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Report to the Congress

July 199[illegible]

FINANCIAL AUDIT

Commodity Credit Corporation's Financial Statements for 1989 and 1988

GAO/AFMD-91-5

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GAO

United States
General Accounting Office
Washington, D.C. 20548

144498

Comptroller General
of the United States

B-202690

July 29, 1991

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

This report presents the results of our audit of the financial statements of the Commodity Credit Corporation for the fiscal years ended September 30, 1989 and 1988. Reports on the Corporation's internal control structure and on its compliance with laws and regulations are also provided, as well as our discussion and analysis of the Corporation's financial operations.

Results in Brief

Our opinion on the Corporation's fiscal year 1989 and restated 1988 financial statements is without qualification. Our opinions on the Corporation's fiscal year 1984 through 1988 financial statements were previously qualified because the Corporation had not established an allowance for the uncollectible portion of loans outstanding to foreign countries experiencing financial difficulties. For fiscal year 1989, the Corporation established an allowance of $7 billion for the uncollectible portion of $17.3 billion in foreign country loans and accrued interest receivable outstanding as of September 30, 1989. The Corporation also established a $2.6 billion liability for losses on $9 billion of foreign country loan guarantees and accrued interest outstanding. The fiscal year 1988 financial statements were restated to recognize the appropriate allowance and the liability. The Corporation established an allowance of (1) $5.8 billion for the uncollectible portion of the $16.5 billion in foreign country loans and accrued interest receivable outstanding as of September 30, 1988, and (2) $2.0 billion on its $6.5 billion of guaranteed loans. (See appendix II.)

Our 1989 report on the Corporation's internal control structure discloses that the Corporation has corrected a material weakness we reported for 1988 concerning the processing of accounting transactions. Our 1989 audit work did not identify any additional material weaknesses in the Corporation's internal control structure which could have materially affected the Corporation's financial statements. (See appendix III.)

Our 1989 review of compliance with laws and regulations disclosed that the Corporation had failed to return to the Treasury $2.9 billion of unobligated appropriations that had lapsed at September 30, 1988. This matter is further discussed in our report on compliance with laws and regulations. The Corporation restated its 1988 financial statements to present the $2.9 billion of lapsed appropriations as due to Treasury. (See appendix IV.)

Highlights of fiscal year 1989 were as follows:

- The Corporation's net cost of operations declined by almost one-half from 1988 due to reduced price support payments to producers and lower net costs on commodities managed and sold, or donated.
- Commodity loans outstanding declined 42 percent because of reduced loan rates and increased prices.
- Commodity inventories declined to a 6-year low of $3 billion which may affect donation programs by reducing the quantities or types of commodities available for donation.
- The Corporation transferred $400 million to the Federal Crop Insurance Corporation (FCIC) to maintain FCIC solvency by providing funds to pay insurance claims from producers, bringing the cumulative total of transfers to $2.3 billion.
- The Corporation's notes to the financial statements state that additional losses may subsequently occur due to the Gulf War.

These highlights are further discussed in our discussion and analysis of Corporation operations in appendix I.

Scope and Methodology

We were required to conduct a financial audit of the Corporation at least once every 3 years under the provisions of 31 U.S.C. 9105. We have conducted annual audits of the Corporation since 1984. Our prior financial audit of the Corporation was conducted for the year ended September 30, 1988 (GAO/AFMD-89-83). The 1989 audit as well as those in previous years were conducted in accordance with generally accepted government auditing standards. With the passage of the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576), U.S. Department of Agriculture's (USDA) Office of Inspector General is conducting the Corporation's fiscal year 1990 financial audit.

Our discussion and analysis of Corporation operations is based primarily on accounting data included in the Corporation's audited financial statements for fiscal years 1984 through 1989. However, certain analyses required the use of statistical and financial data, such as crop inventories, from other sources. We obtained these data from the Corporation's various budget reports and program systems, which were not subject to our audit and independent verification. Thus, we are not expressing any views on the accuracy of these other statistical and financial data.

Our analysis focused on the following financial attributes:

- the overall cost of the Corporation's operations and the operating cost of each major program and
- financing sources and their effect on the Corporation's financial position.

Comments of Cognizant Officials

We discussed the contents of our report with Corporation officials and their comments have been incorporated where appropriate.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Department of the Treasury, the Secretary of the Department of Agriculture, and the Board of Directors of the Commodity Credit Corporation.

Donald H Chapin for

Charles A. Bowsher
Comptroller General
of the United States

Contents

Figures

Abbreviations

ASCS	Agricultural Stabilization and Conservation Service
CFO	Chief Financial Officer
FCIC	Federal Crop Insurance Corporation
FMFIA	Federal Managers' Financial Integrity Act
USDA	U.S. Department of Agriculture

Discussion and Analysis of Corporation Operations

This discussion and analysis provides explanatory information for the users of the Corporation's financial statements. It summarizes 1989 results and provides a perspective of the previous 5 years. It presents trends in operating costs, loans, guarantees, inventories, and transfers. The Corporation presently publishes an annual report, which presents financial, program, and statistical information. The Corporation's report could be revised to provide the kind of information required by the CFO Act.

Background

The Commodity Credit Corporation is a wholly-owned government corporation within USDA. It was created in 1933 to stabilize, support, and protect farm income and prices; to maintain balanced and adequate supplies of agricultural commodities; and to assist in the orderly distribution of these commodities.

The Corporation's principal operations are (1) price support programs for agricultural commodities, such as commodity loans, purchases, and payments, (2) storage, handling, and disposition of acquired commodities, and (3) export programs to develop foreign markets for U.S. agricultural commodities. Special activities include conservation programs and financing export credit sales. The Corporation operates through other units of USDA. Most of its domestic programs are administered by USDA's Agricultural Stabilization and Conservation Service (ASCS) through a system of 50 state and approximately 2,800 county offices whose services are reimbursed by the Corporation. Export programs are administered by the Foreign Agricultural Service.

The Corporation finances its programs through (1) borrowing authority from the U.S. Treasury of up to $30 billion, (2) appropriations, (3) advances for costs of foreign assistance programs and special activities, (4) receipts from operations, primarily commodity sales, and (5) $100 million in capital stock.

The Corporation's net cost of operations was a total of $12 billion for fiscal year 1989, of which $11.2 billion is reimbursable from future appropriations for costs incurred for required entitlement programs. These costs include the following:

Dollars in billions	
Program costs	$6.2
Commodity inventory operations	1.8
Losses on loans and guarantees	1.1
Grain reserve storage and other expenses	1.0
Administrative and net interest expenses	.7
FCIC transfers	.4
Total	**$11.2**

The remaining net cost of operations of $867 million was due to provisions for loan losses under Public Law 480 Foreign Loans Program. This program is funded through current appropriations. The 1989 loss provisions increased the Corporation's accumulated deficit to $1.3 billion.

The Corporation's recorded assets at the end of fiscal year 1989 were $36.9 billion.

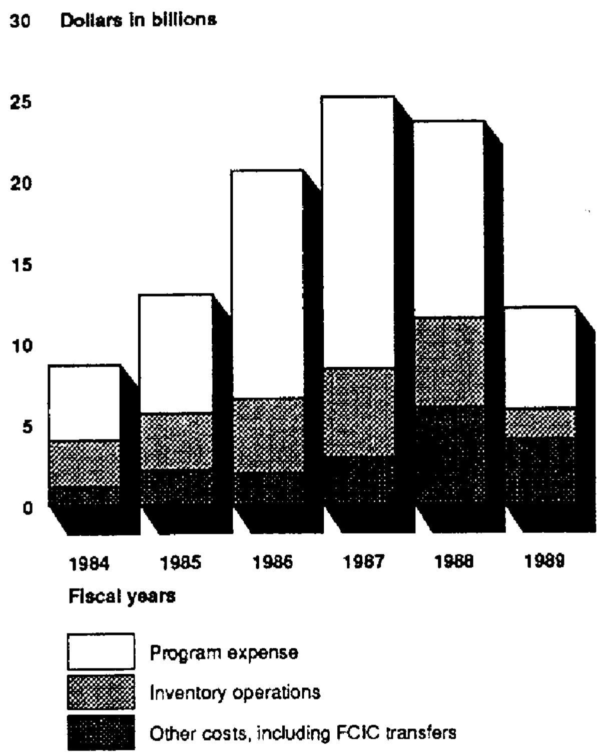
Dollars in billions	
Future appropriations	$16.9
Foreign loans and accrued interest (net)	10.3
Domestic loans and accrued interest (net)	5.1
Commodity inventories	3.0
Other	1.6
Total	**$36.9**

Liabilities other than to the U.S. government totaled about $10.4 billion, of which $2.6 billion represented a reserve for losses on guaranteed loans.

