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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

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Agriculture's Statistics Agency: -- Computation Of Average Market Price Of Rice Questioned -- Independent Evaluation And Unimpeded GAO Access To Records Needed

The Department of Agriculture's statistics agency needs to develop better price data for the rice program. The agency omitted an important factor cost of drying green rice in determining the average price farmers receive for their rice. This caused deficiency payments to be about \$10.6 million more than they otherwise would have been for the 1976 crop and \$5 million more for the 1978 crop.

Also, the statistics agency revised its original computation on the average price for the 1978 crop after GAO questioned it. This resulted in an \$11 million savings.

This report also discusses problems GAO had in gaining access to rice program records and the Department's agreement to obtain an independent review of the agency's statistical operations.






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 report discusses the need for improvements in the Department of Agriculture's statistics agency and our problems in obtaining access to its statistical records. The report includes recommendations to the Congress and to the Secretary of Agriculture.

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


Comptroller General
of the United States

D I G E S T

IMPROVEMENTS NEEDED IN DETERMINING
AVERAGE MARKET PRICE FOR RICE

The Agriculture Department's Economics, Statistics, and Cooperatives Service needs to improve the method it uses to determine the national average market price farmers receive for rice during the first 5 months of the marketing year--a factor used in determining if, and how much, rice farmers will receive in Federal deficiency payments.

Cost of drying green rice

Neither the program's authorizing legislation nor its legislative history indicates how the average price should be determined. Because millers purchase both green and dry rice, however, certain adjustments need to be made so that prices will be computed on a comparable basis.

At the time rice is harvested, it usually has a moisture content of 17 to 23 percent. Because this is too high for satisfactory storage or milling, the rice must be artificially dried to about 12- to 14-percent moisture either before or after delivery to the miller.

The drying process, which cost about 55 cents a hundredweight for the 1976 crop, reduces 100 pounds of green rice to about 90 pounds. The millers generally pay less for green rice, in effect deducting for the weight loss and the cost to be incurred in drying the rice.

Both the quantities and amounts paid on rice purchases should be compiled on a common basis. Although the Service adjusted the quantities of green rice to account for the

shrinkage in quantity that would result from drying, it did not adjust the amounts paid for green rice to include a factor to recognize drying costs. As a result deficiency payments to farmers on 1976-crop rice were an estimated \$10.6 million more than they would have been had the drying costs been included. (See pp. 5 to 7.)

GAO believes that the Service's pricing procedures on rice and other commodities subject to deficiency payments need to be evaluated to assure that they are equitable to both farmers and taxpayers. The procedures were developed during a time when the Service's price estimates were used basically for statistical purposes. The estimates have taken on increased economic importance. They are used and will continue to be used as the basis for Government payments of hundreds of millions of dollars. (See pp. 7 to 10.)

Cooperatives' acquisitions

Also, price information from rice cooperative mills was not included in the average price computation for 1976-crop rice even though rice cooperatives acquire about 50 to 60 percent of the rice delivered by farmers. The Department and the cooperatives reportedly could not agree on a way to include the rice cooperatives' acquisitions in the average price computation.

Some rice authorities told GAO that using a 12-month, rather than a 5-month, period for computing the average price would be more realistic because the cooperatives pay their members over the marketing year. A 12-month period would also provide for a better representation of rice purchases by independent millers over the full marketing year. (See pp. 11 to 13.)

The Service's Administrator agreed that the average price computation would be improved if the cooperatives were included. He said that he was prepared to pursue this matter again with the cooperatives but that efforts to include them would be more fruitful if

legislation were modified to accommodate their unique pricing procedures. He added that a 12-month marketing year would help establish a more accurate national average price. (See pp. 13 to 15.)

Procedures for compiling and maintaining pricing information

The Service had not provided its State statistics offices with adequate written procedures for compiling data and maintaining records on the average price of rice. As a result the statisticians did not always leave a clear record of their compilations or document pertinent information.

The Service's Administrator said that he shared GAO's concern that the Service's calculated average of prices received by farmers must be based on sound methodology and consistent procedures. He added that the statistics staff was developing a revised and more comprehensive set of instructions for the State offices. (See pp. 15 to 17.)

Recommendation to the Congress

The Congress should amend the rice program legislation to provide that

- the quantities and amounts paid on rice purchases be compiled on a common basis in computing the national average price of rice;
- the Secretary invite comments from and consult with the trade, farmers, and other appropriate sources in establishing the specific methodology for the computation; and
- the national average price of rice be established on a 12-month marketing year basis. (See p. 18.)

Recommendations to the Secretary of Agriculture

The Secretary should direct the Economics, Statistics, and Cooperatives Service to

- negotiate with rice cooperatives to obtain price data that would be useful in computing the average price and
- provide better procedures to its State statistics offices for compiling data and maintaining records on average prices of commodities for which deficiency payments are authorized. (See p. 18.)

SERVICE REVISED AVERAGE PRICE FOR
1978-CROP RICE AFTER GAO QUESTIONED
THE ORIGINAL COMPUTATION

On January 31, 1979, the Department announced that the 5-month average price on 1978-crop rice, as determined by the Service, was \$7.60 a hundredweight. This price was 93 cents below the target price and indicated that deficiency payments would total about \$73 million.

GAO questioned the validity of this average price, however, because the monthly average prices computed and published previously by the Service were above this average except for 1 month when it was slightly below. GAO informed the Department of this apparent inconsistency and the possibility that excessive deficiency payments might be made.

The Department delayed making payments while it asked the rice industry for additional data. On March 21, 1979, the Department announced a revised average market price of \$7.75 a hundredweight, or 78 cents below the target price, and said that deficiency payments would total about \$62 million. This total was \$11 million less than would have been paid if GAO had not questioned the originally announced average price.

Furthermore, Service officials told GAO that the 1978-crop computation did not include a factor to recognize the additional costs associated with drying green rice. On the basis of the way dry and green rice data was handled in the 1976-crop computation, GAO estimated that the payments on 1978-crop

rice would be about \$5 million more than they otherwise would have been. (See pp. 10 and 11.)

PROBLEMS IN OBTAINING ACCESS TO STATISTICAL RECORDS

In February 1977 GAO, pursuant to its statutory access-to-records authority, asked the Service to provide rice millers' reports and Service workpapers so it could evaluate how the reports were used for determining the average price farmers received for 1975-crop rice. The Service and the Department denied GAO access to the reports for about a year, but finally made them available.

Under present law, GAO must rely largely on the cooperation and good will of Federal agencies to recognize and to comply with its statutory access-to-records authority. There is now legislation--H.R. 24--being considered by the Congress that would provide GAO with a mechanism to enforce its right of access to agency records. (See pp. 19 to 22.)

DEPARTMENT PLANS FOR INDEPENDENT REVIEW OF ITS STATISTICAL OPERATIONS

The weaknesses in the method the Service uses in determining the average price rice farmers receive and the lack of adequate procedures for guiding its State statistics offices indicated that it would be beneficial to have an outside independent statistical group evaluate the Department's statistical operations. The Department's Office of Inspector General also had come to this conclusion. The Service and the Department agreed to an independent evaluation. (See pp. 25 to 27.)

Recommendation to the Secretary of Agriculture

The Secretary should insure that the independent evaluation includes an overview of the methodologies for the statistical series on prices received by farmers. (See p. 27.)

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ABBREVIATIONS

ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
GAO	General Accounting Office
NARS	National Archives and Records Service

CHAPTER 1

INTRODUCTION

The Department of Agriculture's Commodity Credit Corporation (CCC) paid rice farmers \$128.4 million in deficiency payments in 1977 because the national average market price of 1976-crop rice, as determined by the Department's statistics agency, was below a target price established in accordance with law. We made this review to evaluate how the statistics agency, formerly the Statistical Reporting Service but now a part of the Economics, Statistics, and Cooperatives Service, had determined the national average market price because

- the 1976 rice crop was the first agricultural crop on which deficiency payments were made based on the target price concept and
- a 5-cent error either way in computing the national average market price would have changed the total amount paid by almost \$4 million.

