B-213707

DECEMBER 2, 1983

The Honorable E (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

Subject: Analysis of Certain Aspects of a Corn Shipment to South Texas To Meet Obligations to Producers Under the Payment-In-Kind Program (GAO/RCED-84-71)

On the basis of your July 12, 1983, request and subsequent discussions with you, we reviewed certain aspects of a corn shipment to South Texas to meet obligations to producers under the U.S. Department of Agriculture's (USDA's) Payment-In-Kind (PIK) Program.

Under PIK, which is described in more detail in enclosure I, producers who take prescribed portions of their acreage, or in some cases all of their acreage, out of production are to receive as payment a certain percentage of the commodity they otherwise would have planted and harvested. USDA intended to meet some of its payment obligations by providing government-owned commodities to producers at warehouses chosen by the producers. Because government-owned commodities are not always located where they are needed, USDA can either (1) contract to have the commodities shipped to the producer-selected warehouse from wherever the commodities are located or (2) contract with the local warehouse (or other commodity owner) to exchange government-owned commodities for commodities available at the local warehouse.

As of October 5, 1983, USDA had chosen to contract with local warehouses in all but one case. This permits USDA to avoid transportation and handling costs, as well as deterioration of, or damage to, the commodity during shipment. The one case in which USDA had not used its on-hand stocks or the commodity-exchange alternative involved a shipment of corn from Kansas City, Missouri, to South Texas at a cost of about $261,000.

This shipment, which was the subject of your July 12 letter and which is discussed in more detail in enclosure I, involved 307,268 bushels of corn shipped to a warehouse in Harlingen, Texas, to meet PIK obligations to producers in Cameron County,

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Texas, where Harlingen is located. When the corn that arrived at the Harlingen warehouse was graded lower than it had been graded in Kansas City, the Harlingen warehouse offered to upgrade the corn. After a misunderstanding developed between USDA and the warehouse about the warehouse's price to upgrade the corn, USDA decided to ship the corn to Corpus Christi, Texas, where it was eventually used to meet PIK obligations to Uvalde County, Texas, producers. Subsequently, the Cameron County producers took delivery of their PIK corn at warehouses in West Texas, where USDA's Commodity Credit Corporation had inventories on hand. (A map of the locations involved in the case is on p. 3 of enclosure I.)

A summary of the matters on which you raised questions and the information we obtained on those matters follows. A more detailed discussion is in enclosure I.

MATTERS ON WHICH QUESTIONS WERE RAISED

Your questions dealt with (1) the difference in the grade, or quality, of some of the corn between the time it was graded in Kansas City and the time it was graded at the warehouse in Harlingen and whether the Kansas City warehouse was a problem shipper, (2) USDA's rationale for shipping the corn to the Harlingen warehouse rather than to Corpus Christi where it was eventually shipped or to West Texas where, at the time of your letter, PIK corn was being made available to Cameron County producers, (3) USDA's position that it is not liable for reimbursing the Harlingen warehouse for costs incurred in anticipation of receiving the shipment, (4) USDA's decision not to have the corn upgraded by the Harlingen warehouse but to ship the corn to Corpus Christi, and (5) whether USDA normally fulfills its PIK corn obligations with low-grade corn.

Difference in grade between origin and destination

According to USDA grain inspectors, grain warehouse officials, and studies on corn grading, it is common for corn to drop one grade when it is shipped. This can happen because of the way the corn is handled, a variance in the techniques inspectors use to obtain samples, and/or the type of corn involved. However, it is not common for corn to lose up to three grades in transit from one location to another, as did some of the corn in the shipment in question. We were unable to have the original corn samples in this case regraded because the samples of the graded corn taken at each of the locations had been destroyed, in accordance with USDA's Federal Grain Inspection Service regulations, prior to our review. Such destruction is permitted because, after about 10 days, heat, humidity, and insect infestation decrease the quality of the sample corn. Our review of sampling procedures at each warehouse showed that they were in compliance with USDA sampling

requirements. We did not find any evidence to support the allegation that the Kansas City warehouse was a problem shipper.

We also noted that of 85 railcars of corn that were eventually shipped to, and inspected and graded by federal inspectors at Corpus Christi (including 15 railcars that had originally arrived at the Harlingen warehouse), 50 railcars, or about 60 percent, contained corn that was within the one-grade tolerance. Only 1 of the 15 Harlingen railcars, however, was among these 50. The corn in the other 14 Harlingen railcars and in 21 others was found by the federal inspectors to be two or more grades lower at Corpus Christi than it had been when it was loaded into the railcars at Kansas City. The reason for the lower grades was due to broken corn and the presence of foreign material.

Rationale for shipping corn to Harlingen

USDA's rationale for shipping the corn to the Harlingen warehouse was based on the local producer-elected county committee's decision to have the corn shipped into the county. The corn was to be used to meet PIK obligations to producers in Cameron County, where the warehouse is located. USDA procedures call for commodities to be delivered to the warehouses the producers designate.

Liability for warehouse's preparation costs

USDA's position that it is not liable for costs the Harlingen warehouse incurred in anticipation of receiving the corn shipment is based on the terms of the Department's Uniform Grain Storage Agreement under which a warehouse certifies its ability to handle grain at any time at the warehouse's stated capacity, provided the warehouse agrees to accept the shipment. In this case, the Harlingen warehouse agreed to accept the shipment.

