096763

B-~~114824~~
~~2-7-74~~

REPORT TO THE CONGRESS

LM096763

Audit Of Commodity Credit Corporation Fiscal Year 1973 B-114824

Department of Agriculture

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

~~706659~~
~~701838~~ 096763 FEB. 7,1974

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

B-114824

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

This is our report on the audit of the Commodity Credit Corporation, Department of Agriculture, for fiscal year 1973.

We made our audit pursuant to the Government Corporation Control Act (31 U.S.C. 841).

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretary of Agriculture.

Elmer B. Staats

Comptroller General
of the United States

Contents

ABBREVIATIONS

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

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

AUDIT OF COMMODITY CREDIT CORPORATION, FISCAL YEAR 1973
Department of Agriculture
B-114824

D I G E S T

WHY THE AUDIT WAS MADE

The Government Corporation Control Act requires GAO to make an annual financial audit of the Commodity Credit Corporation (CCC).

OPINION ON FINANCIAL STATEMENTS

In view of the character and scope of CCC's operations--particularly commodity inventories and loan collateral--it was not practicable for GAO to perform all the examination and verification steps needed to reach an independent, overall opinion concerning the accuracy and fairness of the financial statements. (See p. 30.) Therefore GAO cannot express an opinion that CCC's financial statements present fairly its financial position at June 30, 1973, and the results of its operations for the year then ended. GAO believes, however, that

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

--CCC's financial reporting system generally was adequate to supply management with information for conducting its affairs. (See p. 32.)

OTHER MATTERS OF INTEREST

Financial operations

CCC reported a $4.09 billion loss for fiscal year 1973, up $637 million from its $3.46 billion loss for fiscal year 1972. This loss was CCC's second highest since it was created in 1933--the highest was $4.21 billion for fiscal year 1970. (Price-support and related operations normally result in a loss.) Such losses are reimbursable through appropriations.

Most of the loss for 1973 resulted from (1) net direct payments of $3.1 billion to producers for setting aside land from production of feed grains, cotton, and wheat during the 1972 crop year, (2) interest expense of $370 million, and (3) export subsidies of $349 million. These amounts compared to net set-aside payments of $2.4 billion, interest expense of $375 million, and export subsidies of $117 million for fiscal year 1972. (See pp. 15 and 34.)

At June 30, 1973, CCC's unreimbursed losses totaled $7.55 billion--$3.46 billion for fiscal year 1972 and $4.09 billion for fiscal year 1973. An appropriation act approved in October 1973 provided for reimbursing CCC $3.3 billion. (See p. 17.)

In fiscal year 1973 CCC spent $6.3 billion for price-support and related activities. Most of this--$5 billion--was for price-support loans and direct payments to producers. (See p. 17.)

CCC's investment in commodity loans and inventories at June 30, 1973, was $1.6 billion, a decrease of $1.7 billion during fiscal year 1973. The investment in commodity loans decreased $1.1 billion (see p. 20) and the investment in inventories decreased $611 million (see p. 21).

CCC incurred costs of $1.2 billion for fiscal year 1973 for special activities authorized by various statutes and financed through special appropriations. This was down from $1.4 billion for such activities for fiscal year 1972. Most of the costs--$1.1 billion in fiscal year 1973 and $1.3 billion in fiscal year 1972--pertained to financing the sale or donation of agricultural commodities to foreign countries under Public Law 480. (See p. 22.)

Accounts and notes receivable at June 30, 1973, totaled $5.4 billion, an increase of $1.4 billion during the year. These receivables represented 72 percent of CCC's total assets. They pertained mainly to CCC's financing of commercial exports of agricultural commodities under Public Law 480 and under its export credit sales program. (See p. 25.)

CCC disbursed $4.5 billion to exporters, vendors, and other nonfarmers during fiscal year 1973. About $3 billion was for financing commercial exports of agricultural commodities under the Public Law 480 program and CCC's export credit sales program and under a barter program involving procurement of materials and services abroad by other Federal agencies. CCC is reimbursed for a substantial portion of these disbursements under contractual arrangements with foreign governments and trade entities. (See p. 28.)

Matters GAO reported to the Congress or brought to CCC's attention

1. In a report to the Congress (B-176943, July 9, 1973), GAO stated that subsidized commercial sales of wheat to Russia and other exports in 1972 caused a dramatic rise in the price of U.S. wheat and that the Russian sales magnified imperfections in the Government's wheat export subsidy program.

   The Department of Agriculture's maintenance of a low export target price on wheat throughout the period of the Russian sales and for several weeks after was a crucial factor in obligating the U.S. Government to pay excessive subsidies. Also GAO pointed out weaknesses in program administration.

   The Secretary of Agriculture agreed with GAO's major recommendations but took issue with some of its observations and conclusions. Also the Department pointed out such benefits from the sales as net savings to the U.S. Treasury of about $457 million, increased farm prices, creation of new jobs, and an improved balance of trade. (See p. 7.)

2. In another report to the Congress (B-163484, Apr. 13, 1973), GAO recommended that the Congress amend the Agricultural Adjustment Act of 1938 to remove a provision specifying that the Secretary annually authorize not less than 1,610,000 acres for growing peanuts. Due to advances in farm technology, this national minimum acreage allotment had resulted, beginning in 1955, in the production of more peanuts than necessary to satisfy demand.

   Under the peanut price-support program, CCC has to buy the surplus peanuts and store them until they are sold. It sells them for significantly less than the cost of buying them. From 1967 through 1971 CCC lost

$279 million on the program. The projected losses from 1973 through 1977 total $537 million. GAO concluded that corrective action was needed to give the Secretary more flexibility to adjust production so that it would be consistent with commercial demand. In October 1973 the Secretary proposed legislation designed to avoid substantial losses. (See p. 8.)

3. GAO reported also (B-142011, July 9, 1973) on the funding and operations of Cotton Incorporated--a private, nonprofit corporation which carries out a program for market development, research, and sales promotion of cotton and cotton products. The Department is responsible for insuring that funds provided to the corporation by cotton producers and by CCC are used properly.

   Through April 30, 1973, the corporation had spent $38.7 million in producer funds and $13.9 million in CCC funds. The Department, however, had not evaluated, or established a system for evaluating, the effectiveness of the corporation's program. In response to GAO's recommendation, Department officials said that they would take action to have such evaluations made. (See p. 10.)

4. In response to GAO findings, the Agricultural Stabilization and Conservation Service, which administers CCC programs, strengthened procedures pertaining to (1) unauthorized removals of farm-stored grain serving as collateral for CCC price-support loans to producers and (2) related penalties. In a report to CCC, GAO recommended additional actions to insure that the prescribed procedures were effectively and uniformly implemented. (See p. 11.)

5. In another report to CCC, GAO said that controls over certain aspects of the computer system for managing grain inventories needed strengthening. Such improvement would not only increase the efficiency and effectiveness of the controls but also minimize the possibility that inventory data could be manipulated. GAO's recommendations for improvement are under consideration by the Department. (See p. 13.)

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is submitted to the Congress, as required by law, to present the results of the annual audit of CCC's financial statements and such other information as necessary to keep the Congress informed on the operations and financial condition of CCC.

CHAPTER 1

INTRODUCTION

The Commodity Credit Corporation (CCC), a wholly owned Government corporation, was created under a Delaware charter in 1933 to stabilize, support, and protect farm income and prices; assist in maintaining balanced and adequate supplies of agricultural commodities; and facilitate their orderly distribution. 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).