For a year, the Service and the Department denied us access to the records we needed to make our review. After negotiations with the Department, we finally gained access to most of the information we sought.

This report discusses (1) shortcomings in the Service's determination of the national average market prices for the 1976 and 1978 rice crops, (2) improvements needed in the method used for determining the national average market price of rice, (3) the need for better procedures for compiling and maintaining pricing information, (4) the need for a stronger procedure to enforce our right of access to the records needed to carry out our statutory responsibilities for examining all matters relating to the receipt, disbursement, and application of public funds, and (5) the Department's plans for an independent evaluation of the Service's statistical operations as we and the Department's Office of Inspector General had proposed.

RICE DEFICIENCY PAYMENTS

The Rice Production Act of 1975 (Public Law 94-214, 90 Stat. 181), which was applicable to the 1976 and 1977 rice crops, directed the Secretary of Agriculture to make deficiency payments available to rice farmers at a rate by which the target price established in accordance with the act exceeded the higher of (1) the national average market

price farmers received for rice during the first 5 months (Aug. through Dec.) of the rice marketing year or (2) the price-support loan rate established by the Secretary pursuant to the act.

For 1976-crop rice the target price was set at \$8.25 a hundredweight, 1/ the Secretary set the price-support loan rate at \$6.19 a hundredweight, and the Service determined that the national average market price for the first 5 months of the marketing year was \$6.55 a hundredweight. Because the national average market price was higher than the price-support loan rate, the deficiency payment rate was set at \$1.70, the difference between the average market price (\$6.55) and the target price (\$8.25). This payment rate was applied to about 7.55 billion pounds (75.5 million hundredweights) of rice for total payments of \$128.4 million. About 25,000 rice farmers shared in these payments. The distribution of payments by State was as follows.

<u>State</u>	<u>Amount</u>
Texas	\$ 33,681,539
Arkansas	33,534,325
Louisiana	30,703,531
California	26,554,050
Mississippi	3,538,260
Missouri	329,564
Tennessee	20,665
Oklahoma	10,022
North Carolina	879
South Carolina	204
Total	<u>\$128,373,042</u>

Deficiency payments were not required on 1977-crop rice because the national average market price for the first 5 months of the marketing year, as determined by the Service, was higher than both the target price and the loan rate. The Food and Agriculture Act of 1977 (Public Law 95-113, 91 Stat. 913, 940) extended the deficiency payment program for rice and also the programs for wheat, feed

1/This amount was determined by the Department on the statutory basis of \$8.00, adjusted for changes in the index of prices paid by farmers for production items, interest, taxes, and wages from Feb. 1976 (when the Rice Act was approved) to July 31, 1976 (up to the beginning of the rice marketing year).

grains, and cotton through the 1981 crop. Deficiency payments on 1978-crop rice are estimated at \$62 million. (See p. 10.)

PROGRAM ADMINISTRATION

The Secretary of Agriculture conducts the deficiency payment programs through CCC. CCC has no operating personnel of its own. Its programs are carried out mainly by the personnel and through the facilities of the Department's Agricultural Stabilization and Conservation Service (ASCS). For the rice payment program, ASCS's responsibilities include determining the target price and price-support loan rate, obtaining the national average market price from the Department's statistics agency, computing the deficiency payment rate, and disbursing funds to the farmers.

The Economics, Statistics, and Cooperatives Service is responsible among other things for collecting and publishing data on domestic agriculture and the agricultural economy. This includes data on production and marketing; number and acreage of farms; crop acreage, yields, production, stocks, value, and use; livestock, poultry, egg, and dairy product inventories and production; prices farmers receive for their products and pay for commodities and services; farm employment and wage rates; and other relevant aspects of the agricultural economy. The Service's statistics operations are headed by the Deputy Administrator for Statistics and are carried out through a headquarters office in Washington, D.C., and 44 field (State) offices each covering one or more States.

For the rice deficiency payment program, the State statistics offices obtain monthly reports from rice millers showing the quantities purchased from and amounts paid to farmers, adjust the data to the extent they consider necessary, compile the data, and send summaries to headquarters. Headquarters combines the summary data into national figures and, shortly after the end of the first 5 months of the rice marketing year, publishes the national average market price.

OUR PREVIOUS REPORT

In a May 1977 report 1/ on the rice deficiency payment program, we pointed out that, in accordance with the law,

1/"Federal Deficiency Payments Should Not Be Made For Crops Not Grown," CED-77-77, May 24, 1977.

about \$5 million of the total deficiency payments on 1976-crop rice were made on rice that had not been grown and thus was not marketed. This occurred because the 1975 act based payments on acreage allotments whether or not rice was planted. We said that this situation could arise also under the 1977 rice, wheat, and feed grain programs and under future programs for these crops if existing legislation was extended.

We recommended that the Congress adopt legislation that would preclude deficiency payments on crops not grown. In the Food and Agriculture Act of 1977, the Congress provided that deficiency payments be based on planted acreage beginning with the 1978 crops. Had the change not been made, the Department would have paid an additional \$2.7 million on 1978-crop rice.

CHAPTER 2

IMPROVEMENTS NEEDED IN DETERMINING AVERAGE

MARKET PRICE RECEIVED BY FARMERS FOR RICE

The Economics, Statistics, and Cooperatives Service needs to improve the method used to determine the national average market price for rice. These improvements include (1) making an appropriate adjustment so that the prices of green (high moisture) and dry rice will be computed on a comparable basis and (2) resolving problems which have kept rice cooperative mills' acquisitions from being considered in the national average market price computation. Also, the Service needs to develop and provide its State statistics offices with better procedures for compiling and maintaining pricing information.

IMPORTANT FACTOR OMITTED IN DETERMINING AVERAGE MARKET PRICE FOR 1976-CROP RICE

Because millers purchase both green and dry rice, certain adjustments need to be made so that prices will be computed on a comparable basis. Although the Service adjusted the quantities of green rice to account for the shrinkage in quantity that would result from drying, it did not adjust the amounts paid for green rice to include a factor to recognize drying costs. As a result CCC's deficiency payments to farmers on 1976-crop rice were an estimated \$10.6 million more than they would have been had the drying costs been included.

The Service determined the average market price for 1976-crop rice on the basis of monthly reports received from rice millers showing the quantities of rough (unmilled) rice purchased from and the amounts paid to farmers. The reports showed separate data for rice that had been dried and for newly harvested, or green, rice which contains considerable moisture.

According to an industry publication, at the time rice is harvested it usually has a moisture content of 17 to 23 percent. Because this is too high for satisfactory storage or milling, the rice must be artificially dried to about 12- to 14-percent moisture either before or after delivery to the miller. According to the millers and rice economists we talked with, the drying process, which cost about 55 cents a hundredweight for the 1976 crop, reduces 100 pounds of green rice to about 90 pounds. The millers generally pay less for green rice, in effect deducting for the weight loss and the cost to be incurred in drying the rice.

In calculating the quantity of rice to be included in the average price computation, the Service reduced the quantity of green rice reported by the millers to a dry rice equivalent. It did not, however, make a corresponding adjustment in the amount the millers paid for the green rice to recognize the drying costs. Such an adjustment, which would have been consistent with the Service's quantity adjustment, would have placed the green rice purchases on a basis substantially comparable to the dry rice purchases. Because the Service did not include a factor to recognize drying costs, the average market price it computed for the 1976-crop rice was 14 cents a hundredweight (cwt.) too low on the basis of our computation.

The reports the Service used to compute the average price showed that the millers had paid a total of \$146,915,000 for about 21.8 million hundredweights of dry rice (an average of \$6.73 a cwt.) and \$38,643,000 for about 7.2 million hundredweights of green rice. After reducing the quantity of green rice by about 10 percent to recognize the weight lost in drying, the Service divided the total amount paid (\$185,558,000) by the total quantity of dry rice (28,314,000 cwts.) to arrive at an average price of \$6.55 a hundredweight.