Decision not to have corn upgraded at Harlingen warehouse

Because of a misunderstanding between USDA and the Harlingen warehouse about the warehouse's price to upgrade the corn, USDA terminated discussions with the warehouse on upgrading the corn and shipped all the corn to Corpus Christi. This decision eventually saved USDA about $291,000, mainly because USDA did not ship as much corn to Corpus Christi as it would have needed to ship to Harlingen, because unloading charges at Corpus Christi were less than they would have been at Harlingen, and because the corn was not upgraded at Corpus Christi.

Quality of corn USDA uses to fulfill its PIK obligations

It is not USDA's practice to fulfill its PIK obligations to producers with low-grade corn unless USDA or its designated

warehouses do not have sufficient stocks of quality corn to meet PIK obligations. If lower grade corn has to be used to meet the obligations, however, producers receive additional quantities of the lower grade corn to make up for the difference in value.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our review objective was to obtain information on the questions you raised about the PIK corn shipment to South Texas. We made the review in accordance with generally accepted government auditing standards, except that, as you requested, we did not obtain agency comments. We made our review at USDA headquarters in Washington, D.C., and at various locations in Kansas City, Missouri, and South Texas. We reviewed regulations, documents, and data pertaining to the PIK program and the shipment of corn from Kansas City, Missouri, to South Texas. We interviewed various federal, state, county, and grain warehouse company officials and employees, as follows:

- --Officials of USDA's Agricultural Stabilization and Conservation Service, both at headquarters and at the Kansas City Commodity Office, who are responsible for meeting USDA's obligations to producers under the PIK program.

- --The Executive Director of the Agricultural Stabilization and Conservation Service's county office in Cameron County, Texas.

- --Missouri Department of Agriculture officials who were responsible for sampling, inspecting, and weighing the corn shipped from Kansas City, Missouri.

- --Federal Grain Inspection Service officials at the national and local levels who monitor the Missouri Department of Agriculture's activities relating to grain sampling, inspection, and weighing.

- --Officials of the Bartlett Grain Company in Kansas City, Missouri, which was the grain elevator where the corn shipment originated; the Valley Grain and Elevator Company in Harlingen, Texas, where the corn shipment was originally destined; and the Corpus Christi Public Elevator in Corpus Christi, Texas, where the shipment finally was sent.

- --Federal Grain Inspection Service grain inspectors who graded the corn at the Valley Grain and Elevator Company and the Corpus Christi Public Elevator and the Missouri state grain inspectors at the Bartlett Grain Company.

We also interviewed officials of the railroad company that transported the corn to South Texas and operators of other warehouses that had received shipments from Bartlett Grain Company; reviewed applicable studies, including past reports by our Office, on the grading and inspecting of commodities; and observed grain sampling and grading procedures at Bartlett, Valley Grain, and Corpus Christi. As stated earlier, we could not independently test the corn sampled at Bartlett, Valley Grain, or Corpus Christi because the samples had been destroyed, in accordance with USDA regulations, prior to our review. Our review was made during the period August through October 1983.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from its issue date. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

J. Dexter Peach
Director

Enclosure

Contents

ABBREVIATIONS

ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
CED	County Executive Director
FGIS	Federal Grain Inspection Service
PIK	Payment-In-Kind
USDA	U.S. Department of Agriculture

ENCLOSURE I

INFORMATION ON THE PAYMENT-IN-KIND PROGRAM AND CERTAIN ASPECTS OF A CORN SHIPMENT TO SOUTH TEXAS TO MEET PROGRAM OBLIGATIONS

THE PAYMENT-IN-KIND PROGRAM

The U.S. Department of Agriculture (USDA) announced the 1983 Payment-In-Kind (PIK) Program in response to trends that had been evolving in the agricultural sector since 1980 and were continuing at the beginning of 1983. These trends included record harvests and decreased domestic and foreign demand. This resulted in low commodity prices for producers, decreased farm incomes, and a large buildup of government-held grain and cotton stocks. To stabilize, support, and protect farm income and to maintain balanced and adequate food supplies, USDA's farm program payments had increased fourfold from $2.7 billion in fiscal year 1980 to $11.6 billion in fiscal year 1982. Potential payments for fiscal year 1983 were estimated at $18.9 billion, or 7 times the 1980 payments. Because of this situation, USDA had some difficult decisions to make regarding a 1983 farm program. USDA's response was the announcement of a 1983 PIK program on January 11, 1983.

The 1983 PIK program was a supplemental program to the acreage reduction and paid land diversion programs[1] for wheat, corn, grain sorghum, rice, and cotton. To be eligible to participate in PIK, producers had to enroll in these earlier announced programs.

Under PIK, producers who agreed to take an additional 10 to 30 percent of their acreage, or in some cases their entire acreage, out of production were to receive a certain percent of the commodity they otherwise would have planted and harvested. The program's overall objectives are to (1) reduce production of these commodities, (2) reduce surplus commodity stocks, (3) increase commodity prices, which will eventually increase producers' income, and (4) avoid increased budget outlays that would otherwise be necessary under existing farm programs.