CCC's principal operations in fiscal year 1973 were price-support programs for agricultural commodities, including storing, handling, and disposing of commodities acquired under the programs; cropland set-aside 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

CCC is managed by a Board of Directors subject to the general supervision and direction of the Secretary of Agriculture, who is an ex officio Director and the Chairman of the Board. The Board consists of six other members appointed by the President with the Senate's advice and consent.

A bipartisan advisory board of five members, appointed by the President, surveys general CCC policies and advises the Secretary. CCC officers are designated according to their positions in the Department.

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

ASCS administers CCC's activities through its central office in Washington, D.C.; its two commodity offices in Prairie Village, Kansas (formerly located in Kansas City, Missouri), and Minneapolis, Minnesota; and an administrative office in Kansas City, Missouri. A commodity office (cotton operations) in New Orleans, Louisiana, was closed in September 1973 and its program functions were assumed by the Prairie Village office. The commodity offices acquire, store, transport, and dispose of agricultural commodities.

The Agricultural Stabilization and Conservation State and county committees carry out certain CCC price-support and related activities within the States and counties. The State committees supervise county committee activities in their respective States. There are 50 State offices, a Caribbean area office, and about 2,800 county offices serving about 3,000 counties.

CHAPTER 3

CERTAIN MATTERS GAO REPORTED TO THE CONGRESS

OR BROUGHT TO CCC'S ATTENTION

RUSSIAN WHEAT SALES--IMPROVEMENT NEEDED IN EXPORT SUBSIDY PROGRAM

In a report to the Congress[1] on subsidized commercial sales of wheat to Russia in the summer of 1972, we said that the large sales of wheat to Russia and other exports caused a dramatic rise in the price of U.S. wheat and that the Russian sales magnified imperfections in the wheat export subsidy program administered by the Department's Export Marketing Service and financed by CCC. We said that the Department's maintenance of a low export target price on wheat throughout the period of the Russian sales and for several weeks after was a crucial factor in obligating the U.S. Government to pay excessive subsidies.

We said that a low target price was questionable in view of available intelligence reports and analyses indicating adverse Russian crop conditions. Department officials knew that the United States was the dominant wheat supplier and that purchasers of large supplies had to come to this country, but they decided against increasing the target price. No detailed analysis was available in support of this major policy decision which seemed to have been based largely on intuitive judgments. We expressed the opinion that many of the sales would have been made even with reduced subsidies and that the Department should have responded more rapidly to the available information and reduced or eliminated the subsidies sooner.

We said also that the subsidy program lacked appropriate administrative controls to minimize the possibility of unusual profits accruing to exporters who, in anticipation of higher subsidy rates, delayed registering for subsidies weeks after the sales had been made. Also other program features tended to minimize exporters' risks and create an environment whereby exporters could make substantial profits. Department officials

---

[1]"Russian Wheat Sales and Weaknesses in Agriculture's Management of Wheat Export Subsidy Program" (B-176943, July 9, 1973).

contended, however, that they relied upon competition among exporters to police profit margins.

We also pointed out that the Department had data on general crop conditions and significant changes in worldwide supply and demand but that farmers generally were not provided timely information for making sound marketing decisions. Also, despite annual subsidy outlays of millions of dollars, the Department had not comprehensively evaluated the program.

We made several recommendations to the Secretary for improving program management. One of them involved the need for a better system of coordinating with private exporters on large-scale sales, including those to Communist countries. The Secretary generally agreed with our recommendations but took issue on some of our observations and conclusions. Also the Department claimed that the U.S. Treasury would accrue net benefits of $457 million as a result of the wheat sales to Russia and that other benefits included (1) increased prices to farmers, (2) creation of new jobs, and (3) an improved balance of trade.

CCC CONFRONTED WITH SUBSTANTIAL LOSSES ON PEANUT PRICE-SUPPORT PROGRAM

In 1968 we reported to the Congress[1] that CCC had lost about $270 million on the peanut price-support program during the 12 years through 1966 and that losses over the next 5 years, through 1971, would be at least $248 million. We recommended then that the Department develop for congressional consideration a program to control peanut production more effectively.

Because the program was not changed and CCC incurred greater losses, we reassessed the program to determine what should be done to effectively control production and reduce CCC losses.

In our followup report to the Congress,[2] we pointed out that:

---

[1]"Review of Peanut Price-Support Programs" (B-163484, May 9, 1968).

[2]"Need Intensifies to Amend Legislation to Reduce Government Losses on the Peanut Price-Support Program" (B-163484, Apr. 13, 1973).

--The Agricultural Adjustment Act of 1938, as amended (7 U.S.C. 1358(a)), requires the Secretary to control peanut production on the basis of demand but specifies also that he authorize annually not less than 1,610,000 acres for growing peanuts.

--Since 1955 this acreage has been more than enough to satisfy commercial demand for peanuts because advances in farm technology have increased annual yields by an average of 70 pounds an acre. Under the price-support program, CCC has to buy the surplus peanuts and store them until they are sold. The prices at which CCC sells them are significantly less than the costs of buying them.

--From 1967 through 1971 CCC, through sales, recovered 53 percent of its costs of buying surplus peanuts and lost $279 million on the program. ASCS projections developed in March 1972 showed that, if the existing program was continued, losses from 1973 through 1977 would total $537 million.

We recommended that, to give the Secretary more flexibility to adjust production to commercial demand, the Congress amend the Agricultural Adjustment Act of 1938 to remove the minimum national allotment of 1,610,000 acres for growing peanuts.

Although agreeing that the legislative change could help bring peanut production more into line with demand, the Department said that it was not completely satisfied that the change was the most desirable solution in the long run. It said that it was studying our recommendation and possible alternatives.

The National Peanut Growers Group and the National Peanut Council outlined several actions that the industry planned to take to try to build new markets and expand present markets.

Although we recognized that alternatives existed for bringing production more in line with demand and that the Department's study and the industry's promotional efforts were desirable, we concluded that more immediate action--rescinding the minimum acreage provision--was needed because of the substantial losses expected in the future. We said that such action would not preclude any actions the Secretary might wish to take as a result of the Department's study nor affect the industry's ability to meet any increasing demand that might result from its promotion program since the Secretary would be able to adjust the allotment up as well as down.

In October 1973 the Secretary of Agriculture announced a peanut program for 1974 at an estimated cost to CCC of at least $70 million after a saving of about $6.6 million from administrative changes in the program. At that time the Secretary also proposed legislation to establish a new program for the 1974-77 peanut crops. The objective of this proposal was to avoid substantial losses on peanuts.

NEED FOR EVALUATING PROGRAM FOR MARKET DEVELOPMENT, RESEARCH, AND SALES PROMOTION OF COTTON

In response to a congressional request, we reported (B-142011, July 9, 1973) on the funding and operations of Cotton Incorporated. This is a private, nonprofit corporation which carries out a program for market development, research, and sales promotion of cotton and cotton products under agreements with CCC and the Cotton Board, a cotton producer organization whose members are appointed by the Secretary of Agriculture. The Department is responsible for insuring that funds provided under the agreements are used properly.