Net Operating Costs Have Declined

For the 6 years ended September 30, 1989, the Corporation's net cost of operations amounted to $102.5 billion. Generally, the Corporation's costs are initially financed by U.S. Treasury borrowings and later reimbursed by appropriations. As shown in figure I.1, over the 6 years, the Corporation's net cost of operations peaked in 1987 at $25 billion, after rising steadily since 1984, reflecting the severe economic conditions in the U.S. farm economy. The Corporation's 1989 net cost of operations of $12 billion showed a decline of almost one-half from 1988.

Figure I.1: Net Cost of Operations



This decline was primarily due to overall reduced levels of payments to producers, of which most was attributable to lower disaster payments.

Price support payments to producers comprise one-half of the Corporation's net cost of operations. Price support payments are designed to provide producers with a certain return on specified commodities despite market price fluctuations, and to stabilize the market for agricultural commodities. The amounts and types of payments to producers differ each year, as shown in table I.1, but deficiency payments represented about 75 percent of total program expense over the 6-year period, and made up nearly all payments in 1989.

Table I.1: Components of Program Expense

Dollars in billions

	1984	1985	1986	1987	1988	1989
Deficiency[a]	$3.7	$5.8	$12.1	$12.2	$5.5	$6.5
Diversion[b]	0.6	0.9	0.4	1.6	0.7	0.0
Disaster[c]	0.0	0.0	0.0	0.6	5.6	(0.5)[d]
Conservation[e]	0.0	0.0	0.1	1.3	0.0	0.0
Other	0.3	0.6	1.4	1.0	0.3	0.2
Total program expense	**$4.6**	**$7.3**	**$14.0**	**$16.7**	**$12.1**	**$6.2**

[a]Deficiency payments are made to producers participating in farm programs when the target price set for a commodity exceeds the higher of (1) the average market price of a commodity received by farmers during the first 5 months of the marketing year or (2) the national average loan rate established for the crop.

[b]Diversion payments are made to producers to withdraw crop acreage from production in order to reduce market supply and to maintain price stability.

[c]Disaster payments are made to producers to compensate for losses incurred as a result of adverse weather conditions. In 1988, they amounted to 45 percent of the total program expense due to one of the worst droughts in the twentieth century.

[d]The Corporation was reimbursed for overpayments made in prior years.

[e]Beginning in fiscal year 1988, the Agricultural Stabilization and Conservation Service received a separate appropriation to cover the costs of this program.

During fiscal year 1986 and later, some payments continued to be made to producers in commodity certificates rather than cash. Under specified conditions, these certificates can be exchanged for loan collateral or commodities, transferred to other persons, or redeemed for cash. At the end of fiscal year 1989, a total of $24 billion of certificates had been issued and $23.8 billion had been redeemed—$15.9 billion for loan collateral, $7.3 billion for inventory, and $0.6 billion for cash.

The Corporation has limited control over its program costs. In another report,[1] we discussed deficiency payments and price-support loans. The Corporation is required to use the payments and loans to absorb a certain amount of farmers' price risks so that program costs tend to go up when domestic market prices of program crops, such as corn and wheat, go down, and costs tend to decrease when prices increase. Also, if foreign countries increase production, prices could fall and the cost of deficiency payments and price-support loans could increase.

[1]Agriculture: Progress Made Toward Goal of 1985 Farm Bill (GAO/RCED-89-76BR, March 30, 1989).

We have suggested a number of areas where program costs might be saved. For example, in a recent report,[2] we questioned the continued support of honey, wool, and mohair programs, and supported the phasing out of production incentives in the dairy program. In that report, we also stated that other programs—cotton and major grain commodities—could be modified to emphasize more marketing opportunities and fewer federal subsidies.

Loan and Guarantee Operations

Domestic Commodity Loans Have Declined

The Corporation provides price support, in part, by making loans on certain commodities at announced or guaranteed levels. The loans give producers the opportunity to obtain operating cash and remove their crops from market for potential later sale. The crops provide collateral for the loans which, if not repaid, are forfeited to the Corporation. These crops then become commodity inventory and are donated or sold at prices which include the acquisition cost plus the processing and packaging expense.

Most price support loans are without recourse. If market prices fail to rise above support levels, producers can deliver commodities to the Corporation and discharge their obligations. If market prices are above support levels, producers may pay off their loans and market the commodities. Nonrecourse price support loans for commodities mature in 9 months, except loans for cotton, which mature in 10 months, and loans for tobacco and peanuts, which mature on demand.

Commodity loans decreased about 41 percent from $8.3 billion as of September 30, 1988, to $4.9 billion as of September 30, 1989. As shown in table I.2, the Corporation's outstanding commodity loans at the end of 1989 were the lowest of the 6-year period.

[2] 1990 Farm Bill: Opportunities for Change (GAO/RCED-90-142, April 10, 1990).

Table I.2: Commodity Loan Transactions

Dollars in billions

	1984	1985	1986	1987	1988	1989
Outstanding at beginning of year	$14.1	$7.9	$12.2	$16.7	$13.8	$8.3
New loans	5.1	10.1	17.4	16.6	13.3	7.1
Loans repaid	(10.3)	(4.2)	(5.5)	(13.8)	(17.9)	(9.4)
Loans forfeited	(1.0)	(1.6)	(7.4)	(5.7)	(0.9)	(1.1)
Outstanding at end of year	**$7.9**	**$12.2**	**$16.7**	**$13.8**	**$8.3**	**$4.9**

The decline in outstanding loans since 1986 is due, in part, to reduced loan rates on crop collateral. For example, the national loan rate was $2.55 per bushel for corn in 1986, but it was only $1.77 per bushel for corn in 1989. The low forfeitures in 1988 and 1989 reflect the increased prices for commodities in the open market as well as lower loan rates.

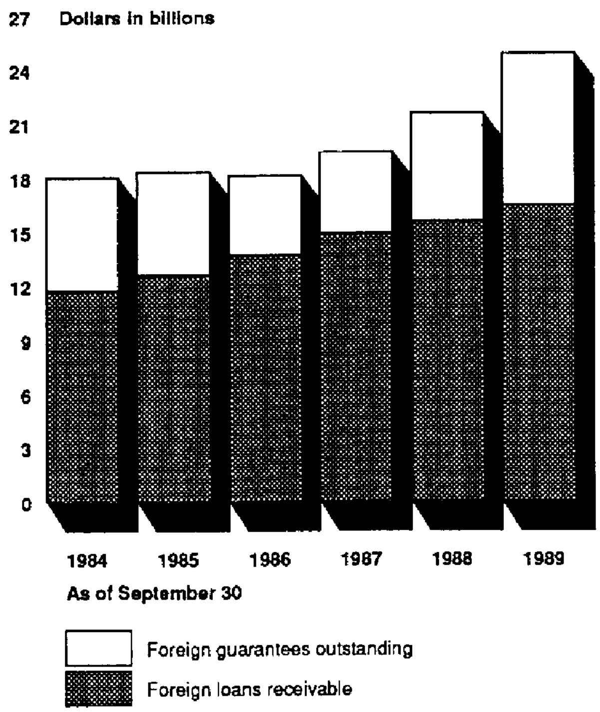
Foreign Loans and Guarantees Have Been a High Risk

The Corporation has experienced high risk in its loans and guarantees to foreign countries. As of September 30, 1989, loans and interest receivables from foreign governments amounted to $17.3 billion. For 1989, the Corporation established an allowance of $7 billion for the uncollectible portion of loans and interest due from countries experiencing financial difficulties. This reduced the net amount of loans and accrued interest receivables to $10.3 billion.