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[1]These programs, in which producers can choose to participate, are designed to reduce production and prevent large commodity surpluses while maintaining an adequate supply of commodities. An acreage reduction program requires producers to take a certain percent of their acreage out of production to be eligible for other farm program benefits, such as eligibility for government price-support loans. A paid land diversion program requires producers to take a certain percent of their acreage out of production and, in turn, the producers are paid a specified price, in cash, for the commodities that they would have grown had they not participated in the program.

According to USDA's estimates, its obligations to producers under the PIK program as of August 29, 1983 (Sept. 9 in the case of cotton) were about 1.744 billion bushels of corn, 177.4 million bushels of grain sorghum, 548.7 million bushels of wheat, 4 billion pounds of rice, and 4 million bales of cotton. To meet these obligations, USDA planned to make PIK payments in two ways. If a participating producer had one or more outstanding loans with USDA's Commodity Credit Corporation (CCC),[2] USDA would forgive part or all of the producer's loan or loans and the producer would retain the commodity, which served as the loan collateral, as the PIK payment. A producer who did not have an outstanding CCC loan was to receive commodities from CCC's inventory--government-owned stocks. For a producer receiving a PIK payment from CCC's inventory, USDA attempts to have the producer's PIK commodities available at the producer's designated warehouse; however, if this is not possible, USDA makes the commodities available at a warehouse in the producer's adjoining counties or at a warehouse that is in line to terminals (large warehouses that generally are located near a major transportation point).

Distribution of PIK commodities

USDA intends to deliver commodities meeting its PIK obligations to producers at the producers' designated warehouses. Such commodities, however, are not always located where they are needed. In these cases, USDA has to decide how to get the commodities to the designated warehouse. Its choices are (1) contracting to have the commodities shipped to the warehouse or (2) contracting with the local warehouse (or other commodity owner) to exchange government-owned commodities at other locations for commodities available at the local warehouse. USDA has decided, whenever possible, to exchange CCC commodities for those at local warehouses because it is less costly than transporting the commodities and it could avoid the risks, such as damage and deterioration, associated with the handling and physical movement of commodities.

USDA has met its PIK corn obligations almost entirely from its on-hand stocks or by contracting with local warehouses to exchange CCC corn at other locations for corn at the local warehouses. As of October 5, 1983, USDA had used on-hand stocks or exchanges with local warehouses for 267.7 million of its 268 million bushel corn obligations. USDA has physically transported only 307,268 bushels of corn in connection with the PIK program. In this case, which is the subject of this report, the 307,268 bushels were shipped, by railroad, from Kansas City, Missouri, to

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[2]CCC is a government-owned and -operated corporation created to stabilize, support, and protect farm income and prices. In carrying out its responsibilities, it encourages farmers to store designated commodities when stocks are higher than needed to meet domestic and foreign demand. One means of doing this is by providing farmers with loans against their commodities which act as the loan security.

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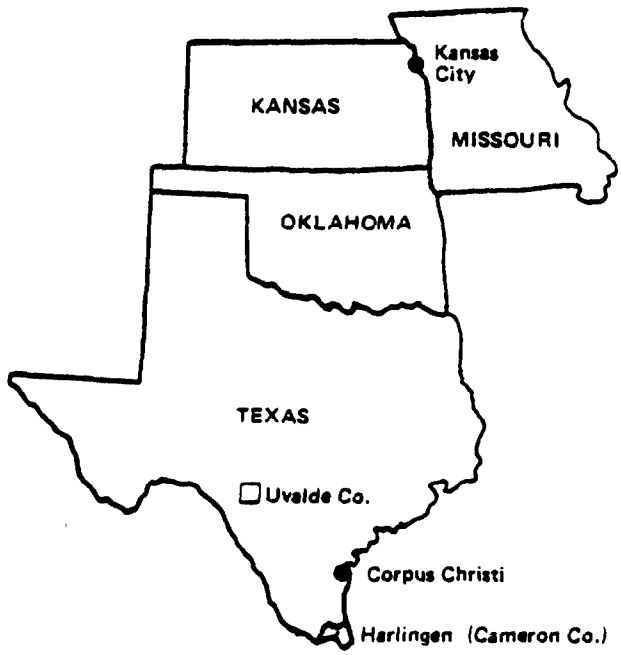
South Texas (see map below) at a cost of about $261,000 to meet PIK obligations to Cameron County, Texas, producers.



Grading requirements

USDA requires that when CCC-owned corn or other grains are shipped from one location to another, warehouses operating under USDA's Uniform Grain Storage Agreement obtain official grades from federal or federally licensed inspectors for all inbound and outbound shipments. Regulations promulgated under the United States Grain Standards Act provide that official grades be determined by (1) sampling an identified lot of grain, (2) dividing the sample into two or more representative portions if so requested, (3) inspecting the grain in the sample for official grade and grading factors, and (4) issuing one or more official inspection certificates.

Further, the act states that the official inspection shall be made in accordance with the official U.S. Standards for Grain. In the case of corn, these standards relate to the principles involved in determining the classes and grades of corn, including the basis for determining class (that is, yellow, white, or mixed) and grading factors such as damaged kernels, heat-damaged kernels, broken corn and foreign material, moisture, and test weight per bushel.

The grade requirements and designations for corn, such as U.S. No. 1 grade, which is the highest quality corn, are as follows.

