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REPORT TO THE CONGRESS

Examination Of Financial Statements Commodity Credit Corporation Fiscal Year 1969

B-114824

Department of Agriculture

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

~~715503~~ APRIL 3, 1970

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

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

This is our report on the examination of financial statements of the Commodity Credit Corporation, Department of Agriculture, for the fiscal year ended June 30, 1969. The examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841).

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

Elmer B. Staats

Comptroller General
of the United States

Contents

ABBREVIATIONS

ASCS	Agricultural Stabilization and Conservation Service
ASC	Agricultural Stabilization and Conservation
CCC	Commodity Credit Corporation
C&MS	Consumer and Marketing Service
GAO	General Accounting Office

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL STATEMENTS COMMODITY CREDIT CORPORATION, FISCAL YEAR 1969
Department of Agriculture B-114824

D I G E S T

WHY THE EXAMINATION 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

In view of the unique character and vast scope of CCC's operations--particularly its commodity inventories and loan collateral--it was not practicable to perform all the examination and verification steps which GAO believes would be necessary to reach an independent, overall opinion concerning the accuracy and fairness of the CCC financial statements. (See p. 25.)

Accordingly, GAO cannot express an opinion that the accompanying financial statements present fairly CCC's financial position at June 30, 1969, and the results of its operations for the year then ended. However, GAO believes that

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

--CCC's financial reporting system was--except for the need to disclose certain costs of administering CCC programs--generally adequate to supply management with information for conducting its affairs. (See p. 27.)

The financial statements do not disclose that about $21 million of funds appropriated to the Agricultural Stabilization and Conservation Service--part of the Department of Agriculture--for administrative expenses were paid from a consolidated fund to finance CCC's operating expenses. CCC advised GAO that fiscal procedures would be adopted to provide that CCC accounting records and financial reports disclose the full amount of expenses applicable to CCC programs. (See p. 11.)

In June 1969 CCC sold $697 million of special series certificates of interest at a computed annual interest rate of 8-7/8 percent--an exceptionally high rate. This sale was intended to permit the Department of Agriculture to operate within expenditure limitations established by the Bureau of the Budget. Substantially all the funds realized from the sale were used to repay borrowings from the Treasury. GAO estimated that the sale of the certificates resulted in extra interest costs of about $1.7 million. CCC discontinued sales of certificates of interest in August 1969. (See p. 10.)

RECOMMENDATIONS OR SUGGESTIONS

The report presents information on the status of other GAO findings and recommendations concerning CCC operations, which were included in separate reports to the Congress or to CCC officials. The recommendations involved

--increasing the interest rate on storage facility and equipment loans to a rate not less than the rate that CCC pays for funds to finance the loans (see p. 5),

--revising the method of computing interest on price-support loans (see p. 6),

--eliminating excessive protection for shipments of perishable commodities (see p. 7), and

--improving the operation of the butter price-support program by eliminating extra handling of butter (see p. 9).

AGENCY ACTIONS AND UNRESOLVED ISSUES

CCC has taken corrective action on GAO's recommendations.

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 the Government Corporation Control Act, to disclose the results of the annual audit of CCC's financial statements and such other information as deemed necessary to keep the Congress informed on the operations and financial condition of the Corporation.

CHAPTER 1

INTRODUCTION

The General Accounting Office has examined the financial statements of the Commodity Credit Corporation for the fiscal year ended June 30, 1969. The scope of our examination is described on pages 24 through 26.

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 principal officials of CCC during fiscal year 1969 are listed in the appendix. (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 (ASC) 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 ASC 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 insular area office in Puerto Rico, and about 2,900 county offices. The ASC State committees supervise the activities of the ASC county committees in their respective States.

CHAPTER 3

STATUS OF SELECTED GAO FINDINGS

ADDITIONAL INTEREST INCOME ON CCC LOANS

Interest rate on storage facility and equipment loans increased

In a report to the Congress on loans made by CCC (B-114824, September 21, 1967), we recommended that CCC revise its interest rate policy to provide that borrowers pay interest at a rate not less than the rate CCC pays for funds to finance the loans.

We stated that CCC was charging interest at an annual rate of 4 percent on storage facility and equipment loans even though CCC was paying interest at rates up to 5-3/4 percent on funds borrowed from the U.S. Treasury and private lending institutions. We pointed out that the interest rate of 4 percent on such loans had not been changed since inception of this loan program in 1949, when CCC was paying only 1-1/4 percent interest on its borrowings.

In November 1967 the Secretary of Agriculture informed us that the interest rates would not be increased at that time. We reopened the matter in a letter dated January 24, 1969, to the new Secretary of Agriculture and pointed out that, since issuance of our report in 1967, CCC has been paying interest at an all-time high rate of 6-5/8 percent on borrowings from private lending institutions.

CCC, after reconsidering the matter, revised its interest rate policy to provide for a rate more in line with the rate paid on its borrowings. Effective May 30, 1969, CCC increased the interest rate from 4 percent to 6 percent.

Such loans are repayable in equal annual installments up to 5 years, with interest on the unpaid balance. On the basis of CCC's estimate of loans for fiscal year 1970, we estimate that the increase in the interest rate will result in additional interest of $400,000 for the first year that the loans are outstanding, and of $600,000 for the remaining 4 years of the loans--total additional interest of $1,000,000 on the loans expected to be made in fiscal year 1970. Also, the increase in the interest rate will result in additional interest on any such loans that are made in ensuing years.

Method of computing interest on price-support loans revised

In a letter dated April 25, 1969, to the Executive Vice President of CCC, we stated that CCC's overall interest rate on repayments of grain price-support loans by producers indicated a need for CCC to revise its method of computing interest. On the basis of selected 1967-crop loan repayments, we estimated that the amount of interest collected under the existing method was about $300,000 less than the amount that would have been collected under the previous method in effect through crop year 1963. Our review also showed that interest had not been charged on a number of repetitive partial loan repayments under $100. This practice had previously been disclosed by the Office of the Inspector General, Department of Agriculture.

Under the grain price-support program before crop year 1964, a borrower was charged interest at a rate of 3-1/2 percent a year on the amount repaid for the actual number of days that a loan was outstanding. In 1964 the CCC Board of Directors adopted a simplified method of computing interest on grain price-support loans. Under this method, a borrower was charged interest on a loan repayment at the rate of 30 cents per $100, exclusive of fractional amounts under $100, for each month or fraction thereof that the loan was outstanding, exclusive of the month in which the repayment was made. No interest was charged if the loan was repaid in the same month as disbursed.