Also, as of September 30, 1989, the Corporation was contingently liable for $9 billion of guarantees of loans and interest to foreign countries. The Corporation has recognized a $2.6 billion liability for losses on such guaranteed loans and interest based on experience with such defaults and losses.

As shown in figure I.2, the amount of outstanding loans to foreign countries has increased steadily each year from $11.7 billion as of September 30, 1984, to $16.4 billion as of September 30, 1989. The amount of guarantees outstanding has fluctuated due to the level of participation by the importing countries and has increased since 1986 from $4.4 billion to $8.4 billion at September 30, 1989.

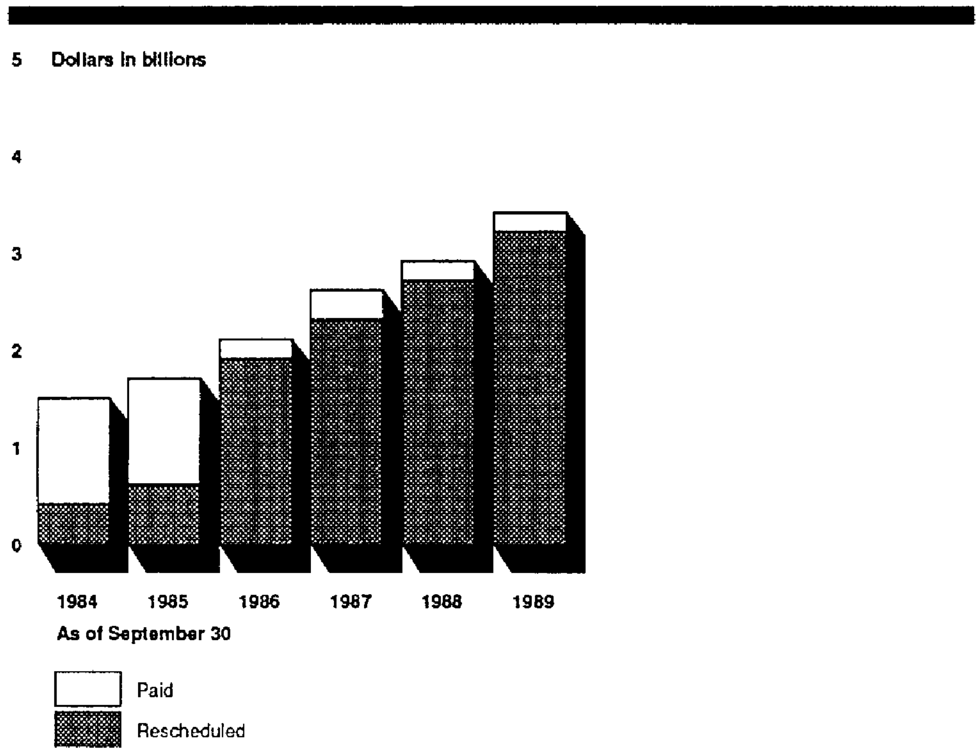
Figure I.2: Foreign Loans and Guarantees Outstanding



Loans are made under the Public Law 480 program and are intended to promote agricultural trade, provide humanitarian relief, aid the economic advancement of developing countries, and promote U.S. foreign policy. Guarantee programs are designed to expand U.S. agricultural exports by stimulating U.S. financing of foreign purchases through exporters on credit terms up to 10 years. Exporters are encouraged to trade with those nations that are not generally considered a good financial risk. In the event the country does not pay, the Corporation pays off the exporter and seeks collection from the country.

Defaults on guarantee programs have averaged $330 million annually since 1984. However, the inability to collect from defaulted countries has caused the Corporation's accounts receivable for both initially paid and rescheduled guarantees to more than double since 1984. As shown in figure I.3, foreign countries' guarantees receivable have increased every year from $1.5 billion as of September 30, 1984, to $3.4 billion as of September 30, 1989. Most of these guarantee receivables have been rescheduled and therefore are not technically past due; however, their overall collectibility remains in doubt.

Figure I.3: Foreign Guarantees Receivable



Providing for losses on foreign loans and guarantees in the Corporation's financial statements is a complex and judgmental process. Establishing an estimate of the losses likely to result from such loan and loan guarantees to foreign countries involves (1) an assessment of experience with individual foreign government borrowers, (2) foreign borrowers' short-term and long-term credit ratings, (3) a projection of future expected economic conditions, (4) an analysis of the expected impact of world events, and (5) an estimate of expected changes in the market rates on sales or exchanges of foreign country debt.

The Corporation's provision for losses on its foreign loans and loan guarantees assumes that the collectible portion will be repaid when due. This approach is in accordance with present generally accepted accounting principles. However, experience has shown that many of the Corporation's loans to foreign countries will be refinanced and therefore repayment will stretch beyond the loan due date. Historically, the longer loan payback periods are extended, the greater the likelihood of loan defaults. In addition, some believe that accounting for loans and loan guarantees to foreign countries based on the secondary market for the recipient country's debt (mark-to-market) would provide a more accurate valuation of assets than their historical cost. Changing the assumptions to estimate loan losses would probably increase the loan loss allowance.

Net Cost of Inventory Operations Is Down

The Corporation's cost of inventory operations decreased from $5.4 billion in 1988 to $1.8 billion in 1989. (See table I.3.) Inventory operations normally show a loss due to price support forfeitures and donations and, therefore, a reduced level of inventory results in a corresponding reduction in the cost of inventory operations.

Table I.3: Net Losses on Inventory Operations

Dollars in billions

	1984	1985	1986	1987	1988	1989
Sales	$9.5	$1.8	$2.5	$12.0	$12.2	$3.5
Cost of sales	10.2	2.2	4.4	14.0	14.8	3.9
Donated commodities	1.6	2.5	1.7	1.9	1.7	0.8
Storage, handling, and transportation	0.5	0.5	0.9	1.5	1.1	0.6
Cost of operations	12.3	5.2	7.0	17.4	17.6	5.3
Net (loss) on inventory operations	**$(2.8)**	**$(3.4)**	**$(4.5)**	**$(5.4)**	**$(5.4)**	**$(1.8)**

The cost of sales and donations in 1988 was $16.5 billion, but dropped to $4.7 billion in 1989. This decline from a 1988 high was due to the drought and resulted in overall lower supplies of commodities to meet market demands.

Although the Corporation sells commodities in foreign markets, its domestic sales were $37.8 billion, or 91 percent, of total sales of $41.5 billion over the 6-year period. Nearly half of this amount represented redemptions of loan collateral by producers.

The Corporation's export enhancement program, which was established in May 1985, promotes sales of agricultural commodities and includes payments of commodity certificates to exporters which can be redeemed for inventories. As part of the cost of operations, the export enhancement program amounted to $0.1 billion in 1986, $0.2 billion in 1987, $1.2 billion in 1988, and $0.4 billion in 1989.

Donations of commodities, which averaged almost $2 billion from 1984 through 1988, fell to $0.8 billion in 1989. This was due to fewer commodities available for donation. The Corporation is authorized by law to donate commodities for domestic uses, such as the school lunch program, and foreign uses, such as disaster relief and the Food for Peace Program which is part of the Public Law 480 loan program. Since 1984, donations have averaged 79 percent for domestic programs and 21 percent for foreign programs. The Corporation has little control over the distribution of products under the various commodity donation programs. Distribution is determined by other governmental agencies based upon commodities available in inventory.

Commodity Inventories Are at a 6-Year Low

Commodity inventories, which were $3.3 billion at the end of 1984, increased to $9.7 billion by the end of 1987, and then declined to a 6-year low of $3 billion by the end of 1989. (See table I.4.) The Corporation normally acquires commodities held in inventory, other than dairy products, when producers forfeit crops pledged against commodity loans because demand is not sufficient to absorb available supplies at or above the support prices. During 1986 and 1987, market prices declined and producers forfeited crops which collateralized loans of about $7.4 billion and $5.7 billion, respectively. (See table I.2.) The 1988 drought, while resulting in disaster payments to producers, created higher market prices due to the lack of supply and thus forfeitures dropped to approximately $1 billion in 1988 and 1989. Also, during 1988 and 1989, the Corporation sold about $8.2 billion of grain, primarily in exchange for commodity certificates.

