



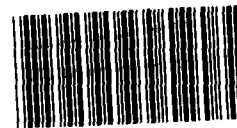
UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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RESOURCES, COMMUNITY,  
AND ECONOMIC DEVELOPMENT  
DIVISION

October 14, 1983

B-206023



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The Honorable Glenn English  
Chairman, Subcommittee on Government  
Information, Justice, and Agriculture  
Committee on Government Operations  
House of Representatives

Dear Mr. Chairman:

Subject: New or Renovated Warehouse Space Provided Under  
Extended Storage Agreements (GAO/RCED-84-49)

In response to your August 3, 1983, request and subsequent discussions with your office, we obtained information on the Commodity Credit Corporation's (CCC's) extended storage program, which is designed to provide long-term storage space for CCC commodities at reasonable rates. You wanted to know whether the new or renovated warehouse storage space that CCC had contracted for was available. In addition to responding to your specific question, this report provides general background information on the extended storage agreement program.

Our review of a statistically valid random sample of warehouses showed that the warehouses are complying with their contracts to provide additional space either through new construction or renovation of existing space.

PROGRAM DESCRIPTION

CCC contracts with public warehouses for storing and handling commodities which it owns or which have been pledged as collateral for government loans. For grain, CCC enters into uniform grain storage agreements (UGSAs), which set forth the amount of storage space, contract terms, conditions, and storage rates for the grain. UGSA storage rates are subject to negotiation and generally can be changed every year on July 1.

The Department of Agriculture's Agricultural Marketing Service (AMS) is responsible for determining the qualifications of the UGSA warehouses and their operators and for protecting the government's interest in commodities stored in such warehouses. AMS does so through (1) initial examinations and investigations of the

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warehouse space when contract applications are filed, (2) periodic subsequent examinations of the warehouses and the commodities stored therein, and (3) continuing reviews of the warehouses' operations and financial stability. In some states, state personnel made the CCC contract warehouse examinations.

In October 1981, CCC initiated an extended storage program with the primary purpose of securing long-term storage space for wheat, corn, barley, soybeans, and grain sorghum at reasonable rates. Under the program CCC enters into extended storage agreements with warehouses that guarantee a specific quantity of space will be available to CCC at a fixed rate for a certain period of time (generally from 2 to 4 years). CCC guarantees payment whether it uses the space or not. At that time, CCC's Board of Directors approved long-term storage space for up to 166.5 million bushels.

In May 1982, CCC believed that its inventory would remain large, and the Board decided to put more grain into long-term storage. Consequently, the Board approved up to 75 million bushels of additional long-term storage space. In June 1982, CCC began soliciting offers from warehouses that would be willing to construct new warehouse space or renovate existing space for extended storage purposes.

By August 30, 1983, CCC had executed extended storage agreements with 472 warehouses. Of these 472 warehouses, 220 warehouses had agreed to convert space for about 112 million bushels to long-term use, and 252 warehouses had agreed to construct or renovate space for about 117 million bushels.

NEW OR RENOVATED STORAGE  
SPACE HAS BEEN PROVIDED

To determine whether the space was built or renovated and available to meet extended storage contract commitments, we selected a statistically valid random sample of 40 of the 252 warehouses that had agreed to provide such space. We obtained the CCC contract file for each of the 40 selected warehouses. The CCC contract file showed the amount of new or renovated space that each warehouse agreed to provide. It also contained, where applicable, the AMS statements of capacities examined by either an AMS or state employee. AMS' statements show the total storage space added and available but do not show whether the added space is new or renovated.

Our review showed that the additional storage space contracted for had been provided at 39 of the 40 warehouses. Of the 39 warehouses, 36 had agreed to construct new space, 2 had agreed to renovate existing space, and 1 had agreed to provide both new

and renovated space. One contract was cancelled by CCC because the warehouse did not meet AMS requirements.

Because of time constraints, we relied on readily available CCC and AMS records and did not independently verify the data on all 40 sample warehouses. However, we selected 14 of the 40 warehouses taking into consideration the type of space, the warehouse size, and geographical location (Minnesota, Iowa, Kansas, and Missouri) to visit and verify that the new or renovated space was built.

During our visits, we interviewed warehouse managers to obtain information and identify the physical location of the storage space, reviewed available construction records, and took pictures of the storage facility. In two cases, we also talked to construction contractors to corroborate the dates of construction.

We verified that the warehouses had complied with their agreements; 12 of the warehouses had constructed new space, and 2 had renovated existing space.

Because the warehouses visited were not selected on a statistical sample basis, the results of the warehouse visits are not projectable to the universe. However, the findings concerning the 40 sample warehouses are representative of those warehouses throughout the country that have agreed to construct new space or renovate existing space. The estimates obtained from the sample have a measurable precision or sampling error. The maximum sampling error is + 5 percent at the 95-percent confidence level.

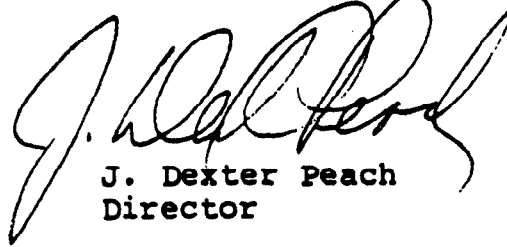
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In accordance with your request and subsequent discussions with your office, our objective was to determine whether the new or renovated warehouse space was built and available to meet extended storage contract commitments. To accomplish this objective, we interviewed USDA program officials at Washington, D.C., and at the Kansas City Commodity Office in Kansas City, Missouri, to obtain background information about CCC's extended storage program as well as the procedures followed in acquiring and contracting for the extended storage space. Our audit work was done during September and October 1983. At your request, we did not obtain agency comments.

Except for not obtaining agency comments, we made this review in accordance with generally accepted government auditing standards. We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Agriculture; various Senate and House committees; Members of Congress; and

other interested parties. We will also make copies available to others on request.

Sincerely yours,

A handwritten signature in black ink, appearing to read "J. Dexter Peach". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline that extends to the right.

J. Dexter Peach  
Director