Cotton Inc. has three types of funds: (1) producer funds obtained under contract with the Cotton Board from the mandatory collection of $1 a bale as provided by the Cotton Research and Promotion Act (7 U.S.C. 2101) enacted in 1966, (2) CCC funds provided pursuant to section 610 of the Agricultural Act of 1970 (7 U.S.C. 2119) which authorized $10 million in CCC funds to be provided annually in fiscal years 1972-74, and (3) its own funds, which include voluntary producer contributions received before implementation of the 1966 act, interest on investments, and income from patents.

Cotton Inc.'s use of producer and CCC funds is subject to budgetary approval by the Cotton Board and the Secretary; Cotton Inc.'s use of its own funds is not. Also, Cotton Inc. must obligate CCC funds during the fiscal year for which they are provided and must spend them within 18 months from the beginning of such year. Any CCC funds not obligated and spent during these prescribed periods revert to CCC. Such requirements do not apply to producer funds.

From January 1968 through June 30, 1973, the Cotton Board and the Secretary had approved Cotton Inc. budgets for using producer funds totaling about $52.2 million. Through April 30, 1973, Cotton Inc. had spent about $38.7 million of such funds. The Cotton Board retains the unexpended producer funds and invests them in interest-bearing savings accounts or certificates of deposit. The Department estimated in March 1973 that, as of June 30, 1973, the Cotton Board's reserve of unexpended producer funds could total as much as $15 million.

As of April 30, 1973, Cotton Inc. had spent all of the $10 million in CCC funds approved for fiscal year 1972, and $3.9 million of the $10 million in CCC funds approved for fiscal year 1973. By June 30, 1973, the full $10 million for fiscal year 1973 had been obligated.

The agriculture appropriation act for fiscal year 1974, approved October 24, 1973 (87 Stat. 469), set a $3 million limit on the obligation of CCC funds for that period. This amount was restricted to research projects.

Despite the large amounts of producer and CCC funds spent, the Department had not evaluated, or established a system for evaluating, the effectiveness of Cotton Inc.'s research and promotion program. In response to our recommendation, Department officials advised us that they would have evaluations made of the effectiveness of Cotton Inc.'s program.

NEED FOR ADDITIONAL CONTROLS OVER UNAUTHORIZED REMOVALS OF LOAN COLLATERAL

In a letter dated October 29, 1973, to the Executive Vice President, CCC, we said that we had discussed with his staff our findings that (1) producers were removing, without authorization, grain stored on farms as collateral for CCC price-support loans and (2) ASCS State and county offices were not consistently imposing the penalties prescribed for such removals. Following the discussion ASCS issued a notice providing that:

--Any removal of mortgaged loan collateral before repayment of the loan or receipt of a release authorization from the ASCS county office was to be considered an unauthorized removal.

--Specific mandatory penalties were to be imposed by the county committees for all unauthorized removals, with more severe penalties prescribed for second offenders.

--Additional penalties could be imposed at the discretion of the county committees.

We said we believed that these actions, if implemented, would discourage unauthorized removals of loan collateral but that additional controls were needed to insure that the prescribed procedures were effectively and uniformly implemented. To provide for a systematic focus by ASCS management on the loan program for farm-stored grain, we recommended that ASCS:

--Require county committees to submit periodic reports to ASCS State offices on the status and disposition of grain shortage cases.

--Require that State offices review county committee reports and furnish ASCS headquarters summary reports on shortage cases and the results of State office reviews of county committees' actions on such cases.

In a reply dated December 6, 1973, ASCS said that it did not feel that separate reporting procedures were necessary. It said that existing procedures provided for county committees to report, in their minutes of meetings, actions taken on unauthorized removals; that copies of minutes were sent to State offices; and that most State offices distributed copies of minutes pertaining to program matters to their specialists.

We believe that the existing procedures provide for the routine attention needed on shortage cases but that periodic summary reports could point up trends and unusual or significant problem areas that warrant top management's attention.

NEED FOR BETTER CONTROLS OVER PROCESSING GRAIN INVENTORY DATA

In a letter dated November 28, 1973, to the Executive Vice President of CCC, we said that controls built or programed into the computer system for managing grain inventories were generally adequate. We pointed out, however, that management controls over certain aspects of the system needed strengthening to increase their efficiency and effectiveness and to minimize the possibility of manipulation of information, thereby lessening the potential for irregularities.

The ASCS Prairie Village Commodity Office, which prepares and maintains computer programs for directing processing operations, did not integrate program revisions into basic computer tapes in a timely manner and did not always maintain documentation to support program revisions. Complete, comprehensive, and current documentation on system operations is necessary, we stated, for the continued efficient operation and success of a data processing system. We recommended that program revisions be integrated into basic computer tapes at reasonable intervals and that supporting documentation be systematically maintained.

The ASCS Data Systems Field Office in Kansas City maintains the control cards for instructing the computer and converts original data into machine-readable form. This office did not restrict commodity office programers' access to its control cards. One of the essential elements of effective internal control in a computerized operation is the separation of duties concerned with systems planning and programing from those concerned with day-to-day operation of the system in order to avoid alteration or manipulation of data. Although we did not find that data had been altered or manipulated, it could have been; therefore, we recommended that programers' access to the control cards maintained by the Data Systems Field Office be restricted.

The Department's Office of Information Systems Computer Center in Kansas City, which processes converted data, did not adequately safeguard backup data. To prevent loss of data in the event of a fire or other disaster around the computer room, the computer center creates and stores duplicates of tapes containing computer programs and master files.

The duplicate material, however, was stored in safes near the computer room. We recommended that backup material be stored away from the primary system so that it would survive any destruction of the primary system.

Our recommendations for better controls over processing grain inventory data are under consideration by the Department.

CHAPTER 4

SELECTED HIGHLIGHTS OF FISCAL YEAR 1973 OPERATIONS

$4.1 BILLION REALIZED LOSS REPORTED BY CCC

CCC's price-support and related operations normally result in a loss. For fiscal year 1973 CCC reported a realized loss (recorded loss before adjusting allowances for losses on loans, commodity inventories, and receivables) of $4.09 billion, which was $637 million more than the loss of $3.46 billion for 1972. This loss was CCC's second highest--the highest was $4.21 billion for fiscal year 1970. CCC's comparative statement of income and expense for fiscal years 1973 and 1972 is on page 34.

Most of the loss resulted from direct payments totaling $3.5 billion to producers for setting aside cropland from production of feed grains, cotton, and wheat.[1] This amount was offset by $400 million collected by CCC under a program requiring processors to pay for using wheat. Interest expense amounted to $370 million.

Export subsidies totaling $349 million were paid to bridge the difference between U.S. prices and lower world prices, as follows.

	Amount (millions)
Wheat	$298
Wheat products	2
Tobacco	28
Rice	21
	$349

The wheat subsidies, totaling $298 million, involved exportation of 843 million bushels--about half of the national production. The precise amount paid to all companies was not

[1]Payments in fiscal year 1974 (1973 cropland set-aside) are estimated at $2.3 billion. (See note G to financial statements, p. 39.) The Secretary of Agriculture announced in July 1973 that there would be no set-aside of cropland in 1974.

readily available; however, using CCC's records of payments over $50,000, we ascertained the recipients of $278 million. Three companies accounted for $191 million (64 percent) of the subsidies ranging from $41 million to $86 million; three other companies accounted for $55 million (18 percent) of the subsidies ranging from $13 million to $26 million; and 25 other firms accounted for $32 million (11 percent) of the subsidies.