Table I.4: Commodity Inventories

Dollars in billions

	1984	1985	1986	1987	1988	1989
Feed grains	$1.4	$1.2	$3.3	$6.2	$3.6	$2.3
Wheat	1.5	2.0	4.1	3.4	1.2	0.7
Dairy products	4.1	3.0	2.8	1.4	0.7	0.7
All other	0.4	0.7	2.6	1.6	0.1	0.1
Total	**7.4**	**6.9**	**12.8**	**12.6**	**5.6**	**3.8**
Less allowance for losses	4.1	3.8	4.1	2.9	1.1	0.8
Net inventories	**$3.3**	**$3.1**	**$8.7**	**$9.7**	**$4.5**	**$3.0**

Commodity inventories are valued at their acquisition cost (or forfeited amount) plus the cost of processing and packaging after acquisition. Since the mission of the Corporation is price support and stabilization, the acquisition cost will usually exceed the market price. Losses and gains are recognized at the time the commodities are sold or donated.

The allowance for losses on commodity dispositions equals the full inventory value of the commodities scheduled for donation. These dispositions include all dairy products, primarily to schools, and some feed grains and wheat for foreign relief.

The Backdoor Financing of Crop Insurance

The Corporation provided $250 million in 1981, $450 million in 1986, $300 million in 1987, $900 million in 1988, and $400 million in 1989, to the FCIC to maintain its solvency to pay insurance claims from producers. This $2.3 billion financing of FCIC losses, which was authorized by the Federal Crop Insurance Act of 1980, has been included in the Corporation's net operating cost. Such treatment overstates the Corporation's own cost of operations.

Future Outlook

The extent of the Corporation's net cost of operations depends on the health of the agricultural economy as a whole and is affected by the following interrelated factors: (1) repayment of foreign loans, (2) natural disasters within the farm community, (3) price support levels, (4) commodity prices on the open market, and (5) congressional actions on USDA programs. Because of the uncertainties related to these factors, it is very difficult to predict the extent of future costs and losses based on past experiences.

Opinion Letter

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-202690

To the Board of Directors
Commodity Credit Corporation

We have audited the accompanying comparative statements of financial position of the Commodity Credit Corporation as of September 30, 1989 and 1988, and the related comparative statements of operations and cash flows for the years then ended. The financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Also, in accordance with those standards and as an integral part of our audits, we reviewed the Corporation's internal control structure and compliance with laws and regulations, and we are reporting separately on the results of those reviews. Our audits include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Audits also include assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

On June 29, 1990, the Secretary of Agriculture approved the establishment of an allowance for the uncollectible portion of loans and guarantees made to foreign countries experiencing financial difficulties. Accordingly, the Corporation's financial statements have been adjusted to recognize an allowance of $6.3 billion on its $16.4 billion of outstanding loans to foreign countries, and $656 million on $902 million of accrued interest receivable as of September 30, 1989. The Corporation has also established a liability of $2.6 billion for losses on its $9 billion of guaranteed loans and accrued interest to foreign countries.

B-202690

In our report on the Corporation's 1988 financial statements, (GAO/AFMD-89-83), we qualified our opinion because the Corporation had not established an allowance for losses on loans and a liability for losses on guaranteed loans to foreign countries. The Corporation has restated its 1988 financial statements to recognize an allowance of $5.0 billion on $15.5 billion of outstanding loans to foreign countries, and $640 million on $964 million of accrued interest receivable as of September 30, 1988. The Corporation has also established a liability for losses as of September 30, 1988, of $2 billion on its $6.5 billion of guaranteed loans and accrued interest to foreign countries. Accordingly, our opinion on the Corporation's 1988 financial statements has been changed from the qualified opinion previously issued and is presented herein.

As further discussed in our report on compliance with laws and regulations, the Corporation inappropriately used its entire 1988 appropriation of $21.1 billion to reduce its debt to the Treasury. The Corporation failed to limit the use of its appropriations to the 17 line items specified in its 1988 appropriations act, and to perform the required fiscal year close-out procedures at the end of 1988. Our audit of the Corporation's records showed that $2.9 billion of unobligated appropriations lapsed and should have been returned to the Treasury as of September 30, 1988 and 1989. Consequently, the Corporation's 1988 financial statements have also been restated to (1) eliminate $4.6 billion of appropriated capital which had been spent, (2) reduce the Corporation's receivable from future financing sources by $1.7 billion and (3) record an amount due to the Treasury of $2.9 billion.

In our opinion, the comparative financial statements referred to above present fairly, in all material respects, the financial position of the Commodity Credit Corporation as of September 30, 1989 and 1988, the results of its operations, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Foreign Loans and Guarantees

The Corporation's losses on foreign country loans and loan guarantees were handled in accordance with generally accepted accounting principles. In a recent report, Loan Guarantees: Export Credit Guarantee Program's Long-Run Costs Are High (GAO/NSIAD-91-180, April 19, 1991), we discussed an alternative method for determining the losses

2

B-202690

associated with foreign country loans and loan guarantees which considers the (1) long-run program costs and (2) losses from using the mark-to-market valuation concept based on the secondary debt market. We believe that if this method was applied to the Corporation's foreign country loans and loan guarantees, additional loss provisions might have to be established.

Also, as pointed out in note K, the Corporation may incur additional losses on foreign country loans and loan guarantees due to the Middle East war.

Donald H Chapin for

Charles A. Bowsher
Comptroller General
of the United States

March 8, 1991

3

Report on Internal Control Structure

We have audited the financial statements of the Commodity Credit Corporation for the years ended September 30, 1989 and 1988, and have issued our opinion thereon. This report pertains only to our consideration of the Corporation's internal control structure for the year ended September 30, 1989. Our report on the study and evaluation of the Corporation's system of internal accounting controls for the year ended September 30, 1988, is presented in GAO/AFMD-89-83, dated August 4, 1989.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Commodity Credit Corporation for the fiscal year ended September 30, 1989, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The Corporation's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For purposes of this report, we have classified the Corporation's significant internal control structure policies and procedures into the following categories:

- administrative costs, which consist of policies and procedures associated with disbursing funds for salaries and administrative expenses;
- treasury, which consists of policies and procedures associated with disbursing and collecting cash, reconciling cash balances, and managing debt;
- commodity loans, which consist of policies and procedures associated with authorizing and disbursing loans, accruing interest on loans, and collecting loan repayments;
- export trade, which consists of policies and procedures associated with authorizing and disbursing loans and guarantee payments, authorizing guarantees, accruing interest on loans, and collecting loan repayments;
- financial reporting, which consists of policies and procedures associated with processing accounting entries and preparing the Corporation's annual financial statements;
- inventories, which consist of policies and procedures associated with acquiring commodities through purchase and loan forfeiture, storing and managing commodity inventories, and disposing of commodities through sales and donations; and
- producer payments, which consist of policies and procedures associated with determining producer eligibility, disbursing funds to producers, accruing expenses, and collecting unearned advances.

For all of the internal control structure categories listed above, we obtained an understanding of the design of the relevant policies and procedures, determined whether they had been placed in operation, and assessed the associated control risk. We performed limited tests of control procedures for all the categories. In addition, we performed audit tests to substantiate account balances associated with each control category. Such tests can serve to identify weaknesses in the internal control structure.

Our consideration of the internal control structure would not necessarily disclose all matters that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. During our tests, however, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

Our report on the study and evaluation of the Corporation's system of internal accounting controls for the year ended September 30, 1988 disclosed a material weakness in processing accounting transactions and correcting errors. The Corporation took sufficient steps in 1989 to correct this weakness by researching unreconciled differences and following up on problem areas with county offices. The backlog on unreconciled commodity certificates was eliminated in 1989 through development and training in reconciliation procedures and by the application of additional resources.