If the estimated cost of drying the green rice-- \$3,976,000 (7,229,000 cwts. times 55 cents)--had been added to the \$185,558,000 which the millers had reported paying, the average price would have been \$6.69 a hundredweight (\$189,534,000 divided by 28,314,000 cwts.), or 14 cents more than the Service-computed price. Also, the average price for the green rice included in the computation would have been \$6.59 a hundredweight on a dry basis--more nearly comparable to the average price paid for rice which was dry when purchased.

We estimated that, with the additional drying costs included, the total payments on 1976-crop rice would have amounted to \$117.8 million, or \$10.6 million less than the \$128.4 million actually paid. Our computation is as follows.

Target price	\$8.25 cwt.
Average price received by farmers	<u>6.69</u> cwt.
Revised deficiency payment rate	\$1.56 cwt.
Total quantity of rice on which CCC made deficiency payments	<u>75,514,000</u> cwts.
Revised deficiency payment amount	\$117,800,000
Amount paid by CCC	<u>128,400,000</u>
Difference	<u>\$ 10,600,000</u>

Neither the rice act, as amended, nor the legislative history of the rice program indicate how the Secretary should determine the national average price for rice. However, the millers, agricultural economists, and ASCS officials we talked with agreed that it would be reasonable to include the additional costs associated with drying green rice in computing the average rice price. In fact, the millers told us that they routinely calculate the dry quantity and dry value of their green rice purchases. If the Service had obtained such information, it would not have had to convert green rice purchase data.

Department comments and our evaluation

In a December 20, 1978, letter (see app. I), the Service's Administrator, commenting for the Department, said that our contention that adjustments should be made for "green rice" receipts to recognize the purchaser's drying cost was in direct conflict with the concept the Service uses to calculate the prices received by farmers for rice. He said that this concept was consistent with the procedures used for other grains and conformed to long-established concepts and definitions.

According to the Administrator,

"The concept is that of a price which, if multiplied by the total quantity of the commodity sold, would give the total dollars received by all farmers from the sale of that commodity. In this way prices received by farmers reflect the sales of all kinds of grades of the commodity being sold as well as all discounts or premiums for quality and condition. These are in effect the weighted

average prices farmers receive for their products at the point of first sale for the condition in which they are delivered regarding moisture and dockage and with allowances for transportation, drying costs, cleaning and other services which producers may have provided themselves or have paid private firms or cooperatives to provide."

He said that the definition of "price received by farmers" thus makes no allowance for services which farmers did or did not render to change the nature of the product delivered.

The Service's practice of reducing green rice quantities to equivalent dry rice quantities, however, is inconsistent with the concept the Administrator described in that an adjustment is made to reflect differences in the condition of the rice at the time it is delivered. Our point is that if a quantity adjustment is made--and we believe it is a proper adjustment--there should also be a corresponding adjustment in the amount paid to reflect drying costs. By not also adjusting the amount paid for green rice, the Service, in effect, understates the average price farmers receive. For the 1976 crop green rice represented about one-fourth of the rice on which the average price was computed.

The Service's concept is also inconsistent with other aspects of the rice program. For example, Department regulations provide that, to be eligible for price-support loans, rice must contain not more than 14-percent moisture; that is, it must be dry. The price-support loan rate, determined on the basis of dry rice, would have been used in the deficiency payment computation if it had been higher than the national average market price. Further, a farm's average yield, which ASCS uses to determine the quantity of rice on which deficiency payments are to be made, is computed on a dry basis.

The Administrator pointed out that the Service's definition of prices received by farmers was established to become part of the National Income Accounts. He offered no evidence or rationale, however, why that definition must be the basis for determining payments under the rice program.

The Administrator said that the problem of alleged overpayment exists only if one concludes that the definition of the price received by farmers is inconsistent with that of the target price. He said that, while the target price unfortunately is not clearly defined in the legislation, the Department had considered "rice" as used in the act to mean rice of acceptable moisture and dockage with no other adjustments made. He said that, while we seemed to have

assumed that this definition was not the legislative intent, CCC had implicitly accepted the Service's definition for the target price by accepting the Service's definition of prices received.

We agree that the target price is not defined in the legislation. We question, however, whether CCC's acceptance of the Service's average-price determination can be viewed as accepting the Service's definitions because the Service is responsible for compiling price data. Our discussions with ASCS officials representing CCC indicated that they had not been fully aware of how the price data was compiled. As stated on page 7, the ASCS officials we talked with agreed that it would be reasonable to include the additional costs associated with drying green rice in computing the average market price. Moreover, for other program purposes, "rice of acceptable moisture" means dry rice.

The Administrator also said that a departure from the Service's current procedure would

- involve many more considerations than just the allowance for drying and
- make the definition for rice inconsistent with the definition for other commodities for which similar estimates are provided and substantially raise the cost of providing the estimate.

He said that consideration would need to be given to numerous services, performed for commodities after the point of first sale, that are not always reflected in payments to farmers. He added that, if the current procedure does not meet the congressional intent of a market price, an appropriate definition needs to be developed that would (1) recognize appropriate functions performed or not performed by the producer, such as drying, transporting, merchandising, and processing, (2) establish values for each of these functions, (3) define the nature of transactions to be included in the definition, and (4) give procedures for calculating price recognizing these conditions.

The Service's pricing procedures were developed at a time when its price estimates were used basically for statistical purposes. Since the deficiency payment programs were established, however, the estimates for commodities under those programs have taken on increased economic importance. They are now used and will continue to be used as the basis for Government payments of hundreds of millions of dollars. Because of this increased economic importance, we believe that the Service's procedures for determining

prices received by farmers on commodities subject to deficiency payments need to be evaluated to assure that they are equitable not only to the farmers, but also to the taxpayers. Although the possible additional administrative costs should be considered, we believe they should not be the sole or overriding determinant. Any evaluation, of course, should be done in consultation with the trade, farmers, and other appropriate sources.

SERVICE REVISED AVERAGE PRICE FOR
1978-CROP RICE AFTER WE QUESTIONED
ITS ORIGINAL COMPUTATION

On January 31, 1979, the Department announced price statistics which indicated that deficiency payments would be made on 1978-crop rice. According to the Department's announcement, the average price received by farmers for the first 5 months of the marketing year, as determined by the Service, was \$7.60 a hundredweight. This was 93 cents below the target price and higher than the loan rate of \$6.40. On the basis of this 93-cent deficiency rate, payments would have been about \$73 million.

The validity of the 5-month average price of \$7.60, however, seemed questionable to us because the average price computed and published previously by the Service for each of the 5 individual months was above this average except for 1 month when it was slightly below, as shown in the following table.

<u>Month</u>	<u>Price (per cwt.)</u>	
	<u>Average</u>	<u>Above (below) weighted average</u>
August	\$8.44	\$.84
September	7.56	(.04)
October	7.62	.02
November	7.76	.16
December	7.98	.38
5-month weighted average	7.60	-

In a February 2, 1979, letter, we informed Agriculture of this apparent inconsistency and the possibility that excessive deficiency payments might be made. We suggested that the Department recheck the data supporting the 5-month weighted average of \$7.60.

Subsequently, we obtained a summary of the data that the Service had used to compute this average price. It showed that, in computing the weighted average, the Service

had added 5-month data received from California rice cooperatives to the monthly purchase data received from independent millers and used in computing the monthly averages. Inclusion of this data lowered the weighted average price because California rice, which is short- and medium-grain, is usually priced lower than long-grain rice grown in the Southern States. The Service had not included price data from cooperatives in States other than California.

Data from the cooperatives should be included in the computation of the national average price received by farmers for rice. However, including data only on the lower priced rice acquired by the California cooperatives, without also including data on higher priced rice acquired by cooperatives in other States, distorted the computation of the national average price received by farmers.