CCC anticipated, at the time it adopted the simplified method, that the interest on loans computed under the method would approximate interest computed at an annual rate of 3-1/2 percent. Our computations showed, however, that the overall effective annual interest rate on repayments of 1967-crop grain loans was 3.39 percent and that the effective interest rates paid by individual borrowers ranged from zero to 5.8 percent. This latter rate of 5.8 percent resulted from funds being borrowed near the end of a month and repaid in the middle of the subsequent month. In such an instance, the borrower had use of the loan funds for only 18 days but was charged interest for a whole month--the month in which the loan was made.

In view of the fact that the simplified method of computing interest resulted in a loss of revenue to CCC, we recommended that the method be reevaluated. In a letter dated July 1, 1969, the Department stated that several aspects of the price-support loan program were undergoing an intensive review and that changes were anticipated for 1970-crop loans. The Department said that the anticipated changes should eliminate the possibility of interest-free loans.

On July 16, 1969, the CCC Board of Directors adopted a revised method of computing interest on grain price-support loans, to provide that the interest charge on loans for 1970 and subsequent crops be based on the nearest $10 of principal repayment (rather than disregard fractional amounts up to $99.99). Also, the Board eliminated the grace period for repayment of loans when the last day of a month is a nonworkday. In 1967, we had questioned whether the grace period was equitable to CCC because loan repayments made on the first workday of the next month were, for purposes of computing interest, repayments in the preceding month.

CCC considered the effect of the Board's actions to be minimal in fiscal year 1970. CCC estimated, however, that, on the basis of projected loan repayments, there would be an increase of about $570,000 in interest revenues in fiscal year 1971 and that there would be additional interest revenues in ensuing years.

SAVINGS REALIZED THROUGH ELIMINATION OF EXCESSIVE PROTECTION FOR SHIPMENTS OF PERISHABLE COMMODITIES

In a report to the Congress on the opportunity for CCC to reduce costs of providing protection from heat and cold on shipments of certain perishable commodities (B-114824, August 10, 1966), we commented that CCC could realize savings in its rail transportation costs by eliminating excessive protection on such shipments without risking spoilage or deterioration of the commodities. We estimated that, during fiscal year 1964, CCC could have saved about $219,000 in transportation costs for butter and cheese if it had required protective services comparable to those which a commercial shipper would have required. Also we expressed the opinion that additional savings might be available on shipments of other perishable commodities.

The Executive Vice President, CCC, concurred in our suggestion that an evaluation be made of the protective services required to protect perishable commodities from damage or deterioration while in transit. He stated that the requirements would be revised, where appropriate, to keep the cost of protective services at a minimum, consistent with prudent management. He stated further that periodic evaluations would be made to review the adequacy of such requirements.

CCC's evaluation of protective services was completed in 1968 and new guidelines were adopted. The protection specified by the new guidelines was considerably less than that previously required and was similar to the protection provided by commercial shippers. We estimated that CCC, by following the new guidelines, had saved $136,000 in transportation costs in fiscal year 1969 on butter and cheese shipments and an indeterminable amount on shipments of other perishable commodities.

IMPROVEMENT IN BUTTER PRICE-SUPPORT OPERATIONS

Our review of selected aspects of CCC purchases of bulk butter indicated a potential economy under the price-support program through elimination of an extra handling of butter.

CCC purchases in carload lots bulk butter stored by vendors in CCC-approved commercial warehouses. Generally, the purchased butter is retained at the same warehouse, but CCC pays the warehouseman a handling charge to transfer the butter from the vendor's cooler or freezer space to public freezer space used by CCC. This charge also covers the eventual removal of the butter from the warehouse.

We found that butter was being offered for sale to CCC shortly after it arrived at the warehouses. This situation indicated to us that the butter could have been placed in public freezer space before it was offered to CCC, which would have eliminated an extra handling. In fiscal year 1969, CCC purchased, under the price-support program, about 77 million pounds of warehouse-stored bulk butter, which, after purchase, was transferred to public freezer space.

In a letter dated September 24, 1969, to the Executive Vice President, CCC, we expressed the belief that CCC should take steps to eliminate the extra handling of butter. We recommended that CCC revise its price-support regulations to provide that, to be eligible for price-support purchase by CCC, warehouse-stored bulk butter must be stored in public freezer space before being offered for sale to CCC. In December 1969 CCC announced a change in the program, to encourage sellers to move butter directly into public freezer space and thereby avoid unnecessary handling costs. The savings that would accrue to CCC as a result of this change is indeterminable at this time.

$697 MILLION OF CERTIFICATES OF INTEREST SOLD BY CCC RESULTED IN EXTRA INTEREST EXPENSE

Effective June 23, 1969, CCC sold $697,300,000 of 39-day, special series non-interest-bearing certificates of interest for $690,710,155--a discount of $6,589,845. The certificates, evidencing participation in a pool of outstanding price-support loans, were sold mainly to investment dealers and to banks.

The certificates were sold on a competitive bid basis, except for $155,375,000 sold noncompetitively at the average price of the competitive bids accepted by CCC. These noncompetitive sales included $150,000,000 of certificates sold to Federal Home Loan Banks.

The computed annual interest rate on the certificates was exceptionally high--8-7/8 percent. At the time of the sale of the certificates, CCC was paying interest at the rate of 6-3/8 percent on borrowings from the U.S. Treasury. We estimated that CCC's sale of the certificates resulted in extra interest costs of about $1.7 million. Substantially all the funds realized from the sale of the certificates were used to repay borrowings from the Treasury.

The certificates acquired by the Federal Home Loan Banks were redeemed in July 1969, before maturity, and the remainder of the certificates were either redeemed at maturity--August 1, 1969--or subsequently. CCC redeemed the certificates with funds borrowed from the Treasury.

The sale of the certificates was not necessary to enable CCC to meet its price-support and commercial obligations but was intended to permit the Department of Agriculture to operate within expenditure limitations established by the Bureau of the Budget. On the basis of Government budgetary procedures in effect before July 1969, proceeds from the sale of certificates of interest were offset against expenditures. The sale had the effect of increasing the budget surplus of the Government for fiscal year 1969, and the use of the proceeds in payment of borrowings from the Treasury provided it with funds without increasing the recorded public debt.