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires certain executive agencies to annually evaluate and report on the status of their internal controls and accounting systems (31 U.S.C. 3512). As a government corporation, Commodity Credit was exempt from this requirement; however, it followed the FMFIA process and reported its results to the Secretary of the Department of Agriculture. Under the Chief Financial Officers Act's required management reporting, the Corporation must report the results of its evaluation of its internal control structure. For fiscal year 1989, the Corporation reported the following weaknesses:

- a compliance program and reporting system which cannot ensure that programs are properly administered according to policy and regulations;
- the lack of a standardized payment, receipts, receivables, and claims process that interfaces with Agricultural Stabilization and Conservation Service and Corporation programs, and
- a property management system which does not reconcile with actual property on hand.

We have reviewed this report and are not aware of any unreported material control weaknesses outstanding which would affect the fair presentation of the financial statements.

Report on Compliance With Laws and Regulations

We have audited the financial statements of the Commodity Credit Corporation for the years ended September 30, 1989 and 1988, and have issued our opinion thereon. This report pertains only to our review of the Corporation's compliance with laws and regulations for the year ended September 30, 1989. Our report on the Corporation's compliance with laws and regulations for the year ended September 30, 1988, is presented in GAO/AFMD-89-83, dated August 4, 1989.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Corporation is responsible for compliance with laws and regulations applicable to the Corporation. As part of obtaining reasonable assurance as to whether the financial statements were free of material misstatement, we selected and tested transactions and records to determine the Corporation's compliance with certain provisions of the following laws and regulations which, if not complied with, could have a material effect on the Corporation's financial statements. However, it should be noted that our objective was not to provide an opinion on the overall compliance with such provisions.

We tested compliance with the following:

- Commodity Credit Corporation Charter Act (Public Law 80-806);
- Agricultural Act of 1949 (Public Law 81-439);
- Agricultural Trade Development and Assistance Act of 1954 (Public Law 83-480);
- Food Security Act of 1985 (Public Law 99-198); and
- Government Corporation Control Act (31 U.S.C. 9105).

Because of the limited purpose for which our tests of compliance were made, the laws and regulations tested did not cover all legal requirements with which the Corporation has to comply.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed the following material instance of noncompliance, the effects of which have been corrected in the Commodity Credit Corporation's 1989 and 1988 financial statements.

The results of our tests for fiscal year 1989 showed that the Corporation did not limit the use of its 1988 appropriations to the 17 line items specified in its 1988 appropriations act, and it did not perform the required fiscal year-end close-out procedures at the end of 1988. The Corporation used the appropriation to reduce its Treasury debt, rather than to finance its 1988 operations. As a result, the Corporation failed to return to the Treasury about $2.9 billion of the $21.1 billion in 1988 appropriations which expired as unobligated at the end of fiscal year 1988. At our request, the Corporation restated its 1988 financial statements and the carryover into its 1989 financial statements to reflect $2.9 billion as due to the Department of the Treasury. We concur with the Corporation's action in this matter.

We considered this material instance of noncompliance in forming our opinion on whether Commodity Credit Corporation's 1989 and 1988 financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated March 8, 1991, on those financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Corporation complied, in all material respects, with the provisions referred to in the fourth paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the Corporation had not complied, in all material respects, with those provisions.

Comparative Financial Statements

Statements of Financial Position

Exhibit A

As of September 30, 1989 and 1988
(Dollars in Millions)

	September 30, 1989	September 30, 1988 (Restated)
ASSETS:		
Cash	$ 21	$ 1
Domestic Loans Receivable, Net *(Note C)*	4,628	8,007
Foreign Loans Receivable, Net *(Note D)*	10,043	10,480
Accounts and Notes Receivable, Net *(Note E)*	1,134	1,101
Accrued Interest Receivable, Net *(Note F)*	679	1,071
Advance Payments to Producers	165	472
Commodity Inventories *(Net of allowance of $804 million and $1,111 million for fiscal years 1989 and 1988, respectively)*	2,967	4,477
Fixed and Other Assets *(Net of accumulated depreciation of $61 million and $38 million for fiscal years 1989 and 1988, respectively)*	306	497
Future Financing Sources *(Note G)*:		
Net Realized Losses	10,663	8,700
Deferred Unrealized Losses	6,256	5,877
Total Assets	$ 36,862	$ 40,683
LIABILITIES:		
Accounts Payable	$ 411	$ 1,266
Accrued Interest Payable	802	414
Due to Treasury *(Note G)*	2,897	2,897
Accrued Liabilities *(Note H)*	7,190	11,814
Deposit and Trust Liabilities *(Note I)*	2,177	1,870
U.S. Treasury Borrowings *(Note J)*	13,706	11,758
Other Liabilities	598	914
Total Liabilities	27,781	30,933
Commitments and Contingencies *(Note K)*		
EQUITY OF U.S. GOVERNMENT:		
Capital Stock *(Note L)*	100	100
Public Law 83-480 *(Note M)*:		
Appropriated Capital	1,021	1,080
Invested Capital	9,293	9,036
Cumulative Results of Operations (Deficit)	(1,333)	(466)
Total Equity of U.S. Government	9,081	9,750
Total Liabilities and Equity of U.S. Government	$ 36,862	$ 40,683

The accompanying notes are an integral part of these financial statements.

Statements of Operations

Exhibit B

For Fiscal Years Ended September 30, 1989 and 1988
(Dollars in Millions)

	Fiscal Year 1989	Fiscal Year 1988 (Restated)
Sales and Other Revenue - Program		
Commodity Inventory Operations:		
Sales of Commodities	$ 3,550	$ 12,153
Cost of Sales	(3,902)	(14,826)
Cost of Commodities Donated:		
Donations for FNS Programs	(493)	(1,400)
Other	(315)	(310)
Storage and Handling Expense	(587)	(986)
Transportation Expense	(41)	(37)
Net Cost of Commodity Inventory Operations	(1,788)	(5,406)
Milk Marketing Fees Collected	13	74
Special Recoveries Authorized for National Wool Act	88	128
Net Cost after Other Revenue - Program	(1,687)	(5,204)
Expenses and Costs - Program		
Program Expense:		
Deficiency Payments	(6,673)	(5,534)
Diversion Payments	(18)	(667)
Disaster Payments	562	(5,574)
Other	(118)	(350)
Grain Reserve Storage Expense	(482)	(669)
National Wool Act Payments	(88)	(128)
Loan and Other Charge-offs (Net)	(455)	(939)
Other Costs (Net)	(454)	(1,521)
Provision for Losses on Guarantees	(548)	(412)
Total Expenses and Costs - Program	(8,374)	(15,794)
General and Administrative Income and Expense		
Interest Income *(Note N)*	950	512
Interest Expense *(Note O)*	(989)	(702)
Net Operating Expense	(670)	(682)
Net General and Administrative Expenses	(709)	(872)
FCIC Transfer Expense *(Note P)*	(400)	(900)
Net Cost of Operations - CCC	$ (11,170)	$ (22,770)

Exhibit B *(Continued)*

For Fiscal Years Ended September 30, 1989 and 1988
(Dollars in Millions)

	Fiscal Year 1989	Fiscal Year 1988 (Restated)
Net Cost of Operations - CCC	$ (11,170)	$ (22,770)
P.L. 480 Program *(Note B)*:		
Costs Under P.L. 480, Title II	(841)	(535)
Interest Income *(Note N)*:	253	311
Provision for Doubtful Accounts *(Note Q)*:		
Principal	(1,137)	(981)
Interest	(11)	(18)
P.L. 480, Title I Expense	(59)	(106)
Appropriated Capital Used	900	641
Foreign Currency Gain (Loss)	28	(19)
P.L. 480 Net Cost of Operations	(867)	(707)
Net Cost of Operations - Total	(12,037)	(23,477)
Financed by Appropriations *(Note G)*	11,170	22,770
Net Cost of Operations Transferred to Equity	$ (867)	$ (707)

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

Exhibit C

For Fiscal Years Ended September 30, 1989 and 1988
(Dollars in Millions)