The Department delayed making the payments while it asked the rice industry for additional data. On March 21, 1979, the Department announced a revised average price of \$7.75 a hundredweight, or 78 cents rather than 93 cents below the target price. It estimated that deficiency payments would total \$62 million, or \$11 million less than would have been made if we had not questioned the originally announced average price.

Service officials told us that the 1978-crop computation did not include a factor to recognize the additional costs associated with drying green rice. On the basis of the way dry and green rice data was handled in the 1976-crop average price computation, we estimated that the payments on 1978-crop rice would be about \$5 million more than they otherwise would have been.

COOPERATIVES' ACQUISITIONS SHOULD BE INCLUDED IN AVERAGE PRICE DETERMINATION

Although rice cooperative mills together acquire about 50 to 60 percent of the rough rice delivered by farmers, their acquisitions were not included in the computation of the average market price received by farmers on 1976-crop rice. The Rice Production Act of 1975, as amended, has no explicit provision exempting consideration of cooperative-marketed rice from the computation of the average price received by farmers.

According to Department officials and trade sources, the Department's basic reason for omitting the cooperatives' acquisitions was that the cooperatives and the Department could not agree on how the cooperatives' payments to their

members should be handled in the price computation. When farmers deliver rice to their cooperatives (which they own), they receive only an advance, partial payment which is followed by additional payments during the marketing year. The total payments, therefore, would not be known until the end of the marketing year, while the national average market price used in determining deficiency payments is computed on the basis of the first 5 months of the marketing year.

We were unable to locate documentation on the disagreement between the cooperatives and the Department. However, according to the information we were able to obtain, the Department had planned to have the cooperatives report the rough rice equivalent of milled products sold and delivered and the estimated amount of money to be distributed to the farmers for such sales (after deduction for expenses) on the basis that the farmer-members own the cooperatives and, therefore, are entitled to the full gain. The cooperatives, however, reportedly disagreed with this approach, primarily because it did not provide for a reduction in the distribution amount to allow for a return on investment. The cooperatives believe that, because independent millers operate for a profit to cover a return on their investment, a similar allowance should be granted the cooperatives.

Regarding the period over which the average price received by farmers is computed, some rice authorities told us that using a 12-month, rather than a 5-month, period would be more realistic because the cooperatives pay their members over the marketing year. Neither the rice program's legislative history nor our discussions with a Department official indicated the reason for selecting the 5-month period.

Because the cooperatives' acquisitions were not included in the average price determination for 1976-crop rice, the Service's coverage lacked an important segment of rice deliveries by farmers during the 5-month period. Coverage was especially low in two States, Arkansas and California, which accounted for about 34 percent and 19 percent, respectively, of the national rice production in 1976. According to an agricultural economist, cooperatives handle about 70 percent and 80 percent, respectively, of the rice in these States. Officials of several rice cooperatives told us that they were willing to negotiate a reasonable arrangement with the Department regarding submission of price data for use in computing the average price received by farmers.

If the law was changed to base the average price determination on a 12-month, rather than a 5-month, period, the cooperative mills would be able to report more completely on payments for rice their farmer-members deliver to them.

Also, market prices during the first 5 months of the marketing year are generally lower than during the last 7 months. A precedent for using a 12-month period is provided by the wool program (7 U.S.C. 1782-83) which also involves direct payments to farmers. In that program, CCC makes direct (price-support) payments to wool producers about April on the basis of the national average price they received during the preceding calendar year.

Rice farmers who are eligible for deficiency payments--those having acreage allotments--are also eligible for price-support loans. Thus, if deficiency payments were based on a longer period, Government financial assistance would still be available to the farmers in the form of CCC nonrecourse, price-support loans on their rice. These loans are available from harvest through the following March 31 and mature April 30 unless CCC calls for earlier repayment. The availability of these loans aids farmers in awaiting a higher market price after the first 5 months of the marketing year.

An additional factor favoring a period longer than 5 months for determining the average price is that California's marketings begin in October, or about 2 months after marketings begin in the Southern States. Thus, by the end of the first 5 months of the marketing year, California rice has been marketed for only 3 months. California's rice production is about one-fifth of the national total as shown in the following table.

<u>State</u>	<u>1976</u>		<u>1977</u>		<u>1978</u>	
	<u>Million cwt.</u>	<u>Per-cent</u>	<u>Million cwt.</u>	<u>Per-cent</u>	<u>Million cwt.</u>	<u>Per-cent</u>
Arkansas	40	34	35	36	53	38
California	22	19	18	18	26	19
Louisiana	22	19	18	18	22	16
Texas	25	22	23	23	26	19
Other	7	6	5	5	11	8
Total	<u>116</u>	<u>100</u>	<u>99</u>	<u>100</u>	<u>138</u>	<u>100</u>

Department comments and our evaluation

In commenting for the Department (see app. I), the Service's Administrator said he agreed that the average price computation for rice would be improved if the cooperatives were included. He said that he was prepared to pursue this matter again with the cooperatives but that efforts to include the cooperatives would be more fruitful if existing legislation were modified to accommodate the cooperatives'

unique pricing procedures. He added that a 12-month marketing year would serve to establish a more accurate national average price for rice.

The Administrator also said that the Congress rejected a 12-month period when rice legislation with target prices was being considered. Of 10 bills introduced in the 94th Congress to establish a deficiency payment program for rice, only 1 (H.R. 6326) called for the average price to be computed on a 12-month (calendar year) basis. We were unable to find any evidence that the Congress had specifically considered and rejected a 12-month basis. The bill that was finally enacted (H.R. 8529, 94th Cong., 1st Sess.) provided for a 5-month period when it was introduced, and this was the period finally approved by the Congress.

The Administrator said that, if legislation calling for a 12-month period is to be proposed, the Congress should initiate the action and that, if it does so, it should be apprised of certain associated problems as follows.

- A 12-month rice marketing year would not resolve the issue relating to the definition of the national average price for rice.
- A change to 12 months should recognize that the rice marketing year for California differs from the marketing year for Southern States.
- The 5-month average price was established so that deficiency payments would be available to farmers in time for financing the production of their next year's crop. According to the Administrator, using a 12-month period for the average price computation would defeat this purpose, although it could be corrected by requiring CCC to make some portion of a projected payment early and the final payment after the end of the marketing year.
- A 12-month basis for computing the market price as is done for cotton would likely resolve the issue with cooperatives since they already provide this data to the Department. If it does not, mandatory reporting could be considered for all firms, although the Administrator said he thought this would not be necessary and might affect adversely the quality of the information provided as well as the cooperation of all firms on other voluntary requests for data.

We agree that these items should be considered during congressional deliberations if such legislation is

introduced. The first item refers to the matter discussed on pages 5 to 10--the compilation of dry and green rice data for determining the average price. This matter has no direct bearing on the 12-month matter. The second item should not be a problem because substantially all of California's annual rice crop is delivered by farmers before the following July 31, the end of the 12-month marketing year.

On the matter of providing deficiency payments in time for the next year's crop, we pointed out on page 13 that eligible farmers--those having acreage allotments--can obtain Government financing through price-support loans. Because these price-support loans are available to those who could later be eligible for deficiency payments, the need for early partial payments seems questionable. Rice farmers who do not have allotments are not eligible for either loans or deficiency payments.

Several factors would have to be considered if an early payment was authorized and made and the final amount turned out to be less than the amount previously paid or if the average price for the marketing year was such that no payment was required. Depending on how the legislation for advance payments was written, such expenditures either would not have to be refunded or would require additional expense for collecting the overpayments or offsetting them against other payments.

BETTER PROCEDURES NEEDED FOR COMPILING AND MAINTAINING PRICING INFORMATION

The Service had not provided its State statistics offices with adequate written procedures for compiling data and maintaining records on the average price of rice. As a result the statisticians did not always leave a clear record of their compilations or document pertinent information. This hampers both internal and external reviews and could be attributable to the Service's position that some of its records were not subject to external review. (See ch. 3 for a further discussion of the Service's position.)

