

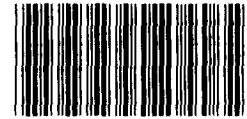


COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20348

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B-114824

JANUARY 29, 1980



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Chairmen

- Senate Committee on Governmental Affairs 06600
- Senate Committee on Appropriations 00300
- House Committee on Government Operations 01500
- House Committee on Appropriations 00300

Subject: [Corrective Action, Reported by Department of Agriculture on a Factor Involving Federal Rice Deficiency Payments, Has Not Been Implemented] (CED-80-48)

This report discusses a finding and a related recommendation that we made to the Department of Agriculture and the Department's response to congressional committees on corrective action taken.

On June 25, 1979, we reported to the Congress (CED-79-85) that the Department of Agriculture's statistics agency--the Economics, Statistics, and Cooperatives Service--disagreed with our proposal that it include in its computation of the national average market price of rice a factor to recognize the drying costs involved when farmers deliver green (high moisture) rice rather than dry rice to a rice miller. We therefore recommended that the Congress amend section 101h of the Agricultural Act of 1949, as amended (7 U.S.C. 1441), to provide, among other things, that the quantities and amounts paid on rice purchases reported by millers be compiled on a common basis in computing the national average market price.

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In our report we said that while neither the rice program's authorizing legislation nor its legislative history indicated how the price should be determined, the omission of this factor caused deficiency payments to farmers to be about \$10.6 million more than they otherwise would have been for the 1976 rice crop and \$5 million more for the 1978 crop. No payments were necessary on the 1977 crop.

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In its August 14, 1979, statement to congressional committees on action taken on our report in compliance with section 236 of the Legislative Reorganization Act of 1970, the Department said that it had taken action to provide for a common basis for reporting quantity and price data on green and dry rice. However, our further inquiries, including discussions with Department statistical officials and rice industry representatives, show that while the Department has made a slight procedural change to obtain quantity data on a common basis, it has not changed the way amounts paid for green rice are reported. We continue to believe that legislative action is needed to ensure that the Department takes appropriate corrective action.

#### RICE DEFICIENCY PAYMENT PROGRAM

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. Section 702 of the Food and Agriculture Act of 1977 (Public Law 95-113, 91 Stat. 940) extended the rice deficiency payment program to the 1978-81 crops.

For the rice deficiency payment program, the Economics, Statistics, and Cooperatives Service obtains monthly reports from rice millers showing the quantities of rice purchased from and amounts paid to farmers and compiles the data into a national average market price for the first 5 months of the rice marketing year. The Department's Agricultural Stabilization and Conservation Service uses the average price to determine if deficiency payments are to be made and, if so, it computes the deficiency payment rate and pays the farmers.

#### IMPORTANT FACTOR OMITTED IN DETERMINING AVERAGE MARKET PRICE OF RICE

In our June 25, 1979, report, we said that the rice millers' monthly reports to the Economics, Statistics, and Cooperatives Service on the quantities of rough (unmilled)

rice purchased from and the amounts paid to farmers showed separate data for rice that had been dried and for newly harvested, or green, rice. At the time of harvest, green rice 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 for the 1976 crop cost about 55 cents a hundredweight, 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 comparable to the dry rice purchases.

That adjustment would also have made the computation of the national average market price consistent 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 is used to determine the quantity of rice on which deficiency payments are to be made, is computed on a dry basis. Because the Service did not include a factor to recognize drying costs, the average market prices it computed were too low.

We concluded that the quantities and amounts paid on rice purchases should be compiled on a common basis. We said that the Service could, for example, do one of the following:

1. Convert both the quantities and amounts paid on green rice to a dry basis.
2. Request millers to report the quantities and amounts paid on all rice purchases on a dry basis.
3. Use reported dry rice purchases only.

We also said that the Department should select the best method in consultation with the rice milling trade, rice farmers, and other appropriate sources.