	Fiscal Year 1989	Fiscal Year 1988 (Restated)
CASH FLOW FROM OPERATING ACTIVITIES		
Net Cost of Operations - Total	$ (12,037)	$ (23,477)
Adjustments to Reconcile Net Cost of Operations to Net Cash Provided by Operating Activities:		
Depreciation	24	19
Provision for Doubtful Accounts:		
Domestic Loans Receivable	(52)	(95)
Foreign Loans Receivable	1,298	1,618
Accounts Receivable	(22)	17
Accrued Interest Receivable	16	318
Commodity Inventories	(307)	(1,835)
Change in Assets and Liabilities:		
Commodity Inventories	1,817	7,038
Accounts and Notes Receivable	(11)	(551)
Accrued Interest Receivable	376	(542)
Advance Payments to Producers	307	11
Other Assets	188	676
Accounts Payable	(855)	438
Accrued Interest Payable	388	(316)
Accrued Liabilities	(4,624)	(634)
Other Liabilities	(316)	(702)
Other Adjustments	308	71
Total Adjustments	(1,465)	5,531
Net Cash From Operating Activities	(13,502)	(17,946)
CASH FLOW FROM INVESTING ACTIVITIES		
Collections on Loans	12,307	23,825
Loans Made/Advanced	(10,044)	(19,192)
Acquisition of Property and Equipment	(61)	(89)
Proceeds from Sale of Property and Equipment	38	51
Net Cash from Investing Activities	2,240	4,595
CASH FLOW FROM FINANCING ACTIVITIES		
Borrowings from Treasury	15,086	15,656
Payments on Treasury Borrowings	(13,220)	(25,106)
Appropriations/Reimbursements	9,926	19,297
Other	(510)	3,469
Net Cash from Financing Activities	11,282	13,316
Net Increase (Decrease) in Cash	20	(35)
Cash at Beginning of Year	1	36
Cash at End of Year	$ 21	$ 1

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Equity of U.S. Government

Exhibit D

For Fiscal Years Ended September 30, 1989 and 1988
(Dollars in Millions)

	Capital Stock	Public Law 83-480 Appropriated Capital	Public Law 83-480 Invested Capital	Public Law 83-480 Cumulative Results of Operations	Total
Equity, September 30, 1987 (As Reported)	$ 100				$ 100
Reclassification From:					
Deposit and Trust Liability		$ 794			794
Obligations Due			$ 8,903	$ 241	9,144
Equity, September 30, 1987 (Restated)	100	794	8,903	241	10,038
Net Cost of Operations - Fiscal Year 1988				(707)	(707)
Appropriations Received		1,060			1,060
Loan Disbursements		(133)	133		0
Appropriations Expended:					
P.L. 480, Title II Commodity Donations		(535)			(535)
P.L. 480, Title I Expenses		(106)			(106)
Equity, September 30, 1988 (Restated)	100	1,080	9,036	(466)	9,750
Net Cost of Operations - Fiscal Year 1989				(867)	(867)
Appropriations Received		1,098			1,098
Loan Disbursements		(257)	257		0
Appropriations Expended:					
P.L. 480, Title II Commodity Donations		(841)			(841)
P.L. 480, Title I Expenses		(59)			(59)
Equity, September 30, 1989	$ 100	$ 1,021	$ 9,293	$ (1,333)	$ 9,081

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

September 30, 1989 and 1988

Note A - General Purpose

The Commodity Credit Corporation (CCC) was incorporated as a Delaware corporation and organized as an agency of the United States by Executive Order in 1933. In 1948, the Commodity Credit Corporation Charter Act reincorporated CCC as a corporate body and agency of the United States within the United States Department of Agriculture (USDA). The act chartered CCC for the purpose of stabilizing, supporting, and protecting farm income and prices; assisting in the maintenance of balanced and adequate supplies of agricultural commodities; and facilitating the orderly distribution of agricultural commodities.

CCC programs include:

- Price-support programs designed to provide eligible producers of certain agricultural commodities the opportunity to obtain a specified return on their production of eligible commodities regardless of fluctuations in market prices.
- Supply programs undertaken, as need arises, to provide commodities to government agencies, foreign governments, relief and rehabilitation agencies, and for domestic consumption requirements.
- Commodity export programs designed to aid in the development or expansion of export markets for United States' agricultural commodities and products.
- Donation programs, which under certain statutory provisions, authorize CCC to donate commodities to domestic and international relief agencies and government agencies.
- Special activity programs carried out under authority of the Corporation's charter and specific authorization and directives.

General Overhead

CCC does not have any operating personnel. Most programs are administered through and by the USDA Agricultural Stabilization and Conservation Service (ASCS), Agricultural Marketing Service (AMS), and Foreign Agricultural Service (FAS). CCC reimburses ASCS, AMS and FAS for their services.

Substantially all of CCC's operating expenses are paid, as authorized by law, from an ASCS consolidated fund account which covers operating expenses for CCC and ASCS, and CCC operating expenses related to AMS and FAS activities. The consolidated account is funded by transfer of CCC corporate funds subject to limitations specified in the annual appropriation act.

Note B - Summary of Significant Accounting Policies

General Accounting Policy

CCC's policy is to adhere to accounting principles and practices which are generally accepted in the field of commercial accounting. For transactions not covered by generally accepted accounting principles for commercial accounting, CCC follows GAO's Policy and Procedures Manual for Guidance of Federal Agencies (Title 2), where applicable.

Allowance for Doubtful Foreign Receivables and Accrued Liability for Guarantees

CCC recorded an allowance for doubtful foreign loan receivables for the first time during fiscal year 1989. The allowance provides for the risk of loss inherent in the lending process. Recognition of the doubtful foreign receivables implies that, although the amounts are still owed, the prospects of collection of some of CCC's foreign loans are impaired. No loans have been forgiven or written off. It does not provide for losses on a country-by-country basis and is intended only to provide an overall reevaluation of the loan portfolio. The allowance is available to absorb credit losses related to the total foreign loan portfolio.

CCC also recorded an accrued liability for guarantees for the first time during fiscal year 1989. This liability provides for both probable and reasonably estimated amounts that CCC may be liable for in the future under the Export Credit Guarantee Programs.

The establishment of an allowance for doubtful foreign receivables and an accrued liability for guarantees for fiscal year 1989 was a change in accounting principle. In accordance with the provisions of Accounting Principles Board Opinion No. 20, the fiscal year 1988 financial statements have been restated to reflect the change. The effect of the change was to increase the CCC fiscal year 1988 net cost of operations by $1,349 million from its previously reported level of $21,721 million. This increase, combined with the FCIC transfer prior period adjustment of $300 million (see Note P), resulted in a 1988 restated net cost of operations of $22,770 million.

Commodity Certificates

The Commodity Credit Corporation Charter Act, as amended, and the Agricultural Act of 1949, as amended, provide authority for CCC to make payments in forms other than cash. Accordingly, payments are made with commodity certificates for such programs as: wheat, feed grains, rice and upland cotton deficiency and diversion; cotton loan deficiency; and the Conservation Reserve and Export Enhancement Programs.

Commodity certificates are denominated in specific dollar amounts and can be (1) redeemed for commodities in CCC's inventory, (2) exchanged for cash, or (3) sold to a third party.

Commodity certificates payable at September 30, 1989, and September 30, 1988, are $154 million and $835 million, respectively, and are included in Accounts Payable on the Statement of Financial Position.

Commodity Loans

CCC makes nonrecourse loans to producers on designated agricultural commodities. These loans are carried at the unpaid principal balance. Producers have the option to either repay the principal plus interest or, at maturity, to forfeit the commodity in full satisfaction of the loan.

Allowances for doubtful accounts on commodity loans are based on the estimated loss on ultimate commodity dispositions.

Generally, interest is not accrued on commodity loans because the amount and timing of interest payments to be received is uncertain. In these cases, CCC realizes interest income at the time the interest payment is received.