Of the four State offices at which we made our review, two had not retained detailed records of their monthly compilations of the rice purchases reported by millers. According to statisticians at these offices, the data was compiled on adding machine tapes which were discarded after the monthly totals had been sent to headquarters.

Documentation to support certain other computations was also lacking. The State offices had converted weights of green rice to a dry basis at varying ratios ranging from 88

percent to 92 percent of the green weight. The statisticians told us that the conversion ratios were based on contacts with a sampling of millers. The offices had no documentation, however, showing the extent and timing of the contacts.

In some cases millers reported price data that was questionable in view of data being reported by other millers. Although the State offices may have resolved such situations to their own satisfaction, they did not document how this was done. Also, if a miller in one State reported rice purchases in another State, the State office receiving the report would phone the other State office to advise it of the quantity and amount paid so that the information could be included in that State office's monthly summary. In some cases the second office recorded such data differently from the information the millers reported to the first office. In other cases we were unable to trace such data to the second State office's compilation because, to avoid disclosing its respondents' identities, the Service had blotted out the millers' names from the reports. (See ch. 3.) The Service had not prescribed procedures for confirming data transferred between State offices.

Department comments and our evaluation

In commenting for the Department (see app. I), the Service's Administrator said he believed that adequate procedures existed but that added emphasis would be directed, through special instructions, to cover price estimates for commodities subject to deficiency payments.

Before receiving the Department's comments, we had met with Service officials to discuss the results of another review in which we had noted that various improvements were needed in computing average prices of wheat and other grains and the need for immediately rechecking the price data that was to be used as the basis for an estimated \$700 million in deficiency payments on the 1978 wheat and barley crops. Among these needed improvements were:

- The complete document processing procedure needed to be spelled out so that the State statistics offices would handle the price data consistently and correctly and that management would have a tool for evaluating the processing of data.
- Improved internal checks and controls were needed to avoid mathematical errors or to identify and correct them when they occurred.

--Instructions were needed on the correct method of expanding State sample data to an estimate for the whole State. Each of the State offices we visited was using a different method.

These needed improvements were similar to some of those we had noted in our review of the rice payments.

As a result of the discussions, the Service sent the State statistics offices a telegram and a memorandum detailing the need for careful attention and appropriate documentation in handling and processing price information and emphasizing that the procedures and calculations used as the basis for the 1978 wheat and barley payments be well documented and correct. The Administrator subsequently said that he shared our concern that the Service's calculated average of prices received by farmers must be based on sound methodology and consistent procedures. He added that the statistics staff was in the process of developing a revised and more comprehensive set of instructions covering this subject for use by the State offices.

CONCLUSIONS

The method used in determining the national average market price received by farmers for rice does not provide for adjusting the amounts paid for green rice to include a factor to recognize drying costs. As a result CCC paid farmers \$10.6 million more on 1976-crop rice and an estimated \$5 million more on 1978-crop rice than it otherwise would have.

The quantities and amounts paid on rice purchases should be compiled on a common basis. For example, the Service could

- convert both the quantities and amounts paid on green rice to a dry basis,
- request millers to report the quantities and amounts paid on all rice purchases on a dry basis, or
- use reported dry rice purchases only.

The Department should select the best method in consultation with the rice milling trade, rice farmers, and other appropriate sources.

On the matter of rice cooperatives, an average of prices received by farmers for their rice would be more representative if acquisitions by the cooperatives--a major segment of

the trade--were included in the price computation. Before this can be done, however, the Department and the cooperatives will have to work out an equitable basis for determining the prices received by cooperative members. Changing the law to provide for average market prices to be computed for the entire marketing year would enable the cooperatives to report more complete payment information. It would also provide for a better representation of all rice marketings not only for cooperatives but also for independent millers.

With regard to pricing procedures, the Service should provide its State statistics offices with better procedures for use in compiling data and maintaining records of their price computations. This is particularly important because such computations serve as the basis for hundreds of millions of dollars in Federal deficiency payments.

RECOMMENDATION TO THE CONGRESS

We recommend that the Congress amend section 101h of the Agricultural Act of 1949, as amended (7 U.S.C. 1441), to provide that

--the quantities and amounts paid on rice purchases be compiled on a common basis in computing the national average price of rice;

--the Secretary invite comments from and consult with the trade, farmers, and other appropriate sources in establishing the specific methodology for the computation; and

--the national average price of rice be established on a 12-month marketing year basis.

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

We recommend that the Secretary of Agriculture direct the Economics, Statistics, and Cooperatives Service to negotiate with the rice cooperatives to obtain price data that would be useful in computing the average price received by farmers.

We also recommend that the Secretary direct the Service to provide better procedures to its State statistics offices for compiling data and maintaining records on average prices applicable to rice and other commodities for which deficiency payments are authorized.

CHAPTER 3

PROBLEMS IN OBTAINING ACCESS TO STATISTICAL RECORDS RELATING TO FEDERAL PAYMENTS

The Department of Agriculture, which denied us access to basic rice program records for a year, submitted draft legislation to the 95th Congress which proposed restrictions on access to and disclosure of information that the Economics, Statistics, and Cooperatives Service collects from individuals and business entities. This information is used for compiling agricultural statistics which the Department and others use in developing and implementing programs or activities relating to agriculture. Unless we have unrestricted and timely access to these records, we cannot fully and independently evaluate the propriety of Federal deficiency payments not only for rice but also for other agricultural commodities.

DEPARTMENT DENIED US ACCESS TO BASIC RICE PROGRAM RECORDS FOR A YEAR

In February 1977 we asked the Service for access to the rice millers' reports and its workpapers so we could evaluate among other things how the Service used the reports for determining the national average market price received by farmers for 1976-crop rice. We assured the Service that we would treat the millers' reports in a confidential manner. The Service denied us access to the reports, however, on the basis that they had been submitted voluntarily on a confidential basis and were to be available only to Service personnel.

We then directed our request for full access to the records to the Secretary of Agriculture. We assured him that we would treat the information confidentially and cited (1) our legal authority and responsibility to examine all matters relating to the receipt, disbursement, and application of public funds (sec. 312 of the Budget and Accounting Act, 1921--31 U.S.C. 53) and (2) the Department's legal responsibility to furnish the records we required and our right of access to the records (sec. 313 of the 1921 act--31 U.S.C. 54). Other than citing the need for confidentiality, the Secretary provided no basis for denying us access to the records.

We then wrote to the Department's General Counsel pointing out our statutory right of access to the records and assuring that we would treat the records confidentially. In February 1978 the Department acknowledged our right of access and furnished us copies of the reports that rice millers had

sent to the Service. The names and addresses of the millers had been blotted out but, otherwise, the copies were helpful in enabling us to trace the method the Service used in determining the average price received by farmers.

Because the names had been blotted out, however, we were unable to thoroughly review the Service's price determination. For example, in some cases where a rice miller in one State had reported rice purchases in another State, we had difficulty or were unable to trace the purchase data to the monthly summaries of the other State offices. (See p. 16.)

In December 1977 the Secretary of Agriculture sent the Congress a draft bill to protect the confidentiality of information furnished to the Department by individuals, establishments, and enterprises. The proposal was introduced in the Senate on April 24, 1978, as S. 2980 but died without action when the Congress adjourned sine die. Service officials told us in February 1979 that the Department might submit a similar proposal to the 96th Congress.

S. 2980 would have permitted the Department to furnish some of the information it collects to other Federal agencies "for statistical purposes only" if the other agencies required such information for performing official duties and were able to afford the same degree of confidentiality to such information as the Department. However, records of information the Department would obtain relating to a particular individual or establishment, including copies retained by the supplier, would not have been subject to mandatory disclosure of any type, including legal process.