In conformance with a recommendation by the President's Commission on Budget Concepts, the Bureau of the Budget specified that, effective July 1, 1969, the certificates of interest issued by CCC should be considered as borrowings rather than as an offset to expenditures. The Commission had recommended that participation certificates be treated, for budgetary purposes, as a means of financing and not as an offset to expenditures which would reduce a budget deficit or increase a budget surplus.

In August 1969 CCC announced that sales of certificates of interest would no longer be made. Borrowings to finance CCC programs are to be made exclusively from the Treasury. According to CCC, discontinuing the selling of certificates of interest is consistent with the fiscal objectives and policies of the Administration.

NEED TO DISCLOSE FULL AMOUNT OF EXPENSES FOR ADMINISTERING CCC PROGRAMS

CCC's financial statements for fiscal year 1969 do not disclose that about $21 million appropriated to ASCS for administrative expenses were used to finance CCC's operating expenses.

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 a transfer of CCC corporate funds, up to a statutory limitation. The ASCS Budget Division estimates, on the basis of workload statistics, the amount of operating expenses applicable to CCC and ASCS activities. The expenses applicable to each of the activities are estimated on this basis pending the development of an ASCS accounting system that provides for the distribution of accrued operating expenses by activity.

In letters to CCC, dated July 9 and November 18, 1968, we expressed the view that, if CCC funds are used to administer ASCS activities or if ASCS funds are used to administer CCC activities, the CCC financial statements should disclose this fact. We recommended that the ASCS Budget Division report to CCC the amount of operating expenses applicable to CCC programs. We pointed out that this procedure would enable CCC to disclose in its annual financial statements the full amount of expenses applicable to its programs.

In a reply dated December 5, 1968, CCC informed us that it would take steps to ensure that information on the cost of administering its activities, computed on the basis of workload, would be obtained regardless of the amount of funds provided by CCC for expenses. CCC raised no objection to our view that its financial statements should disclose the full amount of expenses applicable to its programs.

Before CCC finalized its financial report for fiscal year 1969, the ASCS Budget Division apprised CCC that, in fiscal year 1969, in addition to the funds transferred by CCC for operating expenses, $21 million had been expended in carrying out CCC activities. This additional expense was not disclosed in CCC's financial statements for the fiscal year.

In view of this omission, we recommended in a letter to CCC, dated November 25, 1969, that fiscal procedures be prescribed to provide that CCC's accounting records and financial statements disclose the full amount of expenses applicable to its programs. CCC replied by letter dated December 9, 1969, that our recommendation would be adopted.

CHAPTER 4

COMMENTS ON SELECTED HIGHLIGHTS

OF FISCAL YEAR 1969 OPERATIONS

REALIZED LOSS OF $3.1 BILLION REPORTED BY CCC

The nature of CCC's price-support and related operations is such that a loss normally results. For fiscal year 1969 CCC reported a realized loss of $3.1 billion, or a net loss of $2.9 billion after adjustment of allowances for losses on loans, inventories, and receivables. A comparative statement of income and expense for fiscal years 1969 and 1968, as prepared by CCC, is included as schedule 2 on page 32 of this report.

In fiscal year 1969 CCC made a change in its accounting policy (with which we agree) to provide that advance payments to producers be treated as an asset and be converted to expense in the next fiscal year upon compliance by the producers with program provisions. At June 30, 1969, advances totaled $408 million, practically all of which was for acreage-diversion programs. Before this change, advance payments had been recorded as an expense in the fiscal year in which they were made. (See note E to financial statements.)

The full effect of the 1969 change in accounting policy as it pertains to CCC's reported realized loss for fiscal years 1969 and 1968 is shown in the following tabulation.

	Fiscal year 1969	Fiscal year 1968
Realized loss as shown in schedule 2	$3,113,156,169	$3,198,216,528
Adjustments for change in accounting policy:		
Expenses applicable to fiscal year 1969--recorded as an expense in fiscal year 1968	369,367,728	-369,367,728
Expenses applicable to fiscal year 1968--recorded as an expense in fiscal year 1967	-	479,712,538
Net adjustment	369,367,728	110,344,810
Realized loss as adjusted for change in accounting policy	$3,482,523,897	$3,308,561,338

The foregoing tabulation shows that the realized loss for fiscal year 1969, adjusted for the change in accounting policy, would have been about $3.5 billion. The cumulative net deficit through June 30, 1969, as shown in schedule 3 gives full effect to the change in accounting policy.

In fiscal year 1969 the Congress appropriated $4.2 billion to reimburse CCC for realized losses compared with a reimbursement of $1.4 billion in fiscal year 1968. A summary of changes in the amount of unreimbursed losses during fiscal year 1969 follows.

	Amount (billions)
Unreimbursed losses, June 30, 1968	$9.6
Less reimbursements in fiscal year 1969	4.2
	5.4
Plus realized loss in fiscal year 1969	3.1
Unreimbursed losses, June 30, 1969 (schedule 3, p. 33)	$8.5

The Department of Agriculture and Related Agencies Appropriation Act, 1970, approved on November 26, 1969, included an appropriation of $5.2 billion toward reimbursing CCC (83 Stat. 259) for the $5.4 billion balance of unreimbursed losses recorded by CCC through June 30, 1968.

In addition to incurring a realized loss of $3.1 billion in fiscal year 1969, 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 22.

$5.5 BILLION EXPENDED FOR PRICE SUPPORT AND ACREAGE DIVERSION

During fiscal year 1969 CCC expended $5 billion for the price support of agricultural commodities through nonrecourse loans,[1] purchases, and direct payments. Also, CCC

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

made direct payments totaling $514 million to producers for diverting acreage from certain crops.

Most of the expenditures pertained to feed grains, upland cotton, wheat, and soybeans, as in the previous year. Loans to producers and purchasers of commodities totaled $3.3 billion; direct payments to producers totaled $2.2 billion.

A summary of the expenditures by commodity follows.

