977
Robert W. Long (Assistant Secretary of Agriculture)	Mar. 1973	Jan. 1977
Don Paarlberg (Director, Agricultural Economics)	Mar. 1969	Jan. 1977
Kenneth E. Frick (Administrator, Agricultural Stabilization and Conservation Service)	Apr. 1969	Jan. 1977
- - - -		
Bob Bergland (Secretary of Agriculture)	Jan. 1977	Present
John C. White (Deputy Secretary of Agriculture)	Apr. 1977	Jan. 1978
Dale E. Hathaway (Assistant Secretary of Agriculture)	Apr. 1977	Present
Carol T. Foreman (Assistant Secretary of Agriculture)	Mar. 1977	Present
Robert H. Meyer (Assistant Secretary of Agriculture)	Apr. 1977	Oct. 1977
M. Rupert Cutler (Assistant Secretary of Agriculture)	Apr. 1977	Present
Howard W. Hjort (Director, Economics, Policy Analysis and Budget)	Apr. 1977	Present
Ray Fitzgerald (Administrator, Agricultural Stabilization and Conservation Service)	Aug. 1977	Present

PRINCIPAL OFFICIALS OF
THE COMMODITY CREDIT CORPORATION
DEPARTMENT OF AGRICULTURE
FISCAL YEAR 1977 (continued)

	Tenure of office	
	From	To
<u>OFFICERS (note a)</u>		
PRESIDENT:		
Richard E. Bell (Assistant Secretary of Agriculture)	July 1975	Jan. 1977
EXECUTIVE VICE PRESIDENT:		
Kenneth E. Frick (Administrator, Agricultural Stabilization and Conservation Service)	Apr. 1969	Jan. 1977
VICE PRESIDENTS:		
David L. Hume (Administrator, Foreign Agricultural Service)	Sept. 1973	July 1977
Donald E. Wilkinson (Administrator, Agricultural Marketing Service)	Sept. 1975	Mar. 1977
P. Royal Shipp (Acting Administrator, Food and Nutrition Service)	Sept. 1976	May 1977
James L. Hutchinson (General Sales Manager, Office of the General Sales Manager)	Mar. 1976	May 1977
Seeley G. Lodwick (Associate Administrator, Agricultural Stabilization and Conservation Service)	Apr. 1976	Feb. 1977
- - - -		
PRESIDENT:		
Dale E. Hathaway (Assistant Secretary of Agriculture)	Apr. 1977	Present
EXECUTIVE VICE PRESIDENT:		
Victor A. Senechal (Acting Administrator, Agricultural Stabilization and Conservation Service)	Feb. 1977	July 1977
Ray Fitzgerald (Administrator, Agricultural Stabilization and Conservation Service)	July 1977	Present
VICE PRESIDENTS:		
Thomas R. Hughes (Administrator, Foreign Agricultural Service)	Aug. 1977	Present

PRINCIPAL OFFICIALS OF
THE COMMODITY CREDIT CORPORATION
DEPARTMENT OF AGRICULTURE
FISCAL YEAR 1977 (continued)

	Tenure of office	
	From	To
<u>OFFICERS</u> (note a) (continued)		
VICE PRESIDENTS (continued):		
William T. Marney (Acting Administrator, Agricultural Marketing Service)	Mar. 1977	Aug. 1977
Barbara L. Schmitt (Administrator, Agricultural Marketing Service)	Aug. 1977	Present
Lewis B. Straus (Administrator, Food and Nutrition Service)	May 1977	Present
Kelly M. Harrison, General Sales Manager, Office of General Sales Manager)	Aug. 1977	Present
Victor A. Senechal (Acting Associate Administrator, Agricultural Stabilization and Conservation Service)	July 1977	Oct. 1977
Stewart N. Smith (Associate Administrator, Agricultural Stabilization and Conservation Service)	Oct. 1977	Present
Robert Angelotti (Administrator, Food Safety and Quality Service)	July 1977	Present

^aOfficers of the Corporation are designated according to their positions in the Department of Agriculture.

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