Grades and Grade Requirements for Corn

Grade	Minimum test weight per bushel	Moisture	Maximum limits: Broken corn and foreign material	Maximum limits: Damaged kernels	Maximum limits: Heat-damaged kernels
	(lbs.)	(percent)			
U.S. No. 1	56.0	14.0	2.0	3.0	0.1
U.S. No. 2	54.0	15.5	3.0	5.0	0.2
U.S. No. 3	52.0	17.5	4.0	7.0	0.5
U.S. No. 4	49.0	20.0	5.0	10.0	1.0
U.S. No. 5	46.0	23.0	7.0	15.0	3.0
U.S. sample grade[a]					

[a]U.S. sample grade shall be corn which does not meet the requirements for any of the grades from U.S. No. 1 to U.S. No. 5, inclusive; or which contain stones; or which is musty, sour, or heat damaged; or which has any commercially objectionable foreign odor; or which is otherwise of distinctly low quality.

Source: 7 C.F.R. 810.353.

For PIK program purposes, USDA's Agricultural Stabilization and Conservation Service (ASCS)[3] has specified that producers will receive their PIK corn on the basis of U.S. No. 2 yellow corn or an equivalent value of lower grade corn.

EVENTS LEADING UP TO OUR REVIEW OF THE CORN SHIPMENT TO SOUTH TEXAS

USDA data on the PIK shipment show that Cameron County, Texas, producers were to receive 495,000 bushels of U.S. No. 2 yellow corn from CCC inventory. USDA subsequently tried, but was not able, to work out a suitable exchange with local warehouses to make the needed corn available in or near Cameron County. A suitable exchange with warehouses near Cameron County could not be worked out because, in the opinion of ASCS officials, the warehouses either did not have enough corn available or would ask for premiums for the exchange that were too high.

On June 9, 1983, the Chief of the Bulk Commodities Division at ASCS' Commodity Office in Kansas City telephoned the Cameron County ASCS County Executive Director (CED) to determine whether the producers entitled to the PIK corn wanted the corn shipped

[3]ASCS is responsible for, among other things, administering farm commodity programs for CCC, which has no operating personnel of its own.

into Cameron County or wanted to take delivery at warehouses in West Texas since CCC had much of its inventories in that area of the state.

After consulting with members of the local producer-elected ASCS county committee, the Cameron County CED told the ASCS Commodity Office that the producers wanted physical delivery of their PIK corn at the Valley Grain and Elevator Company in Harlingen, Texas. Subsequently, the Commodity Office negotiated a freight rate of $1.18 per hundredweight with the Kansas City Southern Railroad to ship the PIK corn from Kansas City, Missouri, to Harlingen. The Commodity Office decided to have the corn shipped from Kansas City because that price was 41 cents per hundredweight less than the rail tariff rate from West Texas CCC storage locations to Harlingen. The Commodity Office then issued a loading order to ship the necessary quantity of U.S. No. 2 yellow corn from the Bartlett Grain Company's Kansas City terminal. The Cameron County CED received acknowledgement of the loading order on June 17, 1983.

Over a 17-day period, June 20 to July 7, 1983, 89 railcars of corn, totaling 307,268 bushels, were loaded out of the Bartlett Grain Company elevator. The remaining corn (about 188,000 bushels) was to be shipped later. The corn in each of the 89 cars was graded by federally licensed Missouri state inspectors as U.S. No. 2 yellow corn. Through about July 1, 1983, 43 railcars had arrived in the Harlingen area. Of the 43 cars, 15 cars arrived at Valley Grain, 4 cars derailed right outside Valley Grain's entrance, and the remaining 24 cars were placed by the railroad on sidings around Harlingen. At that time the other 46 railcars were still in transit to Harlingen. Valley Grain officials, because of their reluctance to accept corn that had been graded before being shipped and the derailment, asked that USDA's Federal Grain Inspection Service (FGIS) inspect the corn in the 15 cars in its yard. The corn in all 15 cars was graded No. 4 and No. 5 on the basis of the "broken corn and foreign material" content. At the request of Valley Grain's General Manager, an FGIS inspector inspected the corn in the four derailed cars and it was found to be sample grade.

Officials of Valley Grain and the Commodity Office tried to negotiate a price at which Valley Grain would upgrade the downgraded corn and bring it back up to U.S. No. 2 corn. Generally, this process involves screening the corn to eliminate any broken kernels and foreign matter that are present. On July 6, 1983, the Commodity Office terminated negotiations because of a misunderstanding on the rate Valley Grain proposed to charge to upgrade the corn.

On July 8, 1983, the Commodity Office contracted with the railroad to move 39 of the 43 railcars in the Harlingen area from there to the Corpus Christi Public Elevator in Corpus Christi, Texas. Arrangements were made to temporarily store the contents of the four derailed cars at Valley Grain. The 46 cars still in

transit to Harlingen from Kansas City were also diverted to Corpus Christi. From July 11 to July 20, 1983, at the Commodity Office's request, FGIS inspectors in Corpus Christi officially inspected the corn in the 85 cars at the time of unloading. Corn in 14 of the 15 cars that had been at Valley Grain and in 21 other railcars graded out at U.S. No. 4 and 5. Corn in the 50 remaining cars, including 1 that had been at Valley Grain, graded out at U.S. No. 2 and No. 3. Subsequently, the corn from the four derailed cars was also shipped to Corpus Christi and it graded out as sample grade.