	Total expenditures	Price support				Acreage diversion--direct payments
		Total	Loans	Purchases	Direct payments	
	(000,000 omitted)					
Feed grains	$1,763	$1,337	$ 670	$ 41	$ 626	$426
Cotton, upland	1,179	1,091	448	-	643	88
Wheat	919	919	547	9	363[a]	-
Soybeans	850	850	847	3	-	-
Dairy products	292	292	-	292	-	-
Tobacco	138	138	138	-	-	-
Rice	126	126	113	13	-	-
Peanuts	86	86	56	30	-	-
Wool	65	65	-	-	65	-
Cottonseed oil	29	29	-	29	-	-
Other	85	85	40	45	-	-
Total	$5,532[b]	$5,018	$2,859	$462	$1,697	$514

[a]Net after deduction for $387 million collected by CCC for certificates sold to wheat processors under the wheat marketing allocation program.

[b]Excludes $408 million of advances to producers. (See note E to financial statements.)

CCC INVESTMENT IN COMMODITY LOANS REACHES A RECORD HIGH

At June 30, 1969, CCC's investment in commodity loans amounted to $3.3 billion, after reaching a record high of $4.1 billion during the year. The yearend investment represented an increase of $1 billion over the investment at June 30, 1968. The major loan increases were $371 million for soybeans, $285 million for wheat, and $267 million for upland cotton.

CCC's investment in grain loans at June 30, 1969, totaled $2.2 billion. Of this amount, $1.2 billion represented loans that had been extended by CCC beyond the original maturity dates.

The collateral for the grain loans of $2.2 billion aggregated 1.7 billion bushels of grain, of which almost 1.2 billion bushels, or about 68 percent, were stored on farms and the remainder were stored in commercial warehouses. Producers were earning storage income from CCC on approximately 670 million bushels of farm-stored grain serving as collateral for loans that had been extended beyond the original maturity dates.

Commodity loan activity during fiscal year 1969 is summarized in the following tabulation.

	Total	Feed grains	Tobacco	Soybeans	Wheat	Upland cotton	Other commodities
	(000,000 omitted)						
Loan balance, June 30, 1968	$2,268	$722	$756	$384	$298	$ 55	$ 53
1969 fiscal year activity (—deductions):							
Loans made	2,859	670	138	847	546	448	210
Repayments	−1,334	−354	−113	−358	−180	−179	−150
Loans cancelled by CCC's acquisition of collateral	−429	−167	−14	−117	−81	−2	−48
Loans charged off	−28	-	−5	-	-	-	−23
Other transactions	−2	-	−1	−1	-	-	-
Net change	1,066	149	5	371	285	267	−11
Loan balance, June 30, 1969	$3,334	$871	$761	$755	$583	$322	$ 42

INVENTORY DOWNTREND REVERSED

At June 30, 1969, CCC's investment in commodity inventories amounted to $1.3 billion, an increase of $337 million over the investment at June 30, 1968. This increase represents a reversal of an inventory downtrend which began after 1960 when the investment in inventories was at an all-time high of about $6 billion.

The major increases in the inventories during fiscal year 1969 were $181 million in feed grains and $119 million in soybeans. The major decrease was $75 million in upland and extra long staple cotton.

A comparative summary showing CCC's investment in inventories at June 30, 1969 and 1968, follows.

Commodity	June 30 1969	June 30 1968	Increase or decrease(–)
	(000,000 omitted)		
Feed grains	$ 588	$407	$181
Wheat	229	150	79
Dairy products	169	212	–43
Soybeans	138	19	119
Oils (cottonseed and others)	40	14	26
Rice, rough	30	-	30
Flaxseed	20	6	14
Cotton (upland and extra long staple)	27	102	–75
Other	11	5	6
Total	$1,252	$915	$337

STORAGE, HANDLING, AND TRANSPORTATION EXPENSES INCREASED BY $100 MILLION

Costs incurred by CCC for storing, handling, and transporting its commodity inventories and storing grain collateral for its price-support reseal loans (loans extended beyond the original maturity dates) totaled $248 million in fiscal year 1969, an increase of $100 million over the costs for fiscal year 1968.

The major increase in costs was for the storage of the collateral on reseal loans--an increase of $73 million, which brought the costs to a record high of $123 million. These costs consisted of $85 million for collateral stored on farms and $38 million for collateral stored in commercial warehouses.

A summary of CCC expenses for storing, handling, and transporting commodities in fiscal years 1969 and 1968 follows.

	1969					1968				
		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	
	(millions)									
Feed grains	$141	$130	$55	$ 75	$11	$ 78	$ 77	$42	$35	$ 1
Wheat	66	55	17	38	11	38	27	15	12	11
Soybeans	23	18	8	10	5	4	4	1	3	-
Dairy products	13	5	5	-	8	14	6	6	-	8
Other	5	3	3	-	2	14	12	12	-	2
Total	$248	$211	$88	$123	$37	$148	$126	$76	$50	$22

CCC INVESTMENTS IN SOYBEANS AND FLAXSEED CONTINUE UPWARD TREND

In our audit report to the Congress on examination of financial statements of the Commodity Credit Corporation for fiscal year 1968 (March 12, 1969, B-114824), we indicated that soybeans and flaxseed were developing into surplus problems. We pointed out that there were no allotment or acreage-diversion controls over the production of these commodities.

During fiscal year 1969 CCC's investments (price-support loans and inventories) in soybeans and flaxseed increased $490 million and $14 million, respectively. The price-support levels for the 1969 crops (1970 fiscal year) of soybeans and flaxseed have been reduced to increase their competitive market position and, thereby, avoid a buildup in domestic stocks. Preliminary estimates of the Department of Agriculture indicate that these crops were large and that CCC's investment in these commodities will continue to be substantial. Our comments on these matters follow.

CCC investment in soybeans at record-high level

At June 30, 1969, CCC had an investment of $893 million in soybeans (356 million bushels), consisting of price-support loans of $755 million and an inventory of $138 million. This investment, an increase of $490 million during fiscal year 1969, was at a record-high level after reaching a high of $1.1 billion in February 1969.

For the 1969 soybean crop, harvested around October 1969, the average price-support had been set at $2.25 a bushel for No. 1 grade, or 30 cents a bushel lower than the price for the 1968 crop. This price reduction was intended to permit soybean products to compete effectively in the market and to avoid a buildup in domestic soybean stocks.

The Department has estimated the 1969 crop at virtually the same record production of 1.1 billion bushels as the 1968 crop. The Department has estimated also that soybean dispositions in the 1969 crop season will be a record-high quantity, slightly below the estimated 1969 crop production. Consequently, it appears that CCC will continue to have a large investment in soybeans.