At June 30, 1973, CCC commitments for export subsidies amounted to $53 million. (See note J to financial statements, p. 40.) Subsidy commitments have been discontinued.

The following analysis shows the realized loss for fiscal years 1973 and 1972 according to commodity (and products) or category of expense.

	1973	1972	Increase or decrease (-)
	(000,000 omitted)		
Commodities:			
Feed grains	$1,923	$1,194	$729
Cotton	825	816	9
Wheat	727	675	52
Dairy products	183	215	-32
Peanuts	61	113	-52
Rice	38	37	1
Tobacco	28	27	1
Other	35	32	3
Total	3,820	3,109	711
Expenses:			
Interest expense net of interest income	181	254	-73
Operating and other expenses	93	94	-1
Realized loss	$4,094	$3,457	$637

In fiscal year 1973 the Congress appropriated $4.06 billion to reimburse CCC for losses, compared with a reimbursement of $4.21 billion in fiscal year 1972. A summary of changes in the amount of unreimbursed losses during fiscal year 1973 follows.

	Amount (billions)
Unreimbursed losses, June 30, 1972	$7.52
Less reimbursements in fiscal year 1973	4.06
Loss, fiscal year 1972	3.46
Plus loss, fiscal year 1973	4.09
Unreimbursed losses, June 30, 1973 (See sch. 3, p. 35.)	$7.55

The agriculture appropriation act for fiscal year 1974, approved October 24, 1973, provided for reimbursing CCC $3.3 billion (87 Stat. 477), a reduction of $155 million from the budget request for the loss in fiscal year 1972. The Congress believed that the amount provided would be more than ample for CCC's needs.

Also CCC incurred costs of $1.2 billion for special activities authorized by various statutes and financed through special appropriations. Comments on these activities begin on page 22.

$6.3 BILLION EXPENDED FOR PRICE-SUPPORT AND RELATED ACTIVITIES

In fiscal year 1973, CCC expended $5 billion in nonrecourse price-support loans[1] and direct payments to producers. Also CCC spent $654 million on inventory transactions and $619 million on other activities, including $113 million for storing grain serving as collateral for its price-support loans extended beyond original maturity dates. A summary of total expenditures during fiscal year 1973 follows.

---

[1]The loans are nonrecourse because CCC accepts the commodity collateral in full settlement of a loan.

	Total expenditures	Price-support loans	Direct payments to producers	Inventory: Purchases	Inventory: Storage and handling expenses	Inventory: Transportation expenses	Storage expenses on loan collateral	Export subsidies
	(000,000 omitted)							
Commodities:								
Feedgrains	$2,550	$ 540	$1,846	$ 31	$35	$13	$ 85	$ -
Wheat	1,465	160	863	48	30	38	28	298
Cotton	990	177	813	-	-	-	-	-
Soybeans	202	202	-	-	-	-	-	-
Peanuts	186	155	-	30	1	-	-	-
Dairy products	168	-	-	158	3	7	-	-
Rice	161	127	-	11	1	1	-	21
Wheat products (mainly flour)	142	-	-	140	-	-	-	2
Tobacco	80	52	-	-	-	-	-	28
Wool	68	-	[a]68	-	-	-	-	-
Vegetable oil products	58	-	-	58	-	-	-	-
Blended foods	46	-	-	46	-	-	-	-
Other	14	11	-	2	1	-	-	-
	6,130	$1,424	$3,590	[b]$524	$71	$59	[c]$113	$349
Storage facility and equipment loans	157							
Total	$6,287							

[a]Subject to special reimbursement. (See p. 24.)

[b]Includes $13 million in loan collateral taken over in excess of value of loans defaulted.

[c]$99 million for collateral stored on farms and $14 million for collateral stored in commercial warehouses.

The amount of expenditures directly involving producers totaled $5.3 billion as shown in the following table.

	Amount
	(000,000 omitted)
Expenditures:	
Price-support loans	$1,424
Direct payments	3,590
Storage facility and equipment loans	157
Storage expense on farm-stored collateral for extended loans	99
Total	$5,270

The distribution of this amount by State follows.

Texas	$ 633
Iowa	531
Minnesota	369
Illinois	326
Nebraska	315
North Dakota	312
Kansas	301
California	179
Missouri	174
Arkansas	171
Indiana	164
South Dakota	162
Georgia	161
Mississippi	143
Oklahoma	140
Montana	108
Ohio	103
North Carolina	102
Alabama	82
Wisconsin	70
Michigan	64
Colorado	64
Arizona	63
Washington	62
Tennessee	57
South Carolina	57
Louisiana	54
Idaho	47
Kentucky	45
New Mexico	44
Virginia	33
Oregon	27
Other	107
Total	$5,270

$1.1 BILLION DECREASE IN BALANCE OF COMMODITY LOANS

At June 30, 1973, CCC's investment in commodity loans totaled $1.1 billion, or about half of the balance at June 30, 1972. The major loan decreases were $561 million for feed grains, $359 million for wheat, and $191 million for tobacco. Commodity loan activity during fiscal year 1973 is summarized as follows.

	Total	Feed grains	Tobacco	Wheat	Soy-beans	Cotton	Rice, peanuts, and other
	(000,000 omitted)						
Loan balance, June 30, 1972	$2,277	$1,114	$672	$436	$ 25	$ 24	$ 6
1973 fiscal year activity:							
Loans made	1,423	540	51	160	202	177	293
Repayments	-2,456	-1,057	-242	-511	-222	-175	-249
Loans canceled by CCC acquisition of collateral	-52	-43	-	-8	-	-	-1
Loans charged off	-47	-	-	-	-	-	-47
Other transactions	-1	-1	-	-	-	-	-
Net change	-1,133	-561	-191	-359	-20	2	-4
Loan balance, June 30, 1973	$1,144	$ 553	$481	$ 77	$ 5	$ 26	$ 2

The $47 million in loans charged off pertained almost entirely to peanuts. Loans on peanuts are made through producer associations and the collateral is pooled. Proceeds from sales of such collateral are applied to repayment of loans, and the unpaid balance is written off as a loss.

CCC's investment in grain loans at June 30, 1973, totaled $635 million. Of this amount, $368 million represented loans that CCC had extended beyond their original maturity dates. The collateral for the grain loans aggregated about 669 million bushels of grain, of which 640 million bushels, or 96 percent, were stored on farms; the remainder were stored in commercial warehouses. Producers were earning storage income from CCC on 399 million bushels of farm-stored grain serving as collateral for loans that had been extended beyond their original maturity dates.

By August 1, 1973, all grain loans had matured and were not being extended by CCC in order to make additional stocks of grain available to meet strong market demand. Loan repayments could be deferred, however, if producers encountered warehousing and transportation problems.

Effective with 1973 crops, CCC increased the interest rate on price-support loans from 3-1/2 percent to 5-1/2 percent per annum. The objective of this increase was to recover CCC's cost of financing the loans. At the time of the increase, the interest rate on CCC borrowings from the U.S. Treasury was 5-1/2 percent. Subsequently, through November 1973, the interest rate on CCC borrowings ranged as high as 8-3/4 percent.

$611 MILLION REDUCTION IN COMMODITY INVENTORIES

At June 30, 1973, CCC's investment in commodity inventories amounted to $479 million, compared with $1,090 million a year earlier. The major decreases, $293 million in wheat and $164 million in feed grains, were attributable to greater domestic and foreign demand in relation to supply.