Because of the problems and delays on this corn shipment, the Cameron County producers, who were entitled to receive their PIK corn on June 15, 1983, could not take delivery until after July 20, 1983, when they received their revised PIK entitlement notices. At that time, they chose to take delivery at warehouses located in West Texas because that was the closest area to Cameron County where CCC had corn stocks available. The ASCS Cameron County CED told us that partly because of the problems and delays on this corn shipment, the producers received about 40 cents a bushel less for their PIK corn when they eventually took delivery in July 1983 compared with what they would have received in West Texas around June 15, 1983.

QUESTIONS RAISED ON THE CORN SHIPMENT AND OUR RESPONSES

Difference in grade between origin and destination

> Why did corn that was graded No. 2 at Kansas City grade No. 4 or 5 at Valley? Is this a common occurrence? If so, can remedial action be taken to prevent or relieve this situation? Are there peculiar problems in this regard with corn shipped by Bartlett?

Corn in 15 of the 19 railcars that arrived at Valley Grain was graded U.S. No. 4 and 5 and corn in the other 4 (which were derailed outside Valley Grain's yard) was considered and ultimately determined to be sample grade. However, corn in only 21, or 30 percent, of the other 70 railcars that had been shipped from Bartlett as U.S. No. 2 was graded as U.S. No. 4 and 5 at Corpus Christi. Corn in the other 49 railcars was graded U.S. No. 2 or 3. We could not determine why corn in some of the railcars would lose more than one grade during shipping because the samples of the graded corn that had been kept on file were not available for us to independently sample.

According to our discussions with FGIS inspectors and officials of various grain warehouses and our review of studies on corn downgrading, it is common for a one-grade drop in corn when shipped. We were told that a number of factors, such as the handling of the corn, the techniques used to obtain samples, and the

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type of corn being shipped, all could cause corn to be graded one grade lower at destination than at origin. In a 1976 report,[4] we also pointed out that it was not uncommon for corn to lose one grade during shipping. Although all the people we talked with, including Valley Grain's General Manager, said a one-grade decrease in corn is not uncommon when corn is shipped, no one could explain a drop of two or more grades.

Because a two or more grade drop in corn is unusual, we tried to determine why some of the corn that had been graded as U.S. No. 2 at the Bartlett elevator received U.S. No. 4 or 5 grades at Valley Grain and/or Corpus Christi. We initially tried to get the file samples of the graded corn at Bartlett, Valley Grain, and Corpus Christi to determine if the corn at each location was graded properly. We were unsuccessful because the file samples at each location had been destroyed prior to our review. According to FGIS regulations, file samples of graded corn on domestic shipments may be destroyed after 10 days. FGIS inspectors told us that, after that time, heat, humidity, and insect infestation decrease the quality of the sample corn. If these samples had been available and still of good quality, we could have had them independently tested to determine if the corn was properly graded at the three locations. We then tried to locate the corn at Corpus Christi and sample it to determine whether the corn had been graded properly at the final destination. Because the corn was mixed with other corn at Corpus Christi Public Elevator, we could not sample the corn.

During our review, we learned that three groups had been involved in grading or checking the grading of the corn at Bartlett. The official grading on all 89 railcars had been done by Missouri Department of Agriculture inspectors who are licensed by FGIS to sample, inspect, and weigh corn shipped from Kansas City, Missouri. The Bartlett elevator's internal inspectors had unofficially graded 75 of the 89 railcars to make sure the corn Bartlett was shipping was U.S. No. 2; and FGIS had inspected 2 of the 89 railcars to spot check the work of the Missouri Department of Agriculture inspectors. In all cases, the corn was graded U.S. No. 2.

We also met with the inspectors who had sampled the corn at Bartlett, Valley Grain, and Corpus Christi. We reviewed the procedures each used in sampling corn and found them to be in compliance with FGIS sampling procedures. However, we noted that the inspectors at Bartlett used a different technique in obtaining samples to grade than did the inspectors at Valley Grain and Corpus Christi. At Bartlett, the inspectors used the "pelican" method, in which a special container is used to collect samples of the corn as it is coming through a spout from the elevator just before

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[4]Assessment of the National Grain Inspection System (RED-76-71, Feb. 12, 1976).

the corn is loaded into the railcars. At Valley Grain and Corpus Christi, the probe method is used. Under this method, the inspector uses a long, hollow steel rod to probe a railcar of corn and take samples of the corn at various depths down to 10 to 12 feet in various areas of the railcar. Both the pelican and probe methods are FGIS-approved sampling methods. As noted before, a difference in sampling techniques can account for a one-grade drop in corn when shipped but should not account for a two or more grade drop.

We found no evidence that Bartlett is a problem shipper when we reviewed (1) allegations by Valley Grain's General Manager that other warehouses had problems with grain shipped by Bartlett and (2) all eight of Bartlett's major corn shipments to warehouses other than Valley Grain from January 1982 through August 1983.

Valley Grain's General Manager told us that two other warehouses in Texas had problems with grain shipped by Bartlett. In following up on these allegations, we found that one warehouse he referred us to had received a grain sorghum shipment from Bartlett over 10 years ago. The warehouse operator told us that, although the grain sorghum was downgraded at the warehouse, it was the operator's opinion that Bartlett was a legitimate shipper. The operator told us that grain coming from interior elevators, such as those at Kansas City, will normally lose a grade each time the grain is handled because of the broken corn and foreign material grading factor. The second warehouse's problem with Bartlett involved a financial matter and had nothing to do with the downgrading of grain.