The disposition of soybeans has been aided by export programs under Public Law 480. Dispositions of soybean oil under these programs have averaged the equivalent of about 50 million bushels of soybeans annually. In fiscal year 1969 dispositions of soybean oil under the export programs totaled the equivalent of 56 million bushels of soybeans. Most of the exported soybean oil (equivalent to 32 million bushels) was sold for foreign currencies to countries where the Treasury Department had determined that the U.S. supply of foreign currencies was excess to its needs. The remaining oil was sold for U.S. dollars under long-term credit arrangements which provide for payments to be made over periods of up to 40 years.

<u>Storage charges accumulate on linseed oil while flaxseed inventory increases</u>

At June 30, 1969, CCC had in its inventory 80 million pounds of linseed oil--derived from flaxseed--that had been acquired at a cost of $9.5 million in fiscal years 1964 and 1965 through sales of 1963-crop flaxseed to processors under contracts providing for repurchase as oil. CCC incurs expenses of about $300,000 annually for storing the oil. At June 30, 1969, the accumulated storage expense totaled about $1,500,000.

In our report to the Congress on examination of financial statements of the Corporation for fiscal year 1968 (B-114824, March 12, 1969), we stated that storage expenses eventually could accumulate to a level that would be disproportionate to the value of the oil, unless export outlets were found for the oil or flaxseed production was brought into line with demand.

The Executive Vice President, CCC, in a letter dated January 9, 1969, informed us that the basic problem regarding flaxseed and linseed oil was the reduction of the level of domestic production to bring it more nearly in line with the lower level of domestic consumption so as to reduce the surplus. He stated also that this problem would be reviewed to determine what should be done under the price-support program, and that development of programs for increasing the disposition of surplus flaxseed and linseed oil would be considered.

In March 1969, CCC announced a price-support program for the 1969 crop of flaxseed. The national average support price was set at $2.75 a bushel, or 15 cents a bushel lower than the price for the 1968 crop. According to CCC, if price-support had been continued at the 1968 level, flaxseed stocks could become increasingly burdensome in view of a declining trend in the use of linseed oil. At June 30, 1969, CCC's investment in flaxseed--inventory and price-support loans--amounted to $23 million, an increase of $14 million during the year.

On the basis of preliminary 1969-crop data developed by the Department of Agriculture, it appears that CCC's investment in flaxseed could further increase substantially. The harvested acreage for the 1969 crop is estimated at 2.7 million acres with production estimated at 36.4 million bushels. This estimated production represents an increase of 35 percent over the 1968 crop and the largest crop since 1958. The average yield for the 1969 crop is estimated at a new record of 13.5 bushels an acre--slightly above the yield of 12.9 bushels an acre for the 1968 crop.

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

Various statutes provide for CCC to perform special activities and receive appropriated funds either as reimbursement for costs incurred or, in some instances, 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 totaled $1.3 billion for fiscal year 1969, a continuation of a downtrend since fiscal year 1962 when such costs totaled $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 1969 follows.

	Title I	Title II	Total
	(millions)		
Commercial export sales of agricultural commodities (suppliers' invoices)	$768	$ -	$ 768
Payments to suppliers for export differentials	8	-	8
Disposition of CCC inventories (included as sales in CCC's statement of income and expense)	-	286	286
Ocean transportation	93	77	170
Other	-	1	1
Total	$869	$364	$1,233

About 44 percent of the costs incurred under Public Law 480 pertained to the export of wheat and wheat products. The following tabulation shows the total cost by commodity or other category.

Item	Amount (millions)
Wheat (and products)	$ 529
Rice	187
Dairy products	123
Cotton	106
Soybean oil	55
Feed grains	47
Blended food products	34
Tobacco	31
Vegetable oil products	25
Tallow	23
Other	33
	1,193
Ocean transportation on commodities donated through nonprofit voluntary agencies	39
Other	1
Total	$1,233

A summary showing the costs incurred and the funds received by CCC for all the special activities during fiscal year 1969 follows.

Activity and authority	Unreimbursed costs (—appropriated funds in advance of expenditure) at June 30, 1968	Costs incurred in fiscal year 1969	Appropriations and other funds received in fiscal year 1969	Unreimbursed costs (—appropriated funds in advance of expenditure) at June 30, 1969
	(millions)			
Public Law 480 (7 U.S.C. 1691):				
Title I--sales of commodities for foreign currencies and for dollars on credit terms	-$157	$ 869	$ 880	-$168
Title II--donations to furnish emergency assistance to friendly peoples	42	364	208	198
	-115	1,233	1,088	30
National Wool Act of 1954 (7 U.S.C. 1781)	72	68	73	67
Other	-1	1	-	-
Total	-$ 44	$1,302	$1,161	$ 97

CHAPTER 5

SCOPE OF EXAMINATION

Our continuing audit of the Commodity Credit Corporation consisted of two major phases: (1) an examination of CCC's financial statements as of June 30, 1969, appropriately 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 exercised in safeguarding CCC's assets and otherwise 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 as required by the Government Corporation Control Act and was made for the purpose of obtaining such information as we deemed necessary to keep the Congress informed of the operations and financial condition of CCC.

We conducted our examination at the headquarters office in Washington, D.C.; the commodity offices in Kansas City, Missouri, and Minneapolis, Minnesota; and the data processing center in Kansas City, Missouri. 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 financial statements of the Commodity Credit Corporation 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 its commodity inventories and loan collateral--it was not practicable for us to perform all the examination and verification steps which we believe 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, 1969, and the results of its operations for the year then ended.

The principal step omitted was an independent verification of CCC's commodities in inventory 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.

We have noted, however, that periodically the Consumer and Marketing Service (C&MS), 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 1969, C&MS examinations covered about 11,000 warehouses storing grain, cotton, and other agricultural commodities. This number included 2,000 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, 1969.

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 22.