However, in the case of tobacco loans subject to the No Net Cost Tobacco Act of 1982, as amended, CCC accrues interest to be received and defers interest income. This is done, pursuant to the Act, to assure that CCC will not sustain losses while administering the tobacco loan program. The accrual occurs at the end of each fiscal year and is subsequently taken off the books at the beginning of the next fiscal year. During the fiscal year, CCC realizes interest income when the interest payment is received. If, at any time, CCC calls in a tobacco loan, the accrued interest on the loan is paid to CCC to the extent possible from the No Net Cost Tobacco assessments collected.

Commodity Inventories

Inventories are recorded at acquisition cost plus processing and packaging costs incurred after acquisition. Acquisition cost is the amount of the loan settlement, excluding interest, or the amount of the purchase settlement. The loan and purchase rates under price support programs are fixed to accomplish price-support objectives set by legislation. Therefore, acquisitions are usually at a cost higher than market value.

CCC inventories are stored in over 5,000 public warehouses, most of which are monitored for completeness and condition at least annually.

Generally, the cost allocated to dispositions of commodities is computed on the basis of average unit cost of the commodity in inventory at the end of the previous month. However, in other cases, the cost is computed on the basis of actual (historical) cost of the commodity. This is prevalent with certain dispositions from (1) the peanut price support inventory, (2) commodity export programs, and (3) loan collateral sold to CCC in exchange for commodity certificates.

Allowances on commodity inventories are based on the estimated loss on ultimate commodity dispositions, including donations.

Fixed Assets

Fixed assets acquired by CCC are recorded at the acquisition cost. Major equipment purchases which are used directly in the operation of programs are depreciated on a straight-line basis over a period not to exceed 15 years.

Feed Grain, Wheat, Cotton, Rice, and Emergency Program Expenses

In accordance with the Agricultural Act of 1949, as amended, CCC makes payments to eligible producers of feed grain, wheat, upland cotton, extra long staple cotton, and rice. Payments are made for: (1) deficiency, diversion, and disaster programs; (2) first handler, inventory protection, and loan deficiency programs for upland cotton; and (3) rice marketing certificate program. The Disaster Assistance Act of 1988 was enacted on August 11, 1988, to provide disaster and livestock emergency assistance to producers who experienced livestock or crop losses due to drought, hail, or excessive moisture in 1988. Similarly, the Disaster Assistance Act of 1989, enacted on August 14, 1989, provided disaster and livestock emergency assistance to producers who experienced livestock or crop losses due to damaging weather or related conditions in 1988 or 1989.

CCC accrues estimated deficiency, diversion, and disaster payments due producers in the fiscal year in which the deficiency, diversion, or disaster begins.

Dairy Programs

Programs are authorized by the Agricultural Act of 1949, as amended, to stabilize the supply and demand for dairy products. The Act specifies price support levels per hundredweight for milk through 1990. For certain time periods, the Secretary of Agriculture has been required to provide for reductions in the price received by producers for all milk produced in the United States and marketed by producers for commercial use. Under this program, the reduction in price is remitted to CCC by the milk purchaser at the time of payment to the producer. In the case of a producer's own milk production which is sold directly to consumers, the reduction is remitted directly to CCC by such producer. Collections were terminated on December 31, 1988, and are to be reinstituted for the month of January, 1990.

Under the Dairy Termination Program, the Secretary of Agriculture, from February 10 through March 7, 1986, received bids from farmers to enter into contracts to terminate milk production and dispose of the producers' whole herd of cattle over an 18-month period by selling, for slaughter or export, all dairy cattle in which the producers have financial interests. Payments to producers, based on bids submitted by producers and accepted by CCC, will be made over a 5-year period, beginning after the disposition of the herd.

Conservation Reserve Program

The Conservation Reserve Program is authorized by the Food Security Act of 1985 to control critical soil erosion and to decrease the production of surplus agricultural commodities. In return for signing 10-year contracts, participants receive annual rental payments and one-time cost-share assistance to cover half the cost of adopting necessary conservation practices. For fiscal years 1986 and 1987 only, the Food Security Act provided that the program be funded directly by CCC, with the remaining years funded by separate advance appropriations.

Effective October 1, 1987, the Conservation Reserve Program is funded by direct appropriation to ASCS, who directs CCC's administration of the program.

Public Law 83-480 Foreign Loans and Donations

At the beginning of each fiscal year, CCC receives an appropriation to carry out programs under Public Law 83-480, Titles I, II and III. These funds are recorded in an appropriated capital account. Throughout the fiscal year, CCC incurs costs and disburses funds while administering this program.

Under Title II, the value of commodities made available from CCC inventories for export disposition are donated at no cost to the recipient countries. CCC costs, not to exceed the export market price for price-support commodities, are reimbursed by funds in the P.L. 480 appropriated capital account.

Under Titles I and III, loan receivables are established against those countries to which aid is given. All disbursements for loans are first made from cash obtained from loan repayments, interest collections, and other financing sources. To the extent these amounts are insufficient to cover these disbursements, funds from appropriated capital are used. An invested capital account is established for the amount of loan disbursements from appropriated capital.

Beginning in fiscal year 1989, CCC revised its accounting for P.L. 480 loan activity. Previously, CCC recorded the balance of unexpended appropriations as a deposit and trust liability and recognized appropriations used to fund P.L. 480 loan receivables, net of interest income, as obligations due under the program. In addition, no provision for doubtful accounts was established. CCC now records appropriations received for the program, net of the amount disbursed for loans, in an appropriated capital account. An invested capital account was established to reflect the total amount of loans made from appropriated capital since inception of the program. Other costs financed by appropriated capital are offset by a revenue source, Appropriated Capital Used. Other recoveries, other than from loan activity, are treated as other financing sources. As such, they are recognized on CCC's Comparative Statement of Operations, along with interest income and provisions for doubtful accounts, in a new section titled "P.L. 480 Program".

The fiscal year 1988 Statement of Operations has been restated to comply with the revised presentation used in FY 1989.

Interest on Foreign Loans

CCC's policy is to accrue interest due on all foreign loans. An allowance for doubtful accounts of 100 percent is established for interest accrued on loans with one or more payments in arrears 90 days or more. This allowance totalled $552 million and $526 million at September 30, 1989 and 1988, respectively.

Full Reimbursement from Other Federal Agencies

Under 15 U.S.C. 714 (i), CCC requires reimbursement from other U.S. Government agencies for the cost of services performed, operating costs incurred, or the cost of commodities purchased or delivered to, or on behalf of, these agencies.

Reclassifications

Certain account reclassifications and changes in presentation have been made to the 1988 financial statements in order to conform to the 1989 presentation. These reclassifications include:

a. designating foreign debt as foreign loans receivable, rather than its previous classification as accounts and notes receivable,
b. representing unexpended appropriations under the P.L. 480 program (including those for Frustrated Cargo) as appropriated capital, rather than deposit and trust liabilities,
c. recognizing appropriations used to fund P.L. 480 loan receivables as invested capital rather than as an obligation due under the P.L. 480 program,
d. recognizing a cumulative results of operations on P.L. 480 loan activity,
e. reclassifying accrued interest due under the P.L. 480 program from accounts and notes receivables to accrued interest receivable, and
f. re-categorizing advances for storage charges offset in accounts payable and cash entered for collection from liabilities to assets.

Note C - Domestic Loans Receivable

Domestic loans receivable at September 30, 1989 and 1988, were:

	September 30	
	1989	1988
	(In Millions)	
Corn	$ 1,921	$ 3,803
Other Feed Grains	120	422
Wheat	865	1,608
Tobacco	1,236	1,615
Upland Cotton	594	568
Other	172	312
Storage Facility and Equipment	14	25
Domestic Loans Outstanding	4,922	8,353
Less:		
Allowance for Doubtful Accounts	(294)	(346)
Net Domestic Loans Receivable	$ 4,628	$ 8,007

Note D - Foreign Loans Receivable

Foreign loans receivable at September 30, 1989 and 1988, were:

	September 30	
	1989	1988
	(In Millions)	
Public Law 83-480:		
Principal	$ 12,204	$ 11,632
Export Credit Sales	581	732
Export Guarantee Claims Paid	234	225
Rescheduled Guarantees Paid	3,178	2,691
OGSM Sales to Foreign Governments	182	238
Foreign Loans Outstanding	16,379	15,518
Less:		
Allowance for Doubtful Accounts	(6,366)	(5,038)
Net Foreign Loans Receivable	$ 10,043	$ 10,480

Past due installments of principal and interest on loans receivable from foreign governments as of September 30, 1989 and 1988, amounted to $857 million and $1,044 million, respectively. This decrease was caused, in a large part, by rescheduling of past due installments.