The eight other corn shipments that we reviewed had been shipped to warehouses in Kansas and Houston, Texas, from Bartlett's Kansas City terminal, the same terminal from which the corn had been shipped to Valley Grain. Our review showed that, although the corn was generally downgraded by one grade at destination, three of the four warehouse operators were satisfied with the corn received from Bartlett. The fourth warehouse operator expressed some concern about the moisture content of the corn received but, like the other three operators, had no particular problems with Bartlett as a shipper.

Rationale for shipping corn to Valley Grain and Elevator Company

> What is the rationale for CCC originally shipping the PIK corn in question to Valley in South Texas rather than to Corpus Christi (to which it is now being shipped) or to West Texas (where CCC is now making PIK corn available to South Texas farmers)?

On June 9, 1983, the Chief, Bulk Commodities Division, of the ASCS Commodity Office called the Cameron County CED and asked where the county producers wanted to receive their PIK corn. He asked the CED whether the producers wanted to take delivery at

warehouses in West Texas where CCC had inventory available or whether the corn should be shipped to a designated warehouse in Cameron County, Texas. The CED told us that he consulted with the county committee which, in principle, represents the producers. The committee, in turn, contacted two local grain merchants and asked their opinions on where the county producers should take delivery of their PIK corn. The county committee's consensus, based on these discussions, was that the producers should take delivery of the corn in Cameron County because

--the price for corn at that time, June 1983, was about the same in Cameron County as it was in West Texas, about 700 miles from Cameron County, and

--handling the corn in the county would help the Cameron County economy.

After deciding that it was more advantageous to have the corn delivered to Cameron County, the county committee searched for a warehouse that could handle and store a large inbound corn shipment. They determined that Valley Grain was the only warehouse in the area with the interest and capacity for handling and storing the corn. After the committee decided on Valley Grain, the CED informed the Chief of the Bulk Commodities Division of the decision to take actual delivery of the corn at Valley Grain. Subsequently, the Commodity Office contacted the Kansas City Southern Railroad to ship the corn to Cameron County. The Bulk Commodities Division Chief told us that, although it would be more expensive and cause logistical problems to ship the corn to Cameron County rather than have producers take delivery in West Texas where CCC had corn available, these problems were not discussed with the Cameron County CED. He said that they were not discussed because it was the Commodity Office's responsibility to carry out PIK program provisions and not discourage delivery of the commodities to warehouses the producers designated.

According to the Bulk Commodities Division Chief, the Commodity Office never considered making the PIK corn for Cameron County available in Corpus Christi. The Chief said that the Commodity Office assumed that the Cameron County producers wanted their PIK corn for livestock feeding purposes and that shipping the corn to Corpus Christi, which is about 130 miles from Cameron County, would not get the corn close enough for the producers to take delivery.

Liability for warehouse's preparation costs

What is the basis for CCC's position that, under the circumstances, it is not liable for the costs incurred by Valley in anticipation of receiving the corn to be shipped to it?

The ASCS Commodity Office's position is that, under the terms of the Uniform Grain Storage Agreement, if a warehouse agrees to

accept a shipment, the warehouse should be able to handle CCC grain at any time at the warehouse's stated capacity. ASCS believes that because Valley Grain accepted the shipment, it does not have to reimburse Valley Grain for the $30,000 the warehouse spent to upgrade its facilities for the PIK corn shipment.

The terms of the Uniform Grain Storage Agreement state

> "the applicant certifies that he will maintain ample equipment and facilities for receiving, weighing, establishing proper grades, handling, conditioning, storing and loading out the commodities . . . ."

The Commodity Office's Acting Director told us that this does not mean, however, that an elevator has to accept grain if it cannot meet these conditions. He also said that under the agreement's terms and conditions, the elevator can either accept or reject grain at the time a request to store is made. The Acting Director told us that "if Valley Grain did not believe it could handle the PIK corn, all it would have had to do was to inform ASCS at that point and ASCS would have gone some place else." He also said that the Commodity Office assumed that Valley Grain, by accepting the request to store the shipment, had sufficient capacity to handle the shipment and store the grain.

Decision not to have corn upgraded at Valley Grain and Elevator Company

> What is the basis for CCC's decision to ship the grade 4 or 5 corn from Valley to Corpus Christi at considerable additional expense, rather than to have it upgraded by Valley?

During negotiations to upgrade the corn in the 19 railcars located in or near the entrance of Valley Grain's yard to U.S. No. 2 or 3, a misunderstanding developed between ASCS' Commodity Office and Valley Grain on the price Valley Grain wanted to charge. The misunderstanding centered around the cost for upgrading the corn in the 15 railcars that had been graded U.S. No. 4 and 5. This misunderstanding ultimately led to the Commodity Office's decision to terminate discussions with Valley Grain on upgrading the corn and to ship the corn to Corpus Christi.

The Commodity Office's decision to ship the corn to Corpus Christi resulted in ASCS saving about $291,000 rather than incurring an additional expense. The savings were realized mostly because ASCS shipped less corn to Corpus Christi (307,268 bushels) than it would have had to ship to Valley Grain (495,000 bushels), unloading charges at Corpus Christi were lower than at Valley Grain, and the corn was not upgraded at Corpus Christi.