For the reasons explained under "Examination of CCC Financial Statements" (see p. 24), we cannot express an opinion that CCC's financial statements (schedules 1, 2, 3, and 4) present fairly its financial position at June 30, 1969, 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, except for the need to disclose certain costs of administering CCC programs (p. 11), 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, 1969 AND 1968

	June 30, 1969		June 30, 1968	
ASSETS				
CASH		$ 85,416,641		$ 35,638,969
COMMODITY LOANS	$ 3,334,024,797		$ 2,268,216,773	
Less allowance for losses (note B)	25,702,000	3,308,322,797	79,927,000	2,188,289,773
STORAGE FACILITY AND EQUIPMENT LOANS		158,542,540		77,004,794
LOAN TO SECRETARY OF AGRICULTURE		30,000,000		35,000,000
LOAN TO FARMERS HOME ADMINISTRATION		30,000,000		30,000,000
COMMODITY INVENTORIES (cost) (note A)	1,251,883,964		915,041,857	
Less allowance for losses (note B)	122,146,000	1,129,737,964	256,030,000	659,011,857
ACCOUNTS AND NOTES RECEIVABLE	2,149,193,171		1,561,090,584	
Less allowance for losses (note C)	12,042,000	2,137,151,171	12,115,000	1,548,975,584
ACCRUED ASSETS		32,582,936		23,835,760
FIXED ASSETS (net)		17,525,982		24,351,209
ADVANCE PAYMENTS TO PRODUCERS (note E)		407,639,055		-
OTHER ASSETS		17,554,792		13,187,127
TOTAL ASSETS		$7,354,473,878		$4,635,295,073
LIABILITIES				
ACCOUNTS PAYABLE		$ 207,899,995		$ 167,929,919
ACCRUED LIABILITIES		389,617,239		247,827,921
TRUST AND DEPOSIT LIABILITIES		351,426,736		294,776,445
OBLIGATION TO REDEEM CERTIFICATES OF INTEREST IN COMMODITY LOANS		1,589,544,965		923,452,143
OBLIGATION TO ISSUE EXPORT WHEAT MARKETING CERTIFICATES (note F)		4,206,569		-
DEFERRED CREDIT FOR P.L. 480 RECEIVABLES--CREDIT SALES FOR DOLLARS (note D)		1,318,150,145		894,267,668
OTHER LIABILITIES		17,519,189		18,085,190
DEFERRED INCOME		155,209		2,244,315
INVESTMENT OF U.S. GOVERNMENT:				
Borrowings from United States Treasury	12,114,932,669		11,988,828,641	
Capital stock	100,000,000		100,000,000	
	12,214,932,669		12,088,828,641	
Less deficit (schedule 3)	8,738,978,838	3,475,953,831	10,002,117,169	2,086,711,472
TOTAL LIABILITIES		$7,354,473,878		$4,635,295,073

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 1969 AND 1968

	Fiscal year 1969	Fiscal year 1968
REALIZED GAINS AND LOSSES--PROGRAM:		
Commodity inventory operations (note O):		
Sales of commodities	$ 491,900,049	$1,121,547,269
Cost of sales	541,332,018	1,497,490,140
Net loss on sales	49,431,969	375,942,871
Cost of commodities donated	236,063,250	236,632,252
Storage and handling expense	88,570,674	75,880,870
Transportation expense	36,650,897	21,669,415
Net loss on commodity inventory operations	410,716,790	710,125,408
Export and other payments:		
Export payments (note L)	33,003,804	73,544,889
Cotton equalization program payments	-	-106,102
Cotton diversion and small farm payments	88,307,699	244,335,421
Feed grain diversion payments	425,377,214	510,223,376
Wheat diversion payments	-10,614	-6,121
Cotton price-support payments	642,784,058	610,850,447
Feed grain price-support payments	626,424,279	322,008,719
Wheat price-support payments	362,669,922	345,798,806
National Wool Act payments	65,066,535	69,422,567
Total export and other payments	2,243,622,897	2,176,072,002
Other program costs (—gains) and adjustments:		
Reseal loan storage expense	122,791,333	50,151,590
Research expenses	-690,699	16,974,266
Loan and other charge-offs	29,045,211	31,977,573
Livestock feed program expense	-8,962	-195,093
Other costs	2,852,478	3,299,778
Total other program costs and adjustments	153,989,361	102,208,114
Special recoveries authorized (gains):		
Research expenses	-951,695	13,349,874
National Wool Act	65,066,535	69,422,567
Total special recoveries authorized	64,114,840	82,772,441
Net realized loss--program	2,744,214,208	2,905,633,083
INCOME AND EXPENSE--GENERAL:		
Income:		
Interest on loans	26,995,881	16,306,318
Other interest income	25,791,958	18,468,121
Other income	2,241,740	503,300
Total income	55,029,579	35,277,739
Expense:		
Interest expense	367,944,792	275,948,992
General overhead expense (net)	55,139,531	51,138,095
Other expense	887,217	774,097
Total expense	423,971,540	327,861,184
Net expense--general	368,941,961	292,583,445
TOTAL REALIZED LOSS	3,113,156,169	3,198,216,528
ADJUSTMENTS (—GAINS) OF ALLOWANCES FOR LOSSES--PROGRAM:		
Allowance for losses on loans	-54,225,000	53,070,000
Allowance for losses on commodity inventories	-133,884,000	-313,292,000
Allowance for losses on accounts and notes receivable	-73,000	6,082,000
Total adjustment of allowances for losses--program	-188,182,000	-254,140,000
NET LOSS TRANSFERRED TO DEFICIT (schedule 3)	$2,924,974,169	$2,944,076,528

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, 1969

	Cumulative to June 30, 1968	Fiscal year 1969	Cumulative to June 30, 1969
TOTAL REALIZED LOSS EXCLUSIVE OF COST OF WARTIME CONSUMER SUBSIDY PROGRAM	$34,984,064,661	$3,113,156,169	$38,097,220,830
COST OF WARTIME CONSUMER SUBSIDY PROGRAM	2,102,281,073	-	2,102,281,073
	37,086,345,734	3,113,156,169	40,199,501,903
ALLOWANCES FOR LOSSES--PROGRAM	348,072,000	-188,182,000[a]	159,890,000
NET OPERATING LOSS	37,434,417,734	2,924,974,169	40,359,391,903
Less:			
Reimbursement for net realized loss (15 U.S.C. 713a)	26,834,145,334	4,188,112,500	31,022,257,834
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
	27,432,300,565	4,188,112,500	31,620,413,065
Net deficit (schedule 1)	$10,002,117,169	$1,263,138,331	$ 8,738,978,838[b]

[a]Represents adjustment of allowances for losses.