During fiscal year 1973 loan collateral taken into inventory through default amounted to $65 million, compared with $180 million in 1972. This decrease was attributed to higher market prices which induced producers to repay CCC for their price-support loans. CCC's inventory activities during the year ended June 30, 1973, are summarized in the following table.

	Inventory at June 30, 1972	Additions: Purchases	Additions: Loan collateral acquired	Additions: Adjust-ments	Deductions: Inventory sold	Deductions: Donations	Deductions: Adjust-ments	Inventory at June 30, 1973
	(000,000 omitted)							
Wheat	$ 488	$ 46	$ 10	$-	$349	$ -	$-	$195
Feed grains	377	20	53	-	227	9	1	213
Dairy products (mainly butter)	131	158	-	4	55	173	-	65
Flaxseed	45	-	2	-	34	-	[a] 13	-
Tung oil	8	-	-	-	3	-	-	5
Rice	16	11	-	2	14	15	-	-
Cotton	5	-	-	-	5	-	-	-
Wheat products (mainly flour)	2	140	-	-	103	39	-	-
Vegetable oil products	1	58	-	-	39	20	-	-
Blended food products	-	46	-	-	46	-	-	-
Peanuts	-	30	-	-	30	-	-	-
Other (mainly linseed oil)	17	2	-	[a] 10	26	2	-	1
Total	$1,090	$511	[b] $65	$16	$931	$258	$14	$479

[a] Involves processing flaxseed into linseed oil.

[b] Includes $13 million in collateral in excess of value of loans ($52 million) defaulted.

$1.2 BILLION IN REIMBURSABLE COSTS FOR SPECIAL ACTIVITIES

Under certain laws CCC performs special activities and receives appropriated funds either as partial reimbursement for costs incurred or as advances. The special activities are financed separately from CCC's price-support and related programs; therefore, these costs are not included in CCC's net loss of $4.09 billion as shown in schedule 2. The special activities cost $1.2 billion for fiscal year 1973--about $200 million less than the fiscal year 1972 costs. The principal special activity, exporting agricultural commodities under Public Law 480, cost $1.1 billion compared with $1.3 billion in fiscal year 1972. A summary showing the costs incurred and the funds received by CCC for these activities during fiscal year 1973 follows.

Activity and authority	Unreimbursed costs at June 30, 1972	Fiscal year 1973 activity: Costs incurred	Fiscal year 1973 activity: Appropriations and other funds received	Unreimbursed costs (funds appropriated in advance of expenditure (-)) at June 30, 1973
	(000,000 omitted)			
Public Law 480:				
Title I	-$289	$ 744	$ 757	-$302
Title II	224	396	524	96
	-65	1,140	1,281	-206
National Wool Act of 1954 (7 U.S.C. 1781)	117	74	67	124
Total	$ 52	$1,214	$1,348	$-82

Title I of Public Law 480 provides for CCC to finance the sale of agricultural commodities for dollars on credit terms or for foreign currencies. Title II provides for Government donations of agricultural commodities for distribution in foreign countries. A summary of costs incurred under Public Law 480 by type of transaction during fiscal year 1973 follows.

	Title I	Title II	Total
	(000,000 omitted)		
Commercial export sales of agricultural commodities (suppliers' invoices)	$653	$ -	$ 653
Payments to suppliers for export differentials	34	-	34
Disposition of CCC inventories (included as sales in CCC's statement of income and expense)	-	290	290
Ocean transportation	57	104	161
Other	-	2	2
Total	$744	$396	$1,140

About 39 percent of the Public Law 480 costs pertained to wheat exports. The following summary shows the costs by commodity or by other category.

	Amount (millions)
Wheat	$ 429
Rice	259
Feed grains	122
Cotton	104
Vegetable oil products	75
Blended food products	51
Tobacco	30
Dairy products	21
	1,091
Ocean transportation for commodities donated through nonprofit voluntary agencies	47
Other	2
Total	$1,140

Under the National Wool Act of 1954, price-support payments to producers amounted to $68 million and related expenses were $6 million. This act authorizes appropriations to reimburse CCC.

$1.4 BILLION INCREASE IN ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable at June 30, 1973, totaled $5.4 billion, compared with $4 billion a year earlier. These receivables represented 72 percent of CCC's total assets. Of the receivables at June 30, 1973, $4.5 billion pertained to CCC's financing of commercial exports of agricultural commodities under Public Law 480 and under its export credit sales program. A summary showing activity under the two programs during fiscal year 1973 follows.

Program	Balance at June 30, 1972	1973 fiscal year activity: Financing by CCC	Collections	Net increase	Balance at June 30, 1973
	(millions)				
Public Law 480	$2,729.9	$ 751.9	$294.5	$ 457.4	$3,187.3
Export credit sales	581.9	1,029.2	319.0	710.2	1,292.1
Total	$3,311.8	$1,781.1	$613.5	$1,167.6	$4,479.4

Public Law 480 sales program

Under Public Law 480, CCC finances agricultural exports through long-term credit agreements with foreign governments and foreign trade entities. Repayments are to be made periodically in dollars over periods not to exceed 40 years.

The accounting treatment for Public Law 480 receivables is explained in note E to the financial statements. (See p. 38.) As stated in the note, past-due installments on principal and interest at June 30, 1973, totaled $16.8 million. The most significant delinquencies were (1) $1.3 million due from the Dominican Republic, whose debt was $46.6 million, (2) $7.6 million due from Chile, whose debt was $45.5 million, and (3) $1 million due from the Arab Republic of Egypt, whose debt was $16 million. In July and August 1973, CCC collected $6.3 million on delinquent accounts, but none of this pertained to these three debts.

A summary showing the net activity in the Public Law 480 accounts during fiscal year 1973 and the balances due from the debtors at June 30, 1972 and 1973, follows.

	Balance at June 30, 1972	Net increase or decrease (-)	Balance at June 30, 1973
	(millions)		
Foreign governments:			
Indonesia	$ 543.5	$ 98.8	$ 642.3
India	423.9	5.0	428.9
South Korea	276.0	112.6	388.6
Pakistan	184.1	73.9	258.0
Israel	196.3	38.8	235.1
Yugoslavia	211.8	1.8	213.6
Brazil	115.3	-5.1	110.2
Morocco	73.5	-.8	72.7
Sri Lanka (Ceylon)	61.4	9.9	71.3
Philippines	50.0	19.0	69.0
Tunisia	59.7	2.1	61.8
Turkey	62.9	-7.9	55.0
South Vietnam	7.0	45.8	52.8
Dominican Republic	49.1	-2.5	46.6
Chile	46.2	-.7	45.5
Colombia	33.8	2.4	36.2
Ghana	28.1	2.6	30.7
Uruguay	18.6	11.0	29.6
Zaire (Congo)	29.8	-1.5	28.3
Guinea	20.0	3.0	23.0
Bolivia	21.4	1.3	22.7
China (Taiwan)	24.1	-2.0	22.1
Khmer Republic (Cambodia)	2.1	19.5	21.6
Afghanistan	16.6	1.9	18.5
Portugal	1.3	15.6	16.9
Arab Republic of Egypt	16.7	-.7	16.0
Ecuador	10.7	4.9	15.6
Greece	14.0	-1.1	12.9
Jordan	6.9	5.5	12.4
Lebanon	11.2	-	11.2
Other	67.2	-	67.2
	2,683.2	453.1	3,136.3
Foreign trade entities	46.7	4.3	51.0
Total	$2,729.9	$457.4	$3,187.3

Export credit sales program

Under its export credit sales program, CCC finances purchases of agricultural commodities by foreign importers on a deferred-payment basis for periods up to 36 months. Repayments are to be made under an irrevocable letter of credit issued in favor of CCC by a bank acceptable to CCC. The following table shows the amounts financed by CCC in fiscal year 1973 by commodity.