After corn in 15 of the 19 railcars was inspected at Valley Grain and determined to be U.S. No. 4 and 5, Valley Grain officials, who were also concerned that the corn in 4 derailed cars

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might be graded at sample grade, entered into discussions with the Commodity Office to have Valley Grain upgrade the corn. According to Valley Grain's General Manager, a grain marketing specialist at the Commodity Office, and the Bulk Commodities Division Chief, the following negotiations took place on July 5 and 6, 1983.

On July 5, 1983, the General Manager telephoned the ASCS grain marketing specialist and offered to upgrade any corn that would turn out to be sample grade to U.S. No. 4 or 5 at a cost of 20 cents per hundredweight (or 11.2 cents a bushel). The General Manager said that, during the telephone conversation, he told the grain marketing specialist that Valley Grain would also upgrade the U.S. No. 4 and 5 corn in the 15 railcars to U.S. No. 2 corn for 36 cents per hundredweight (or 20 cents a bushel). The General Manager told us that, based on that conversation, the Commodity Office authorized Valley Grain to upgrade only corn determined to be sample grade to U.S. No. 4 or 5 for 20 cents a hundredweight. The grain marketing specialist told us that her discussion with the General Manager concerned upgrading only the sample-grade corn and that Valley Grain's price to upgrade the U.S. No. 4 and 5 corn in the 15 railcars was never discussed.

On July 6, 1983, the General Manager telephoned the Bulk Commodities Division Chief and offered to upgrade the corn in the 15 railcars to U.S. No. 2 for 36 cents a hundredweight (20 cents a bushel). The Chief called the General Manager back later that day and agreed to let Valley Grain upgrade the 15 railcars for 20 cents a hundredweight. During that conversation, the General Manager told the Chief that Valley Grain's offer was 20 cents a bushel, not 20 cents a hundredweight. Later that day, the Chief telephoned the General Manager and rejected Valley Grain's offer, including its offer to upgrade the corn in the derailed cars. The Commodity Office's Acting Director and the Bulk Commodities Division Chief said that negotiations with Valley Grain had been terminated because it was their perception that Valley Grain was continuing to increase the price to upgrade the corn and that it may not have been satisfied with upgrading the corn for 20 cents a bushel.

After rejecting Valley Grain's offer to upgrade the corn, the Commodity Office decided to terminate discussions with Valley Grain and on July 7, 1983, entered into discussions with the Corpus Christi Public Elevator to store the corn at its warehouse. After the Corpus Christi Public Elevator agreed to store the corn for ASCS, the Bulk Commodities Division Chief telephoned the Cameron County CED and agreement was reached that the Cameron County producers would take delivery of their PIK corn in West Texas. An ASCS transportation specialist then negotiated with the Kansas City Southern Railroad to have all the railcars of corn shipped or rerouted to Corpus Christi.

ASCS saved about $291,000 by shipping the corn to Corpus Christi

ASCS' decision to ship the corn to Corpus Christi rather than having it upgraded at Valley Grain saved ASCS an estimated $291,000. The savings are based on the actual costs ASCS incurred in shipping 307,268 bushels of corn to Corpus Christi versus what the costs would have been assuming that ASCS had agreed to Valley Grain's terms, that ASCS had shipped the entire 495,000 bushels of corn to Valley Grain, and that the grades of the entire shipment would correspond to the grades on the 307,268 bushels. The major portion of the savings resulted from reduced transportation costs because ASCS shipped about 188,000 bushels less to Corpus Christi than it would have needed to ship to Valley Grain, unloading charges were less at Corpus Christi than at Valley Grain, and the corn was not upgraded at Corpus Christi.

When ASCS terminated discussions with Valley Grain and reached agreement that Cameron County producers would take delivery of their PIK corn in West Texas, ASCS did not need to ship the remaining 188,000 bushels from Bartlett's Kansas City elevator. This resulted in ASCS' not having to pay about $115,200 in transportation costs and about $13,100 in outloading and handling charges (7 cents a bushel) at Bartlett on the additional 188,000 bushels.

Additional savings occurred because unloading charges at Corpus Christi were less than they would have been at Valley Grain and no upgrading was done at Corpus Christi. If ASCS had agreed to Valley Grain's terms of 20 cents per bushel to upgrade sample-grade corn and all U.S. No. 3, 4, or 5 corn to U.S. No. 2 corn to the extent possible, the upgrading charges on 495,000 bushels would have been about $91,500. The Corpus Christi Public Elevator does not upgrade at unloading and, therefore, ASCS incurred no upgrading charges. Subsequently, ASCS used the corn at Corpus Christi, without having it upgraded, to meet other PIK obligations in Texas.[5]

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[5]This corn, shown as U.S. No. 4, was used to meet the August 1, 1983, entitlement for Uvalde County, Texas. ASCS' Bulk Commodities Division Chief told us that this was a weighted-average grade No. 4 corn. It was graded at Corpus Christi as U.S. No. 2, 3, 4, and 5 corn which had been designated for Cameron County, Texas.