[b]Comprised of the following:

Unrestored realized losses by fiscal year:	
1961	$ 57,047,170
1967	2,210,668,971
1968	3,198,216,528
1969	3,113,156,169
	8,579,088,838
Allowances for losses as of June 30, 1969	159,890,000
Net deficit as of June 30, 1969	$ 8,738,978,838

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 4

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

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FISCAL YEAR 1969

FUNDS PROVIDED:	
Borrowings from U.S. Treasury	$ 6,887,216,528
Reimbursement for realized losses by appropriations	4,188,112,500
Sales of commodities	491,096,493
Inventory settlements for differences in grade, location, and quantity (net)	3,666,374
Repayment of loans by producers	1,359,369,177
Repayment of loans by Secretary of Agriculture	35,000,000
Interest income	52,787,839
Other	4,620,309
Decrease in working capital items	678,941,347
Total funds provided	$13,700,810,567
FUNDS APPLIED:	
Repayment of borrowings from U.S. Treasury	$ 6,761,112,500
Cost of commodities purchased	658,256,109
Acquisitions of loan collateral in excess of value of loans defaulted	24,493,927
Storage, transportation, and processing expenses	124,360,996
Loans to producers	2,964,196,038
Reseal loan storage expense	122,791,333
Loan to Secretary of Agriculture	30,000,000
Export payments	33,003,803
Payments under the cotton, feed grain, and wheat programs	2,553,191,613
Interest expense	367,944,792
State and county office expenses	22,689,472
Custodian and agency expenses	421,386
Administrative expenses	31,227,146
Purchases of nonexpendable equipment	296,478
Other	6,824,974
Total funds applied	$13,700,810,567

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, 1969

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 commodity acquired from the oldest crop year 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 used for costing reductions of supply and commodity export program inventories.

B. Allowances for losses on loans and inventories

The amounts established in the accounts as allowances for losses on commodity loans and commodity inventories reflect the estimated loss on ultimate disposition of the respective assets, based on estimated realizable values after giving consideration to all known factors. Estimated realizable value, to the extent practicable, is based on estimated recoveries from foreseeable dispositions of the commodities. Estimated realizable value for quantities of storable commodities which are in excess of foreseeable dispositions is based on the lowest of cost, market price, or the Corporation's price for export sales. The estimated loss on commodities to be delivered from inventory in redemption of payment-in-kind certificates is based on the difference between inventory value of the commodities to be delivered and the sale price to be paid by surrender of certificates. Allowances equal to the full inventory value are established for quantities of perishable commodities which are in excess of foreseeable dispositions. Allowances are not established for commodities in the supply and commodity export program inventories since they usually are acquired pursuant to commitments providing for disposition on a basis calculated to recover full costs to the Corporation.

C. Allowances for losses on accounts and notes receivable

The amounts established in the accounts as 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 for Public Law 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, 1969. 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 receivables 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, 1969, the total of dishonored drafts amounted to $53.1 million and additional interest due for delay in the payments amounted to $3.8 million. Additional receivables in the principal amount of approximately $18.4 million, guaranteed by the National Bank of Egypt, were outstanding as of June 30, 1969, and will become due with accrued interest at various dates in 1969 and 1970. 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

Amounts 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 Public Law 480, 83d Congress, as amended, are reflected 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 collections on such receivables are to be applied as reductions in the costs of Public Law 480 to be reimbursed by appropriations from the Congress, the total amount of the receivables is offset by a deferred credit account. The amount of the receivables is shown as an asset and deferred credit as a liability in the Statement of Financial Condition. As of June 30, 1969, past-due installments of principal and interest on receivables due from foreign governments amounted to about $3,903,000. Of this amount, $1,047,569 was paid during July and August 1969. No allowance for losses is provided against these receivables because the full amounts of the receivables will be recovered from appropriations.

E. Advances to producers

The amount of payments to producers made in the 1969 fiscal year for participation in the 1969 Cotton, Feed Grain, and Wheat programs is shown as an asset in the Statement of Financial Condition. These payments were made on the basis of agreements to participate and will not be earned until compliance with program provisions has been determined, at which time they will be transferred to expense. Under prior programs such advance payments were recorded as expenses when made and included in the Statement of Income and Expense for the current fiscal year. This change in accounting policy was adopted to comply with accrued accounting policy recently established for U.S. Government agencies. If the change had not been made, the realized losses for the 1969 fiscal year would have been larger in the amount of $407,639,055. [See GAO comments on page 13 regarding the full effect of implementing the change in accounting policy.]

F. Obligation to issue export wheat marketing certificates

Under the 1968 Wheat Marketing Allocation Program 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 in CCC accounts for subsequent distribution to producers on a prorata basis.

G. Liability for payments under the 1969 feed grain program

Pursuant to legislation applicable to the 1969 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, 1969, to make diversion and price-support payments in an estimated amount of $1,570 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. Of this amount, however, $375.5 million had been advanced to producers and recorded as an asset as explained in Note E.

H. Liability for payments under the 1969 wheat program

Pursuant to legislation applicable to the 1969 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 1969 marketing year. The Corporation was contingently liable at June 30, 1969, to make diversion payments in an estimated amount of $80 million. In addition, the Corporation was contingently liable at June 30, 1969, to purchase wheat marketing certificates from producers in an estimated amount of $798 million of which it is estimated $393.7 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. However, of the estimated amount due for diversion payments, $24.1 million had been advanced to producers and recorded as an asset as explained in Note E.

I. Liability for payments under the 1969 cotton programs

Pursuant to legislation applicable to the 1969-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, 1969, to make small farm payments in an estimated amount of $31 million and price-support payments in an estimated amount of $795 million to producers of upland cotton. In addition the Corporation was contingently liable to make price-support payments in an estimated amount of $3.8 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. However, of the estimated amount due for small farm payments, $8 million had been advanced to producers and recorded as an asset as explained in Note E.

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, 1969, were as follows:

Commodity	Value
Beans, dry edible	$ 208,164
Blended food products	180,853
Butter	789,223
Cheese	12,609,558
Corn products	789,026
Milk, dried	17,229,612
Rice, milled	2,440,505
Rolled oats	784,336
Vegetable oil products	1,981,008
Wheat	3,028,728
Wheat products	10,580,391
Strategic and other materials	200,726
Total	$50,822,130

Sales commitments and other disposition commitments are not reflected 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 the Agricultural Trade Development and Assistance Act of 1954, Public Law 480, 83d Congress, are not reflected in the financial statements. As of June 30, 1969, the amount of outstanding letters of commitment was $127,859,734.