In his letter transmitting the proposed legislation to the 95th Congress, the Secretary said that, traditionally, all data compiled by the Service had been gathered through the voluntary cooperation of respondents with individual confidentiality guaranteed by Department regulations. He said that the provisions of the Freedom of Information Act (5 U.S.C. 552) endangered this guarantee and that specific protection of confidentiality was needed to assure continued voluntary cooperation by respondents. He added that passage of the bill was also expected to allay suspicion of many farmers and businessmen that their reports to the Service may be made available to other Government agencies, including the Internal Revenue Service, and used punitively. The Secretary said that, by strengthening confidentiality protection, the Service would be better able to continue its mission of providing timely, reliable agricultural statistics to the Congress, the Department, and the general public.

It has been our consistent position that legislation of this type should not affect our right to obtain access to Agriculture's records. As this report indicates, however, we had problems, even without such legislation, in obtaining access to the Department's rice program records. Under present law, we rely largely on the cooperation and good will of Federal agencies to recognize and to comply with our statutory right of access to agency records. There is now legislation--H.R. 24--being considered by the Congress that would provide us with a mechanism for enforcing our access right in court when the usual methods of obtaining access fail to work in a timely manner.

One of our most important duties is to make independent reviews of agency operations and programs and to report to the Congress on the manner in which Federal departments and agencies carry out their responsibilities. The Congress, in establishing GAO, recognized that we would need complete access to Federal agency records. In our role as an oversight arm of the Congress, we cannot be fully effective if we do not have full access to records, information, and documents pertaining to the subject matter of our reviews. Our normal practice, of course, is to maintain the confidentiality of data that is required to be kept, or is appropriate to keep, confidential.

Department comments and our evaluation

In commenting for the Department (see app. I), the Service's Administrator explained that the Service had resisted giving us access to the millers' reports because it was concerned that this could erode the millers' cooperation in providing the price information voluntarily. He said that non-cooperation by the cooperatives (see p. 11) had already weakened the Service's ability to report rice prices accurately and that any erosion in the independent millers' cooperation could jeopardize the Service's ability to establish the required 5-month average price.

We do not believe that our having access to the millers' reports and keeping them confidential would jeopardize the Service's voluntary reporting system. During the time we were negotiating with the Department to obtain the Service's records, the Department wrote to each of about 40 independent millers that had submitted reports on 1976-crop rice asking them if the Service should provide their reports to us. Of the 19 that responded, only 2 declined giving us access. The other 17 approved giving us access despite the fact that the Department's letter had not stated our specific reason for wanting to see the reports nor advised the millers that we would keep the records confidential. Moreover, some

of the words the Department used--such as "investigation" and "agents"--could have been expected to cause a negative reaction.

The Administrator also said that, rather than the millers' reports, the Service had provided or offered to give us full verbal explanations of the price reporting system, copies of written instructions and reporting forms, and summary sheets with totals for all States and months concerned. This material was not sufficient to enable us to adequately review and evaluate the Service's average price determination.

The Administrator added that, in one of our previous reports, 1/ we had addressed the proposed confidentiality legislation in a broader and more realistic concept and supported and recommended its passage. In our previous report, however, we did not recommend enactment of the proposal in question. We mentioned the proposal in connection with other proposed legislation that would have allowed the Internal Revenue Service and the Bureau of the Census to provide the Department, for statistical purposes, with such confidential farm information as a farmer's name, address, social security number, gross sales, and gross profits. We recommended enactment of this other proposed legislation because its objective was to eliminate wasteful Federal spending caused by the development and maintenance of separate mailing lists of the same farm population by Census and the Department. In that report we specifically recognized the need to keep an individual's information confidential.

AGENCY DESTROYED SOME RECORDS PREMATURELY

In January 1978 about 3 weeks before the Department acknowledged our right of access to the rice records, the Service instructed its State statistics offices that, at the State offices' option, reports received from respondents, such as millers, grain elevators, and farmers, could be destroyed 30 days after they were used and the summary data was verified as being complete. The Service issued this instruction despite an existing retention requirement of 1 year approved in 1968 by the General Services Administration's National Archives and Records Service (NARS).

1/"The Statistical Reporting Service's Crop Reports Could Be Of More Use To Farmers," GGD-78-29, Apr. 13, 1978.

Although none of the rice millers' reports on 1976-crop rice purchases had been destroyed at the time we made the review leading to this report, our inquiries at two of the Service's State statistics offices in August 1978 in connection with a review of average price determinations on other commodities revealed that respondents' reports on those commodities were available only for the most recent month. Officials at the two offices said that reports for previous months had been destroyed.

The Service's January 1978 instruction to its State offices indicated that it would request NARS to approve the 30-day retention period. However, it did not submit the approval request to NARS until about 3-1/2 months later.

After we discussed the Service's instruction with NARS, the Archivist of the United States told the Service in an August 18, 1978, letter that the Service did not have legal authority to reduce the retention period without prior approval from NARS. He asked the Service to cancel its 30-day retention instruction and to keep NARS informed about the action taken to correct this situation. On September 15, 1978, the Service advised NARS that, after consultation with our office, it had instructed its State statistics offices a few days earlier to change the retention period to 3 years. NARS told us that it formally approved the 3-year period on October 24, 1978.

Department comments and our evaluation

In the Department's December 20, 1978, letter (see app. I), the Administrator said that the Service's January 1978 instruction to its State offices to reduce the retention period to 30 days was issued only after having received verbal approval from NARS. In a November 9, 1978, letter to NARS, however, the Service acknowledged that NARS had not given the Service "formal verbal approval" and that the Service had "jumped the gun."

CONCLUSIONS

We must have unrestricted and timely access to the Department's statistical records if we are to fully and independently evaluate the propriety of Federal deficiency payments. If we had not obtained, after persistent efforts, access to the data sent in by the rice millers, we would not have been able to readily identify the weaknesses in the Service's computation method as discussed in this report. Moreover, the Department has made deficiency payments totaling about \$2.2 billion on the 1977 and 1978 grain crops, has estimated that deficiency payments on 1978-crop rice will

total \$62 million, and may be required to make additional deficiency payments in the future.

Accountability must go hand in hand with Federal payments. Unless we have access to all records pertaining to the factors on which Federal deficiency payments are based, we cannot provide the necessary degree of assurance to the Congress, the taxpayers, and the farmers that such payments are properly determined.

CHAPTER 4

AFTER INITIAL DISAGREEMENT, AGRICULTURE NOW PLANS TO HAVE AN INDEPENDENT REVIEW MADE OF ITS STATISTICAL OPERATIONS

In view of the weaknesses in the method used in determining the average price received by farmers, the lack of adequate prescribed policies and procedures for guiding the State statistics offices, and questions that had been raised by the Department's Office of Inspector General and others, we proposed in October 1978 that the Secretary of Agriculture have an independent statistical group make an indepth evaluation of the Department's statistical operations. The Inspector General had also recommended such an evaluation in a February 1978 report to the Acting Deputy Administrator for Statistics of the Economics, Statistics, and Cooperatives Service.

In a series of memorandums from February 28 to October 13, 1978, relating to the Inspector General's report, the Service agreed with the idea of having its sampling methodology and estimation system evaluated but did not agree that an outside consulting unit should make the evaluation. The Service said that the out-of-pocket cost of an in-house evaluation would be considerably less than a direct contract with a consulting unit. The Inspector General continued to say that the evaluation should be done by recognized experts from outside the Department.

In support of our October 1978 proposal, we pointed out that an in-house self-evaluation would not assure an unbiased, objective study because it would place the Service in the position of evaluating operations for which it was responsible. We said that the potential benefits of an independent study, not just the extra costs that might be incurred in having outside experts, should be considered in deciding who should make the study.

We also said that the Congress, taxpayers, and farmers would have more confidence in an independent study than in one made by the Service or under its auspices. We said that this was important because some observers had questioned the quality and value of the Service's statistics. For example, Senator Russell B. Long told the Senate in March 1976:

"* * * in the past the figures for rice have had little importance. They have been of interest

primarily to the recordkeeper and historian, for they had no immediate economic significance.