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Concerning unloading charges, Valley Grain charges 20 cents a bushel to unload grain. Based on 488,799 bushels,[6] ASCS would have incurred an expense of about $97,760. The unloading charge at the Corpus Christi Public Elevator was 3 cents a bushel and, based on 301,067 bushels (307,268 less the 6,201 bushels of unsalvageable corn in the derailed cars), the cost to ASCS was $9,032. As a result, ASCS saved $88,728 in unloading charges. The potential costs that ASCS would have incurred at Valley Grain versus ASCS' actual costs incurred at Corpus Christi and ASCS' overall savings are shown in the table on the following page.

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[6]Of the corn in the four railcars that derailed, 6,201 bushels could not be salvaged and, therefore, no unloading charges would have been paid on these bushels. As a result, unloading charges would have been paid on 488,799 bushels rather than on 495,000 bushels.

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Overall Savings to ASCS by

Shipping Corn to Corpus Christi

Cost item	Potential transaction (Based on 495,000 bushels)	Actual transaction[a] (Based on 307,268 bushels)	Savings (loss)
Outload charges	$ 34,650[b]	$ 21,509[c]	$ 13,141
Freight	327,096[d]	211,910[e]	115,186
Unloading charges	97,760[f]	9,032[g]	88,728
Upgrading	91,520[h]	0	91,520
Demurrage[i]	1,560	1,560	0
Discounts		14,618[j]	(14,618)
Inloading, storage, and outloading of sample-grade corn		2,493[k]	(2,493)
Total	$552,578	$261,122	$291,464

[a]Cost figures are based on transportation records such as invoices and agreements with the railroad. ASCS had not been billed for all payments as of Oct. 10, 1983.

[b]Based on 495,000 bushels in the original Bartlett Grain Company loading order at 7 cents per bushel.

[c]Based on loading out the 307,268 bushels in the actual shipment from Bartlett at 7 cents per bushel.

[d]Based on the 27,719,982 pound total weight of the original loading order times the rail rate of $1.18 per hundredweight from Kansas City to Cameron County, Texas.

[e]Total freight cost for shipping 43 railcars of corn to Cameron County, Texas, at $1.18 per hundredweight; 39 railcars from Cameron County, Texas, to Corpus Christi, Texas, at 45 cents per hundredweight; 2 railcars and one truck of sample-grade corn from Cameron County to Corpus Christi; and 46 railcars from Kansas City directly to Corpus Christi at 84 cents per hundredweight and an $80 per car reconsignment charge.

[f]Based on 488,799 bushels that would have been unloaded at Valley Grain at 20 cents per bushel.

[g]Based on 301,067 bushels unloaded at Corpus Christi at 3 cents per bushel.

[h]Cost of 20 cents a bushel to upgrade 457,602 bushels of No. 3, 4, 5 and sample-grade corn that probably would have been unloaded at Valley Grain.

[i]Demurrage—charges by railroad for detaining railcars beyond a specified period—2 days at $20 per day per car for 39 cars.

[j]Based on the additional 5,093 bushels of No. 4 corn that ASCS gave Uvalde County, Texas, in quality discounts (at $2.87 a bushel). This was part of the corn which had previously been designated for Cameron County and was graded at Corpus Christi as U.S. No. 2, 3, 4, and 5.

[k]Valley Grain charges to inload, store, and outload the 7,492 bushels of salvageable sample-grade corn that derailed. Valley Grain would not have charged ASCS if the potential transaction took place since these costs would have been included as part of the overall corn shipment.

Quality of corn USDA uses to fulfill its PIK obligations

Is it common practice for CCC to fulfill its PIK obligations to corn producers with No. 4 or 5 grade corn?

Information is not available on the extent to which producers have received or will receive U.S. No. 4 and 5 corn as their PIK payments. ASCS is meeting its PIK corn obligations to producers by compensating producers in U.S. No. 2 yellow corn or its equivalent value when lower grade corn is substituted for No. 2 corn. When lower grade corn is used, producers are to receive larger quantities of the lower grade corn so that its value is equivalent to that of U.S. No. 2 corn.

At the time of our review, the distribution of PIK corn to most of the country was just starting and it was too early to determine how common it is for ASCS to fulfill its PIK obligations with corn graded lower than U.S. No. 2. In October 1983, the Acting Director, ASCS Commodity Office, told us that ASCS does not know how many producers will receive No. 2 corn or larger quantities of lower graded corn such as No. 4 and 5 corn. The Acting Director also said that ASCS does not plan to document this data. Our review of the Cameron County corn shipment and a review of the loading orders for PIK corn entitlements due West Texas producers on October 1, 1983, show that some producers will receive U.S. No. 4 and 5 corn as their PIK payments.

According to the loading orders, West Texas producers were to receive about 10,869,000 bushels of PIK corn. These bushels represent about 67 percent of the 16,129,967 bushels of corn obligations from CCC inventory due Texas PIK producers. A breakdown, by grade, of the corn covered by the loading orders is shown in the following table. As the table shows, only about 7.4 percent of the corn was U.S. No. 4 and 5 corn.

Corn grade	Quantity	Percent
1	82,676	0.8
2	5,782,302	53.2
3	4,197,520	38.6
4	664,156	6.1
5	142,297	1.3
Total	10,868,951	100.0

As the loading orders indicate, some producers will receive U.S. No. 4 and 5 corn; however, in this case it will be the exception rather than common practice.