L. Export differential payments and export wheat marketing certificate proceeds

The Corporation was contingently liable at June 30, 1969, to make export differential 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	$2,667,980
Wheat	3,086,392
Wheat flour	2,980,407

Commercial exporters were contingently liable at June 30 to pay to the Corporation the value of export wheat marketing certificates applicable to declared export sales of wheat or accepted offers to export wheat, for which documents evidencing exportation had not been submitted, in the approximate amount of $3,027,214. The proceeds of export wheat marketing certificates represent income to the Corporation to the extent that they are offset by export payments on wheat in the same fiscal year. These contingent liabilities and income are not reflected 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 in the accounts of the Corporation as accounts receivable. On claims established under programs for which the Corporation will be reimbursed on an actual cost basis and certain claims established in the maximum amount chargeable notwithstanding improbability of collection, credit is deferred until actual recovery is made. This deferred credit is reflected 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 $10,598,326 as of June 30, 1969.

Claims against the Corporation where the amounts are definately known or can reasonably be established are recorded as accounts payable. Amounts of claims which are not considered valid by the Corporation are not reflected as accounts payable but are recorded for control purposes. Claims in this category were estimated at $2,121,007 as of June 30, 1969.

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, 1969, have been estimated at $969,232. This amount is not recorded in the accounts.

O. Commodity inventory operations

Cost of sales and cost of commodities donated as reflected 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. Costs of storing, handling, and transporting inventories are reflected separately in this statement.

P. 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 certificates are marketed from the pools for immediate use by the purchasers thereof to obtain delivery of commodities from the Corporation's inventories. Because the Corporation has complete control over pooled certificates, and the amounts advanced are not repayable by the persons receiving advances, the amount advanced is offset against the liability to redeem certificates and neither is shown in the Statement of Financial Condition. The total amount of the obligation to redeem pooled certificates at June 30, 1969, was $7,536,963,406. The corresponding amount at June 30, 1968, was $6,155,768,207. The same amounts had been advanced.

Q. Liability for equity payments on reconcentrated loan grain

If a producer offers to redeem grain pledged under a warehouse storage loan, and CCC has moved the grain from the warehouse in which it was stored when the pledge was made, CCC is obligated to return to the producer like grain with equivalent market value or pay the producer the amount of his equity in the grain. The producers equity is the amount by which the market value of the commodity at the point of original storage exceeds the producers loan indebtedness when he offers to redeem the grain. As of June 30, 1969, the following quantities of warehouse-stored loan grain had been moved by CCC.

	Bushels
Barley	577,201
Corn	13,286,776
Flaxseed	5,886
Grain sorghum	46,373
Oats	94,859
Soybeans	20,193,036
Wheat	32,066,124

The amount of equity payment a producer may be entitled to receive on grain which has been moved can be determined only on the basis of the quantity and quality of the grain, location of the warehouse where it was stored when placed under loan, the date when the producer notifies the county office of his desire to redeem the grain, and the amount of the loan indebtedness. In view of this, it is not feasible to make a reasonable estimate of the contingent liability for such equity payments. It is estimated, however, that some equity payments may be made on corn. The market prices of other commodities that have been moved are such that equity payments are unlikely.

APPENDIX

PRINCIPAL OFFICIALS OF

THE COMMODITY CREDIT CORPORATION

DEPARTMENT OF AGRICULTURE

FISCAL YEAR 1969

	Tenure of office	
	From	To
BOARD OF DIRECTORS		
Orville L. Freeman, Chairman (Secretary of Agriculture)	Jan. 1961	Jan. 1969
John A. Schnittker (Under Secretary of Agriculture)	Aug. 1964	Jan. 1969
John A. Baker (Assistant Secretary of Agriculture)	Aug. 1962	Jan. 1969
Dorothy H. Jacobson (Assistant Secretary of Agriculture)	Apr. 1964	Jan. 1969
Horace D. Godfrey (Administrator, Agricultural Stabilization and Conservation Service)	Mar. 1961	Mar. 1969
Walter W. Wilcox (Director, Agricultural Economics)	July 1967	Jan. 1969

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	Appointment
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
Kenneth E. Frick (Administrator, Agricultural Stabilization and Conservation Service)	Apr. 1969
Don Paarlberg (Director, Agricultural Economics)	Mar. 1969

PRINCIPAL OFFICIALS OF
THE COMMODITY CREDIT CORPORATION
DEPARTMENT OF AGRICULTURE
FISCAL YEAR 1969 (continued)

	Tenure of office	
	From	To
OFFICERS (note a)		
PRESIDENT:		
John A. Schnittker (Under Secretary of Agriculture)	June 1965	Jan. 1969
EXECUTIVE VICE PRESIDENT:		
Horace D. Godfrey (Administrator, Agricultural Stabilization and Conservation Service)	Jan. 1961	Jan. 1969
VICE PRESIDENTS:		
Raymond A. Ioanes (Administrator, Foreign Agricultural Service)	Feb. 1962	Present
Rodney E. Leonard (Administrator, Consumer and Marketing Service)	Dec. 1967	Jan. 1969
Edwin A. Jaenke (Associate Administrator, Agricultural Stabilization and Conservation Service)	Feb. 1961	Jan. 1969
Roland F. Ballou (Deputy Administrator, Commodity Operations, Agricultural Stabilization and Conservation Service)	Mar. 1965	Dec. 1968
Raphael V. Fitzgerald (Deputy Administrator, State and County Operations, Agricultural Stabilization and Conservation Service)	June 1962	Jan. 1969

PRINCIPAL OFFICIALS OF THE COMMODITY CREDIT CORPORATION DEPARTMENT OF AGRICULTURE FISCAL YEAR 1969 (continued)

	Tenure of office From	Tenure of office To
OFFICERS (note a)(continued)		
VICE PRESIDENTS (continued):		
Robert P. Beach (Deputy Administrator, Management, Agricultural Stabilization and Conservation Service)	June 1961	Jan. 1969

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	Appointment
PRESIDENT:	
Clarence D. Palmby (Assistant Secretary)	Jan. 1969
EXECUTIVE VICE PRESIDENT:	
Kenneth E. Frick (Administrator, Agricultural Stabilization and Conservation Service)	Mar. 1969
VICE PRESIDENTS:	
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.