"Partly because of this, USDA statisticians have not paid much attention to the average selling price figures as they applied to rice, and the specific problems found in its marketing.

"As a result, some of the statistical processes being employed are highly questionable."

* * * * *

"The figures that go into the national average selling price for rice represent one area that definitely needs clarification and attention." 1/

Also, the March 1977 "Farm Journal" contained an article expressing doubt about the Service's statistics. The article said that 8 out of 10 farmers quizzed by a corn growers association doubted the Department's reports and that the association had appealed to the Secretary of Agriculture to investigate the Department's data-gathering procedures. According to the article, the association's president claimed that

"* * * figures being released during the past four years have shown far wider discrepancies within short periods of time than justified by the circumstances. This has resulted in misleading market information and has been extremely harmful to corn farmers and their customers."

DEPARTMENT COMMENTS AND OUR EVALUATION

In commenting for the Department on our October 1978 proposal (see app. I), the Service's Administrator said that he was planning a review of the Service's statistical methodology by outside experts. He said that the review would be focused on specific series of estimates on the basis that it would be more manageable than a general overall review. He added that soybean and hog estimates would be selected for specific study because both are major, widely produced items; they are representative of the Service's estimating methodology; and some questions and criticisms have been directed by data users at these estimates. He also said

1/"Congressional Record," Mar. 11, 1976, p. S3348.

that the Service would propose a scope of review, suggest qualified experts from outside the Department, and submit these proposals for comments to the Inspector General, professional associations of statisticians and economists, and us.

In February 1979 Service statistics officials gave us a copy of their proposal for the review and, at their request, we met with them and the Inspector General's representatives to discuss the proposal. The Deputy Administrator for Statistics said that (1) an independent outside organization would be engaged through formal Government bidding procedures, (2) the organization that received the contract would be afforded all necessary cooperation from the Service, and (3) the Inspector General's representatives and we would be welcome to meet privately at any time with representatives of the evaluation organization to discuss the evaluation and any related problems.

We expressed some concern at the meeting that the review proposal did not cover the statistical series on prices received by farmers. The Deputy Administrator said that the Service was in the process of changing the methodology for this series but that the Service would revise the proposal to include an overview evaluation of the current and proposed methodologies.

RECOMMENDATION TO THE SECRETARY
OF AGRICULTURE

We recommend that the Secretary of Agriculture insure that the independent evaluation that is to be made of the Department's statistical operations includes an overview of the current and proposed methodologies for the statistical series on prices received by farmers.

CHAPTER 5

SCOPE OF REVIEW

We reviewed (1) the legislative history of the law authorizing deficiency payments on rice, (2) rice program regulations, and (3) Economics, Statistics, and Cooperatives Service records, including copies of rice purchase reports received from rice millers on 1976-crop rice. We also reviewed a report by the Department's Office of Inspector General on its review of the Service and discussed the results with a representative of the Inspector General.

To the extent possible, we traced the Service's compilation of rice purchases reported by millers to its final determination of the average price received by farmers. We made the review at the Service's headquarters in Washington, D.C., and at its State statistics offices in Arkansas, Louisiana, Texas, and California.

We interviewed Service statistics officials at the national and State levels, rice millers (independents and cooperatives), agricultural economists at two universities, ASCS officials, and a NARS official.

U.S. DEPARTMENT OF AGRICULTURE
ECONOMICS, STATISTICS, and COOPERATIVES SERVICE
WASHINGTON, D.C. 20250

December 20, 1978

SUBJECT: GAO Report "Improvements Needed in Agriculture Statistics Agency:
Existing Procedures Led to Unnecessary \$10.6 Million Payment"

TO: Henry Eschwege, Director
Community and Economic Development Division, GAO

See GAO note 1, p. 35.

Thank you for the opportunity to respond to your report. For the most part it is informative and raises several important issues. Two of the issues are of special concern to the Department. The first is the interpretation of the definitions related to the target prices and to the national average price received by farmers for rice. The second is the lack of participation of cooperatives in establishing prices received for rice. For these I would first like to provide some background to supplement your report. I will then respond to each of your recommendations in brief.

Background

The Definition of Prices -- The concept that is used by the Crop Reporting Board to calculate the prices received by farmers for rice is consistent with the procedures used for other grains and conforms to the long established concepts and definitions. The concept is that of a price which, if multiplied by the total quantity of the commodity sold, would give the total dollars received by all farmers from the sale of that commodity. In this way prices received by farmers reflect the sales of all kinds of grades of the commodity being sold as well as all discounts or premiums for quality and condition. These are in effect the weighted average prices farmers receive for their products at the point of first sale for the condition in which they are delivered regarding moisture and dockage and with allowances for transportation, drying costs, cleaning and other services which producers may have provided themselves or have paid private firms or cooperatives to provide.

The definition of "price received by farmers" thus makes no allowance for services which farmers did or did not render, to change the nature of the product delivered. The GAO contention that adjustments should be made for "green rice" receipts to recognize drying cost incurred by the purchaser is therefore in direct conflict with this concept. I shall show later that this is not necessarily consistent with the legislative intent for the concept of a target price.

The Department's definition of prices received by farmers was first established to become part of the National Income Accounts. When the target price concept was introduced into commodity price and income support legislation it was adopted by the Commodity Credit Corporation (CCC) as representative of the national average market price referred to in the legislation.

The law governing the deficiency payments for rice stipulates that "the Secretary shall make available to cooperators, payments at a rate equal to the amount by which the established price (target) for the crop exceeds the higher of the national average market price received by farmers during the first five months of the marketing year for such crop, as determined by the Secretary...". Thus, the rate at which deficiency payments are made is, as your report states, the difference between the target price and either the 5-month (Aug.-Dec.) average price received by farmers for rice or the loan rate, whichever is higher. This rate is then multiplied by each farm's eligible acreage and by the 3-year average yield on that acreage. The yield is adjusted for moisture and dockage.

The problem of overpayment which you have alleged exists only if one concludes that the definition of "price received by farmers" is inconsistent with that of the target price. Unfortunately the target price is not clearly defined in the legislation. The legislation simply states that it should be \$8.25 for a hundred weight of rice. The Department has interpreted this to mean rice of acceptable moisture and dockage but no other adjustments are made.

By accepting the EPCS definition of prices received CCC has implicitly accepted the same definition for the target price. GAO on the other hand seems to have assumed that this definition was not the legislative intent -- that it was something else. If GAO is correct I would have to agree that an inconsistency exists and that this could lead to a different rate of deficiency payment. However, given the vagueness of the legislation this is not an appropriate assumption.

A departure from the current procedure in favor of the price concept assumed by GAO would involve many more considerations than just the allowance for drying. Consideration would need to be given to numerous other services performed for commodities, after the point of first sale, that are not always reflected in payments to farmers. If the current procedure does not meet the intent of Congress of a market price, an appropriate definition needs to be developed that would: (1) recognize appropriate functions performed or not performed by the producer such as drying, transportation, merchandizing and processing,

(2) establish values for each of these functions, (3) define the nature of transactions to be included in the definition, and (4) give procedures for calculating price recognizing these conditions. This would require Congressional action. Alternatively, I feel that the burden of proof lies with GAO to establish that Congressional intent is different from the Department's interpretation.

Omitting Cooperatives -- During our initial discussions of the proposed audit ESCS (formerly SRS) pointed out to GAO that the rice cooperatives had refused to report because of disagreements with the Department over definitions. The major issue concerned the inclusion of "profits" or "dividends" and the fact that final returns to rice producers are usually not made until the marketing year has ended. I too consider this omission a major problem because approximately half the crop is marketed through cooperatives.