AGRICULTURE'S CORRECTIVE ACTION  
FALLS SHORT OF WHAT IS NEEDED

In its August 14, 1979, statement 1/ to the congressional committees on actions taken on our recommendations, the Department indicated agreement on the need for a common basis for computing the average price of rice. It said that while its existing system permitted reporting on either a green or dry weight basis, a meeting with rice industry officials on June 8, 1979, had established that all information would be reported on a dry basis beginning with the August 1979 report. It added that this was consistent with one of the alternatives we suggested in our report.

Our review of the new reporting form and our discussions with Service and rice industry officials, however, disclosed that no change has been made in the way the amounts paid for green rice are reported. The only change made for green and dry rice purchases has been to ask the rice millers to convert the quantities of green rice to a dry basis before reporting. Previously, the Service had made the quantity conversions after receiving the millers' reports.

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1/Section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

The Service officials acknowledged that the amounts paid on green rice would not be adjusted but contended that the change that had been made was consistent with one of our proposed alternatives--that is, the Service could request millers to report the quantities and amounts paid on all rice purchases on a dry basis. The change that the Service made is not consistent with that alternative, however, since the millers have not been requested to report amounts paid on all rice purchases on a dry basis. Thus, the situation discussed in our report has not been corrected.

In a September 7, 1979, letter we asked Agriculture's Director of Economics, Policy Analysis, and Budget--the official to whom the Service's Administrator is responsible--for his views on this matter. His response of October 19, 1979, confirmed that only quantity information was to be reported on a dry basis. He said that

"In a meeting on June 8, 1979 between rice industry representatives and the Service, agreement was reached that all quantity information will be reported by rice mills on a dry basis. We believe this is consistent with the second option cited \* \* \*[see item 2 on p. 4] in that it puts the quantity on a dry weight basis and reflects the amounts paid producers for all rice purchases."

A somewhat different interpretation of the June 8 meeting was contained in a June 14, 1979, memorandum from the Service's Deputy Administrator for Statistics, through the Administrator, to the Director of Economics, Policy Analysis, and Budget. According to the Deputy Administrator,

"One item of concern for prices was the procedure used to convert green weight to a dry weight basis. The GAO report was critical of the procedures used by statistics to convert weight and value to a dry basis. In view of the difference in conversion ratios, both by producing areas and by length of grain, it was mutually agreed that the reporting mills would make the conversion and report all volume and corresponding values on a dry weight basis." (Underscoring added.)

After receiving the Director's response, we discussed the Service's procedure with most of the rice industry representatives who were at the June 8 meeting. They told us that they had explained to the Service that its basis of compiling amounts paid for green and dry rice was incorrect, but that they could not convince the Service to change its position. They said that finally they agreed to cooperate with the Service and send in whatever data was requested.

We also discussed the matter with three millers who were not at the meeting. They also said that the Service's procedure was incorrect. However, one of them was reporting data properly. He said that in his reports to the Service for the 1979 crop he adjusted the cash paid to farmers on green rice purchases upward to recognize the drying cost. He assumed that he was reporting the data the way the Service wanted it. He added that purchase data for green rice--both quantity purchased and amount paid--should be on a dry rice basis.

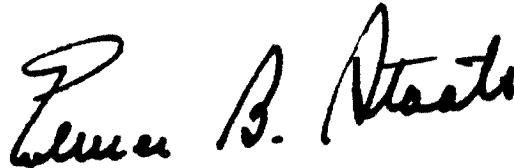
#### CONCLUSIONS

Although Agriculture reported to the congressional committees in August 1979 that the June 8 meeting with rice industry representatives had established that all information on green and dry rice purchases would be reported on a dry basis beginning with the August 1979 report, this has not been done.

Because the average market price is a key factor in determining whether and how much rice farmers will receive in Federal deficiency payments, the manner in which the average price is computed is economically important not only to the farmers but also to the taxpayers. Accordingly, we continue to believe that legislative action should be taken to provide that the amounts paid on rice purchases, as well as the quantities, be compiled on a common (dry) basis in computing the national average market price of rice.

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We are sending copies of this report to the Senate Committee on Agriculture, Nutrition, and Forestry; the House Committee on Agriculture; the Director, Office of Management and Budget; the Secretary of Agriculture; and other interested parties.



Comptroller General  
of the United States