	Amount (millions)
Commodities:	
Wheat	$ 584.7
Corn	225.5
Cotton	117.7
Vegetable oils	37.7
Tobacco	34.3
Rice	14.5
Linseed oil	7.3
Other	7.5
Total	$1,029.2

Under the terms of an agreement with Russia in July 1972, the United States, through CCC, made a 3-year, $750 million credit available for the purchase of U.S. grains. By June 30, 1973, credits used under this agreement totaled $460.3 million for exporting 209 million bushels of wheat and 85 million bushels of corn. The amount of credits used was 45 percent of the total credits used under the program in fiscal year 1973. Repayment under the Russian agreement amounted to $4.1 million by June 30, 1973, leaving a balance of $456.2 million.

The following table shows the $1,292.1 million balance in receivables under the CCC export credit sales program at June 30, 1973, according to the country of the importer.

	Amount
	(millions)
Union of Soviet Socialist Republics	$ 456.2
South Korea	139.8
Poland	93.4
Yugoslavia	93.3
Peru	89.7
Philippines	73.9
Arab Republic of Egypt	72.7
Iran	54.6
Greece	42.8
Romania	36.6
Japan	24.4
Morocco	18.8
Thailand	12.0
Pakistan	11.4
Sudan	9.5
Republic of South Africa	7.5
Sri Lanka	7.4
Tunisia	6.9
Dominican Republic	6.2
Other	35.0
Total	$1,292.1

$4.5 BILLION DISBURSED TO NONFARMERS

CCC does a considerable volume of business not only with farmers but also with nonfarmers--such as exporters, vendors, and carriers of agricultural commodities--through activities that indirectly benefit the farm economy. According to CCC records, disbursements to nonfarmers totaled $4.5 billion during fiscal year 1973.

Most of the funds disbursed to nonfarmers--approximately $3 billion--was for financing commercial exports of agricultural commodities under the Public Law 480 program and CCC's export credit sales program (see p. 25) and under a barter program involving procurement of materials and services abroad by other Federal agencies. Except for about $160 million disbursed mostly for ocean freight under the Public Law 480 program, these disbursements are not considered expenses to the Government but rather amounts to be repaid with interest by foreign governments and by trade entities in accordance with contractual arrangements.

The remaining disbursements--about $1.5 billion--pertained mainly to purchasing and handling commodities and to export subsidies. The major purchases were dairy and wheat products.

Ten firms received $2,550 million, or 56 percent of the total payment. The following table shows the range of payments made to firms receiving $1 million or more.

Number of firms	Amount paid	Range of payments
	(000,000 omitted)	
4	$1,873	$207 to $643
6	677	78 to 171
17	578	25 to 67
30	451	10 to 25
232	698	1 to 10
	$4,277	

In addition, payments totaling $248 million were made to numerous other firms which received less that $1 million each.

CHAPTER 5

SCOPE

Our audit consisted of two major phases: (1) an examination of CCC's financial statements as of June 30, 1973, modified as required by circumstances (see below), and (2) a review of how CCC carried out selected commodity programs and activities, including the controls for safeguarding CCC's assets and protecting the Government's interests.

We made our examination in ASCS offices at Washington, D.C.; Minneapolis; Prairie Village; and Kansas City. We reviewed and appraised audit work of the Office of the Inspector General,[1] Department of Agriculture. This office continuously audits financial operations at the commodity offices and, where appropriate, we relied on this work and modified the scope of our audit.

EXAMINATION OF CCC FINANCIAL STATEMENTS

Our examination of CCC's financial statements was directed primarily toward arriving at a conclusion as to their reliability and usefulness for disclosing financial information concerning CCC's affairs. The examination, except as noted below, was made in accordance with generally accepted auditing standards and 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.

In view of the character and vast scope of CCC's operations--particularly commodity inventories and loan collateral--it was not practicable for us to perform all the examination and verification steps 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, 1973, and the results of its operations for the year then ended.

---

[1]The Secretary of Agriculture announced on November 26, 1973, that the functions of this office would be split between two newly established offices--Office of Audit and Office of Investigation and Security.

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

Periodically the Agricultural Marketing Service, Department of Agriculture, physically examines CCC commodity inventories and collateral stored in commercial warehouses to verify the quantity and quality of these commodities. During fiscal year 1973, Service examinations covered 10,000 warehouses storing grain, cotton, and other agricultural commodities. This number included 1,800 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 to 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 when they are prepared.

CHAPTER 6

OPINION ON CCC FINANCIAL STATEMENTS

The financial statements (schs. 1, 2, 3, and 4) and the accompanying notes are the same as those published in CCC's Report of Financial Condition and Operations as of June 30, 1973.

CCC's loss from operations does not include CCC special activities costs, which CCC pays from appropriated funds received in advance of expenditures or as reimbursements for financing extended. Comments on these costs, which CCC accounts for separately, begin on page 22.

For the reasons explained under "Examination of CCC Financial Statements" (see p. 30), we cannot express an opinion that CCC's financial statements present fairly its financial position at June 30, 1973, and the results of its operations for the year then ended. We believe, however, that CCC's accounting methods provide a generally satisfactory record of its financial transactions and that its financial reporting system is, in general, adequate to supply CCC's management with information for conducting its affairs.

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

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

June 30, 1973 AND 1972

	June 30, 1973	June 30, 1972
ASSETS		
CASH	$ 175,135,399	$ 147,605,846
LOAN PROGRAMS:		
Commodity (net) (note B)	1,143,588,960	2,272,647,708
Storage facility and equipment	274,110,312	196,819,301
COMMODITY INVENTORIES (net) (notes A and B)	411,674,338	947,779,158
ACCOUNTS AND NOTES RECEIVABLE (net) (note C)	5,386,513,372	3,964,837,518
ACCRUED INTEREST RECEIVABLE	59,413,060	36,962,775
FIXED ASSETS (net)	2,694,655	7,353,587
OTHER ASSETS (net) (note D)	17,409,811	27,878,183
TOTAL ASSETS	$ 7,470,539,907	$ 7,602,384,076
LIABILITIES		
ACCOUNTS PAYABLE	$ 123,066,840	$ 218,459,077
ACCRUED INTEREST ON U.S. TREASURY BORROWINGS	268,755,984	256,103,884
ACCRUED LIABILITIES	73,540,686	84,782,418
TRUST AND DEPOSIT LIABILITIES	456,090,773	368,139,222
DEFERRED CREDIT FOR P.L. 480 RECEIVABLES--CREDIT SALES FOR DOLLARS (note E)	3,187,312,146	2,729,934,390
OTHER LIABILITIES	25,800,741	17,459,416
TOTAL LIABILITIES	4,134,567,170	3,674,878,407
INVESTMENT OF U.S. GOVERNMENT		
BORROWINGS FROM U.S. TREASURY (note F)	10,864,319,422	11,501,009,577
CAPITAL STOCK	100,000,000	100,000,000
	10,964,319,422	11,601,009,577
Less deficit (schedule 3)	7,628,346,685	7,673,503,908
TOTAL INVESTMENT OF U.S. GOVERNMENT	3,335,972,737	3,927,505,669
TOTAL LIABILITIES AND INVESTMENT OF U.S. GOVERNMENT	$ 7,470,539,907	$ 7,602,384,076