GAO staff was apprised of this and were provided a full verbal explanation of the price reporting system, copies of written instructions and reporting forms. My staff offered to provide summary sheets with aggregate totals of the data for all states and months concerned. Consistent with our long standing policy we resisted turning over to your staff the questionnaires from the independent private firms which had responded voluntarily. Our concern was that non-cooperation by the cooperatives had already weakened our ability to report accurately prices received by farmers for rice, and any erosion in the cooperation of independent mills could jeopardize our ability to establish the required 5-month average price. This concern should be reflected in your final report.

Prior to the implementation of the current program we consulted at length with numerous groups. All major mills purchasing rice from farmers, including cooperatives, and other rice industry representatives were contacted personally in an attempt to develop a satisfactory system for determining and reporting in accordance with our definition of prices received by farmers.

Response to Recommendations

Recommendation (Page 10). "We recommend that the Secretary of Agriculture require ESCS to develop, in consultation with appropriate groups and individuals, an equitable basis for determining the national average market price received by rice farmers." [See GAO note 2, p. 35.]

Since no clear definition has been established for the target price, I would like to suggest that this recommendation be withdrawn from the report. I see no difficulty or inequity in continuing to assume

implicitly that the target price definition is intended to be comparable to our long standing definition of prices received by farmers. Any significant departure from this would make the definition for rice inconsistent with the definition for other commodities for which similar estimates are provided and it would substantially raise the cost of providing the estimate.

Clearly, the Department's monthly and 5-month average price received by farmers for rice would be improved if the cooperatives reported their purchases. I am prepared to pursue this again with cooperatives in an effort to improve their responsiveness to the monthly surveys. However, such efforts would be more fruitful if the existing legislation were modified to accommodate the unique pricing procedures used by them.

Recommendation (Page 14). "We recommend that the Secretary of Agriculture submit a legislative proposal to the Congress to provide for determining the average price received by farmers for their rice on the basis of the entire marketing year of 12 months. We also recommend that the Secretary direct ESCS to negotiate with the rice cooperatives to obtain price data that would be useful in computing the average price received by farmers." See GAO note 3, p. 35.

When the legislation was considered in Congress the USDA suggested a 12-month period. Congress rejected the idea. Thus, if new legislation is to be proposed to adjust the time period I feel that it should be initiated by Congress. If Congress does so it should be apprised of a number of associated problems.

1. A 12-month rice marketing year would not resolve the foregoing definitional issue but would serve to establish a more accurate national average for rice.
2. A change to 12 months should recognize that the rice marketing year for California differs from the marketing year for Southern states.
3. The 5-month average price was established so that the deficiency payments would be available to farmers in time for financing the production of their next year's crop. Use of a 12-month period for this computation would defeat this purpose although it could be corrected by requiring CCC to make some portion of a projected payment early and the final payment after the end of the marketing year.
4. A 12-month basis for computing the market price as is done for cotton would likely resolve the issue with cooperatives since they already provide this data to the Department. If it does not mandatory reporting could be considered for all firms although I think this would not be necessary and may affect adversely the quality of the information provided as well as the cooperation of all firms on other voluntary requests for data.

Recommendation (Page 16). "We recommend that the Secretary of Agriculture direct the Economics, Statistics, and Cooperatives Service to provide adequate written procedures to its State Statistical Offices for compiling, computing and maintaining records on average price data applicable to rice and other commodities for which deficiency payments are authorized." /See GAO note 4, p. 35./

I feel that adequate documentation already exists within each State Statistical Office concerned. This includes instructions and manuals prepared for prices and other commodity estimates. However, added emphasis will be directed, through special instructions, to cover the price estimates for commodities subject to deficiency payments.

It does seem pertinent to point out that in spite of the volume of documentation that may be generated to insure proper handling and calculations, such efforts will continue to be dependent to some extent upon individuals and their judgement especially for sample surveys. Sample survey data must be reviewed for consistency, relationships to previous periods and other known factors that may influence the estimates. Sampling errors can frequently be calculated to provide one measure of the reliability of the data. However, nonsampling errors cannot be measured, and procedures need to be used to minimize their impact. Any audit trail developed for a sample survey is therefore quite different from the usual total accounting type audits. The system of checks and balances are likely to be vague regardless of the amount of checking and rechecking, note making, etc. that occurs.

Recommendation (Page 19). "ESCS's January 1978 instruction to its State offices indicated that ESCS would request National Archives and Records Service (NARS) to approve the 30-day retention period. However, it did not submit the approval request to NARS until about 3-1/2 months later." /See GAO note 5, p. 35./

The revised record control schedule referred to was first submitted to NARS in July 1977. NARS returned the schedule requesting a change in format due to pending organizational changes. The reformatted schedule was resubmitted to NARS in May 1978. The memorandum of January 26, 1978 to ESCS State Statistical Offices changing the retention periods was issued only after the ESCS had received verbal approval from NARS.

This section should also indicate that NARS formally approved (on October 24, 1978) the Record Control Schedule as submitted, with only one minor revision regarding records pertaining to prices received by farmers as suggested by GAO and accepted by ESCS.

Recommendation (Page 24). "We recommend that if the Congress decides to pass legislation restricting access to the Department's statistical records, the Congress not approve the legislation unless it specifically excludes GAO from its provisions." [See GAO note 6, p. 35.]

It is my view that the Department's legislative proposal, which was introduced in 1978 as S.2980, is needed to strengthen the Department's ability to safeguard the confidentiality of individual reports submitted on a voluntary basis by persons and firms. The basic foundation for a voluntary reporting system is the confidence of respondents that their reports will be used for statistical purposes only. A specific exclusion for GAO would weaken the proposed legislation. I believe strongly that the integrity of the individual firm data needs to be protected and that the release of individual firm data records should not include the firm name or address.

A previous GAO report on crop reports, issued April 13, 1978, addressed the confidentiality legislation in a broader and more realistic concept. Recognizing the need for the Department to have confidentiality legislation, the earlier GAO report supports and recommends passage of the proposed legislation.

Recommendation (Page 29). "We recommend that the Secretary of Agriculture obtain the services of an independent statistical group to make an indepth evaluation of the Department's statistical agency and its operations." [See GAO note 7, p. 35.]

I am planning such a review. In a recent meeting of the Department's Inspector General with ESCS officials, agreement was reached on a plan for an outside review of the agency's statistical methodology and procedures.

It was agreed that a review, focused on specific series of estimates, would be more manageable than a general overall review. Soybean and hog estimates were selected for specific study because: (1) both are major items widely produced; (2) soybeans are representative of the agency's crops estimating methodology, and hogs, of its livestock estimating methodology; (3) some questions and criticisms have been directed by data users at both the soybean and hog estimates within the past year.

The agency will prepare a scope of review proposal and will suggest qualified recognized experts from outside the Department to conduct the review. Both recommendations will be submitted for comments to

GAO, OIG (Audit), and the professional associations of statisticians and agricultural economists before the agency contracts for the services.

Title: And, finally, I would like to suggest that the title of the report be changed to reflect more accurately its scope and the issues. As it stands it tends to condemn all statistical activities carried out by Agriculture and highlights an issue that is not supported by the evidence. A more descriptive title might be "GAO Disagrees with Definitions Used by USDA in Determining Prices Received by Farmers for Rice."

I appreciate the opportunity to comment on the draft report and would be pleased to discuss it with you or your staff.



KENNETH R. FARRELL
Administrator

- GAO Notes:
1. This letter refers to a preliminary draft of this report on which we invited the Department's comments. The pages in this final report differ from those as noted.
 2. This recommendation was not accepted and, consequently, is stated on page 18 as a recommendation to the Congress.
 3. The recommendation for basing the average price on a marketing year basis was not accepted and, consequently, is stated on page 18 as a recommendation to the Congress.
 4. See page 18, recommendations to the Secretary of Agriculture.
 5. This matter is discussed on pages 22 and 24.
 6. This matter is discussed on pages 20 and 22.
 7. This matter and recommendation are discussed on pages 25 to 27.