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

BEST DOCUMENT AVAILABLE

COMMODITY CREDIT CORPORATION

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

FISCAL YEARS 1973 AND 1972

	Fiscal year 1973	Fiscal year 1972
REALIZED GAINS AND LOSSES--PROGRAM:		
Commodity inventory operations (note N):		
Sales of commodities	$1,159,610,676	$ 798,[illegible]81,998
Cost of sales	932,718,237	796,591,954
Net gain(-) on sales	-226,892,439	-2,[illegible]90,144
Cost of commodities donated	257,603,193	267,974,[illegible]
Storage and handling expense	71,203,510	121,[illegible]98,62[illegible]
Transportation expense	59,387,512	67,[illegible]22,8[illegible]
Net loss on commodity inventory operations	161,301,776	454,205,3[illegible]
Set-aside payments:		
Cotton	813,489,957	823,948,814
Feed grains	1,846,335,841	1,053,309,27[illegible]
Wheat	462,601,585	491,959,483
Total set-aside payments	3,122,427,383	2,369,217,568
Other program costs and recoveries:		
Reseal loan storage expense	113,010,188	78,721,613
Export payments	349,321,062	116,934,219
National Wool Act payments	67,990,329	112,766,757
Loan and other charge-offs	47,624,708	82,427,240
Research expense(-gain)	-36,865	-55,934
Other program costs	40,810,953	26,889,358
Special recoveries authorized:		
National Wool Act	-67,990,329	-112,766,757
Research expenses	36,865	55,934
Net other program costs and recoveries	550,766,911	304,972,430
Net realized loss--program	3,834,496,070	3,128,395,[illegible]
INCOME AND EXPENSE--GENERAL:		
Income:		
Interest on loans	113,005,026	71,421,454
Other interest income	75,601,773	49,087,974
Other income	56,846	52,938
Total income	188,663,645	120,562,366
Expense:		
Interest expense	370,091,994	374,582,009
General overhead expense (net) (note O)	77,253,056	74,157,206
Other expense	765,302	836,701
Total expense	448,110,352	449,575,916
Net expense--general	259,446,707	329,013,550
TOTAL REALIZED LOSS	4,093,942,777	3,457,408,[illegible]
ADJUSTMENTS (-GAINS) OF ALLOWANCES FOR LOSSES--PROGRAM:		
Allowance for losses on loans	-4,359,000	-3,207,000
Allowance for losses on commodity inventories	-75,333,000	22,999,000
Allowance for losses on accounts and notes receivable	-1,456,000	-[illegible]80,[illegible]
Net adjustment of allowances for losses--program	-81,148,000	19,412,0[illegible]
NET LOSS TRANSFERRED TO DEFICIT (schedule 3)	$4,012,794,777	$3,476,820,9[illegible]

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, 1973

	Cumulative to June 30, 1972	Fiscal year 1973	Cumulative to June 30, 1973
TOTAL REALIZED LOSS EXCLUSIVE OF COST OF WARTIME CONSUMER SUBSIDY PROGRAM	$49,825,912,900	$4,093,942,777	$53,919,855,677
COST OF WARTIME CONSUMER SUBSIDY PROGRAM	2,102,281,073	-	2,102,281,073
	51,928,193,973	4,093,942,777	56,022,136,750
ALLOWANCES FOR LOSSES--PROGRAM	158,143,000	[a]81,148,000	76,995,000
NET OPERATING LOSS	52,086,336,973	4,012,794,777	56,099,131,750
LESS:			
Reimbursement for net realized loss (15 U.S.C. 713a)	43,814,677,834	4,057,952,000	47,872,629,834
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
	44,412,833,065	4,057,952,000	48,470,785,065
Net deficit (schedule 1)	$ 7,673,503,908	$ 45,157,223	$[b]7,628,346,685

[a]Represents adjustment of allowances for losses.

[b]Comprised of the following:

Unrestored realized losses by fiscal year:	
1972 (includes $6 for 1971)	$ 3,457,408,908
1973	4,093,942,777
	$ 7,551,351,685
Allowances for losses, June 30, 1973	76,995,000
Net deficit, June 30, 1973	$ 7,628,346,685

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

COMMODITY CREDIT CORPORATION

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FISCAL YEAR 1973

FUNDS PROVIDED:	
Borrowings from U.S. Treasury	$ 5,623,121,480
Reimbursement for realized losses by appropriations	4,057,952,000
Sales of commodities	1,159,610,676
Inventory settlements for differences in grade, location, and quantity (net)	4,492,252
Proceeds of domestic wheat marketing certificates	400,449,201
Repayment of loans by producers	2,537,099,060
Repayment of loans by Secretary of Agriculture	35,000,000
Interest income	188,606,799
Other	2,310,362
Total funds provided	$14,008,641,830
FUNDS APPLIED:	
Repayment of borrowings from U.S. Treasury	$ 6,259,811,634
Cost of commodities purchased	511,641,425
Acquisitions of loan collateral in excess of value of loans defaulted	12,471,305
Storage, transportation, and processing expenses	133,596,679
Loans to producers	1,580,177,123
Reseal loan storage expense	113,010,188
Loan to Secretary of Agriculture	35,000,000
Export payments	349,321,062
Payments under the cotton, feed grain, and wheat programs	3,522,876,584
Interest expense	370,091,994
State and county office expenses	35,915,000
Custodian and agency expenses	412,745
Administrative expenses	39,496,912
Purchases of nonexpendable equipment	171,157
Other	44,605,464
Increase in working capital items	1,000,042,558
Total funds applied	$14,008,641,830

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, 1973

A. Commodity inventories

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

B. Allowances for losses on loans and inventories

Allowances for losses on commodity loans and commodity inventories are the estimated loss on ultimate commodity dispositions. 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 June 30, 1973, the estimated allowances for losses amounted to $352,000 on loans and $66,983,000 on inventories. At June 30, 1972, allowances for losses amounted to $4,711,000 on loans and $142,316,000 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 June 30, 1973, allowances on these assets totaled $5,560,000 and at June 30, 1972, amounted to $6,116,000.

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

Additionally, as of June 30, 1973, no allowance has been provided for possible losses under the export credit sales program for amounts due from the Government of the Arab Republic of Egypt. Drafts equal to 90 percent of installments due in March, April, and May, 1973, drawn against letters of credit issued by the National Bank of Egypt which is owned by the Government of the Arab Republic of Egypt have not been honored. As of June 30, 1973, principal and accrued interest on such delinquent installments totaled $2.2 million.

D. Allowance for losses on investments

Under the Corporation's Export Credit Sales Program letters of credit were received which were issued by the New York Branch of Intra Bank, S.A.L., Beirut, Lebanon, amounting to about $21.8 million. 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. The assets and liabilities of Intra Bank S.A.L. were transferred to two newly created entities which succeeded Intra Bank--Intra Investment Company, S.A.L. and Bank Almashrek, S.A.L. The amount of the account receivable and the interest thereon was transferred to an investment account representing the Corporation's investment in Intra Investment Company, S.A.L. and Bank Almashrek, S.A.L.

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. The Corporation has recovered a substantial amount on its claim from the liquidation of assets of Intra Bank in New York. As of June 30, 1973, $11.6 million has been recovered and credited to the investment account to reduce the cost of the Corporation's investment. Although there is insufficient financial information available to make a specific determination as to the present value of the investment, an estimate of $4.1 million has been established as an allowance for loss on the investment. This allowance is based on the relationship between the recoveries and anticipated future recoveries, and the stated value of stock in the Intra Investment Company and Bank Almashrek which have been allocated to CCC.

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 Public Law 83-480 are carried on the Corporation's books as receivables. Accrued interest is added on June 30 each year. The principal amounts financed during the fiscal year less amounts of principal and interest installments collected is recovered from annual appropriations made by Congress for Public Law 480 programs. Therefore, the total amount of the long-term credit receivables is offset by a deferred credit account. As of June 30, 1973, past-due installments of principal and interest on receivables due from foreign governments amounted to about $16,787,971. Of this amount $6,297,034 was paid during July and August 1973.

F. Borrowing authority

CCC operations are financed largely 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 June 30, 1973, CCC's actual borrowings from the Treasury amounted to $10,864,319,422. This left a statutory borrowing authority available of $3,635,680,578.

G. Liability for payments under 1973 set-aside programs for feed grains, wheat, and upland cotton

Pursuant to legislation applicable to 1973 crops, the Corporation will make set-aside payments to producers of feed grains, wheat, and upland cotton. Preliminary payments under these programs were not due until after July 1, 1973, and the amounts cannot be determined until compliance with the terms of the program has been accomplished and verified. Additional amounts may be payable under these programs dependent on the relationship of national average market prices for the first five months of the marketing year and the final rates of payment determined in accordance with the legislative authorization. At June 30, 1973, the Corporation was contingently liable to make such payments in the following estimated amounts:

	Amount (millions)
Feed grains	$1,173
Wheat	467
Upland cotton	700

These estimated amounts are not recorded as liabilities in the accounts.

H. Liability for payments under the 1973 extra long staple cotton program

The Corporation will make payments to producers pursuant to legislation applicable to the 1973 crop of extra long staple cotton. At June 30, 1973, the Corporation was contingently liable to make such payments in an estimated amount of $6.3 million. Such payments were not due until after July 1, 1973, and the amount 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.

I. 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 as of June 30, 1973, were as follows:

Commodity	Value
Blended food products	$10,878,902
Butter	227,601
Corn products	1,568,341
Milk, dried	1,563
Peanuts, shelled	2,330,599
Rice	966,446
Rolled oats	424,188
Soybean oil	6,299,524
Vegetable oil products	890,257
Wheat products	21,263,708
Total	$44,851,129

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

J. Export payments

The Corporation was contingently liable at June 30, 1973, to make export payments (including, in the case of wheat flour, refund of the value of processor certificates) 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
Wheat	$30,516,371
Wheat flour	3,617,819
Tobacco	19,087,548
Rice	27,730

These contingent liabilities are not shown in the financial statements.

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 Public Law 83-480, are not shown in the financial statements. As of June 30, 1973, the amount of outstanding letters of commitment issued for sales of commodities was $97,772,281. 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 $1,043,255 as of June 30, 1973.

Claims against the Corporation for which the amounts are definitely known or can reasonably be established are recorded as accounts payable. Amounts of claims which are not considered valid by the Corporation are not shown as accounts payable but are recorded for control purposes. Claims in this category were estimated at $2,216,387 as of June 30, 1973.

M. 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, 1973, have been estimated at less than $100,000. This amount is not recorded in the accounts.

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

The general overhead expense for fiscal year 1973 and for 1972 excludes $22.0 million and $17.3 million, respectively, of expenses financed with funds appropriated to the Agricultural Stabilization and Conservation Service (ASCS).

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

For expenses in fiscal year 1973, CCC transferred the maximum amount authorized--$78,170,000--to the consolidated account. The cost distribution showed that expenses applicable to CCC activities amounted to $100.2 million, or about $22.0 million in excess of the amount contributed to the expense fund by CCC.

P. Pooled payment-in-kind certificates

Pursuant to legislation which authorized issuance of payment-in-kind certificates, the Corporation assisted producers in marketing their certificates by making cash advances to them for the full value of the certificates. The certificates were pooled and marketed from the pools for immediate use by the purchasers to obtain delivery of commodities from the Corporation's inventories. Because the certificate payments for which advances were made have been recorded as expense and the amounts advanced are not repayable, the advance and the offsetting obligation to redeem pooled certificates are not shown in the Statement of Financial Condition. At June 30, 1973, the amount of the obligation to redeem pooled cotton and feed grain certificates was $692,294,177 and $8,864,242,909, respectively. The same amounts had been advanced.

PRINCIPAL OFFICIALS OF THE COMMODITY CREDIT CORPORATION DEPARTMENT OF AGRICULTURE DURING FISCAL YEAR 1973

	Tenure of office	
	From	To
BOARD OF DIRECTORS		
Earl L. Butz (Secretary of Agriculture)	Dec. 1971	Present
J. Phil Campbell (Under Secretary of Agriculture)	Jan. 1969	Present
Carroll G. Brunthaver (Assistant Secretary of Agriculture)	June 1972	Present
Robert W. Long (Assistant Secretary of Agriculture)	Mar. 1973	Present
Clayton Yeutter (Assistant Secretary of Agriculture)	Mar. 1973	Present
Richard E. Lyng (Assistant Secretary of Agriculture)	Mar. 1969	Jan. 1973
Thomas K. Cowden (Assistant Secretary of Agriculture)	Sept. 1969	Mar. 1973
Kenneth E. Frick (Administrator, Agricultural Stabilization and Conservation Service)	Apr. 1969	Present
Don Paarlberg (Director, Agricultural Economics)	Mar. 1969	Present
OFFICERS (note a)		
PRESIDENT:		
Carroll G. Brunthaver (Assistant Secretary of Agriculture)	June 1972	Present

[a]CCC officers are designated according to their positions in the Department.

	Tenure of office From	To
OFFICERS (continued)		
EXECUTIVE VICE PRESIDENT:		
Kenneth E. Frick (Administrator, Agricultural Stabilization and Conservation Service)	Mar. 1969	Present
VICE PRESIDENTS:		
Raymond A. Ioanes (Administrator, Foreign Agricultural Service)	Apr. 1962	Aug. 1973
Ervin L. Peterson (Administrator, Agricultural Marketing Service)	June 1972	Present
Edward J. Hekman (Administrator, Food and Nutrition Service)	July 1970	Present
Glen A. Weir (Associate Administrator, Agricultural Stabilization and Conservation Service)	Oct. 1972	Present
Laurel C. Meade (General Sales Manager, Export Marketing Service)	July 1972	Present

Copies of this report are available at a cost of $1 from the U.S. General Accounting Office, Room 6417, 441 G Street, N.W., Washington, D.C. 20548. Orders should be accompanied by a check or money order. Please do not send cash.

When ordering a GAO report please use the B-Number, Date and Title, if available, to expedite filling your order.

Copies of GAO reports are provided without charge to Members of Congress, congressional committee staff members, Government officials, news media, college libraries, faculty members and students.

AN EQUAL OPPORTUNITY EMPLOYER

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

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE,$300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE

U.S.MAIL

THIRD CLASS