The receivables also include repudiated debt of $20 million for Khmer Republic and $12 million for Vietnam.

Note E - Accounts and Notes Receivable

Accounts and notes receivables at September 30, 1989 and 1988, were:

	September 30	
	1989	1988
	(In Millions)	
National Wool Act	$ 94	$ 5
Cargo Preference	39	--
Government Agencies	7	2
Barter Program	7	21
Producers	791	651
State Office Claims	155	149
Other Claims	159	166
Others	57	304
Subtotal	1,309	1,298
Less: Allowance for Doubtful Accounts	(175)	(197)
Net Accounts and Notes Receivable	$ 1,134	$ 1,101

A receivable for $650 thousand was established in FY 1990 to recognize an amount due based on an OIG audit relating to CCC contracting. Since CCC received the benefit of the services and there are significant legal concerns related to the potential collection of the debt, CCC determined the amount due uncollectible under its claims settlement authority.

Note F - Accrued Interest Receivable

Accrued interest receivable at September 30, 1989 and 1988, were:

	September 30	
	1989	1988
	(In Millions)	
P.L. 480 Program	$ 374	$ 352
CCC Domestic Loans	433	747
Export Credit Guarantee Program	102	84
Foreign Governments - Rescheduled	425	527
Other	1	1
Subtotal	1,335	1,711
Less:		
Allowance for Doubtful Accounts	(656)	(640)
Net Accrued Interest Receivable	$ 679	$ 1,071

Note G - Future Financing Sources

Net Realized Losses

Public Law 87-155, as amended, authorizes reimbursement to CCC for its net realized losses each year. Reimbursement for net realized losses as of September 30, 1989 and 1988, was:

	September 30	
	1989	1988
	(In Millions)	
Realized Loss/(Gain):		
Through September 30, Previous Year	$ 172,955	$ 166,010
PLUS: Prior Period Adjustment	--	300
Adjusted Realized Loss	$ 172,955	$ 166,310
Current Fiscal Year:		
Net Cost of Operations - CCC	11,170	22,770
Adjustment for Allowances:		
Domestic Loans	52	95
Foreign Loans	(161)	(637)
Commodity Inventories	307	1,835
Accrued Interest Receivable	49	(300)
Accounts and Notes Receivable	22	(17)
Guarantees	(648)	(412)
Net Change in Allowances	(379)	564
Realized Loss / (Gain) - Current Fiscal Year	10,791	23,334
Sub-total	183,746	189,644
Less: Advanced Appropriation	--	(16,689)
Total	183,746	172,955
Restorations from U.S. Treasury:		
To September 30, Previous Year:		
Notes Canceled	2,698	2,698
Payments to U.S. Treasury	(138)	(138)
Appropriations	161,097	159,675
	163,657	162,235
Appropriations - Current Fiscal Year	8,828	1,422
Net Restorations	172,485	163,657
Recovery	598	598
Total Restoration and Recoveries	173,083	164,255
Future Appropriations for Net Realized Losses	$ 10,663	$ 8,700

The Rural Development, Agriculture and Related Agencies Appropriation Act of 1988, as contained in Public Law 100-202, provided for seventeen individual spending authorizations totalling $21.1 billion for the purpose of financing CCC's programs. These funds were used for reimbursement of $1,422 million of fiscal year 1987 losses, $14,993 million of fiscal year 1988 losses, and $126 million for the National Wool Program. Fiscal year 1988 statements have been restated to apply an additional $1,695 million against realized losses, with the remaining $2,897 million due to U.S. Treasury, instead of a carryover of $4,592 million of appropriated capital, as previously reported.

Deferred Unrealized Losses

Public Law 87-155, as amended, authorizes reimbursement to CCC for its net realized losses each year. Unrealized losses, which represent changes in certain accrued expenses, are not reimbursed to CCC until realized. Unrealized losses represent future funding that will be required by the Corporation. The change in CCC's deferred funding for realized losses during fiscal year 1989 and 1988 was:

	September 30	
	1989	1988
	(In Millions)	
Deferred funding for losses - beginning of fiscal year	$ 5,877	$ 6,441
Net change in allowance for doubtful accounts	379	(564)
Deferred funding for losses - end of fiscal year	$ 6,256	$ 5,877

Note H - Accrued Liabilities

Accrued liabilities as of September 30, 1989 and 1988, were:

	September 30	
	1989	1988
	(In Millions)	
Deficiency Payments	$ 3,275	$ 4,134
Diversion Payments	--	*
Export Enhancement Program	*	--
1989 Disaster Assistance Act Payments:		
Livestock Feed Program Payments	89	1,959
Forage Assistance Program	*	50
Tree Assistance Program	2	40
Disaster Program	1,000	3,492
Carrying Charges	210	170
Reserve for Guarantees	2,608	1,961
Other Accrued Expenses	6	8
Total	$ 7,190	$ 11,814

* Less than $500 thousand.

Note I - Deposit and Trust Liabilities

Deposit and trust liabilities are amounts advanced to, or deposited with, CCC. The balances as of September 30, 1989 and 1988, were:

	September 30	
	1989	1988
	(In Millions)	
Funds appropriated for Agricultural Stabilization and Conservation Service Programs:		
Agricultural Conservation	$ 223	$ 233
Rural Clean Water	11	16
Water Bank	41	40
Emergency Conservation	9	12
Expenses, ASCS (County Office)	32	27
Forestry Incentives	18	18
Dairy and Beekeeper Indemnity	1	*
Colorado River Salinity Control	5	4
Conservation Reserve Program	1,150	794
ASCS Subtotal	1,490	1,144
Advances from Agricultural Marketing Service and Food and Nutrition Service	171	268
No Net Cost Tobacco Fund	434	381
Warehouse User Fee Fund	3	2
Government Agencies	22	10
Amount Due Treasury	3	2
ASCS Administrative Collections	1	1
Other Advances and Deposits	53	62
Total	$ 2,177	$ 1,870

* Less than $500 thousand.

Note J - Borrowing Authority

CCC operations are financed by borrowings from the U.S. Treasury which, at any one time, cannot exceed $30 billion. CCC's borrowings from the U.S. Treasury amounted to $13,706 million and $11,758 million at September 30, 1989 and 1988, respectively. CCC refinances its borrowings annually on January 1. Monthly interest rates ranged from 8.0 to 9.5 percent during fiscal year 1989 and from 6.6 to 8.0 percent during fiscal year 1988. Interest expense for fiscal years 1989 and 1988 borrowings, respectively, was $968 million and $637 million.

Note K - Commitments and Contingencies

Sales and other disposition commitments are not reflected in the accounts, but are considered in establishing allowances for doubtful accounts.

Letters of commitment issued to banking institutions were $498 million at September 30, 1989 and $230 million at September 30, 1988.

Under the Export Credit Guarantee Program, CCC enters into guarantee agreements with U.S. exporters who sell agricultural commodities on credit. The CCC guarantee protects the exporter or the assignee against loss from defaults for payments due from a foreign bank. CCC's protection is for the amount specified by CCC, up to the unpaid port value of the commodity, plus interest of not more than certain U.S. Treasury bill auction rates. For this protection, the exporter must pay CCC a fee at the time of application for a guarantee agreement. In the event of default, CCC pays the exporter or the assignee in U.S. dollars and takes action to recover the amount due from the foreign bank and/or the importer.

CCC's contingent liability for guarantee programs as of September 30, 1989 and 1988, is $8,366 million and $6,022 million, respectively, for principal and $650 million and $464 million, respectively, for interest. For amounts that are both probable and estimable that CCC will pay the exporter (or assignee), CCC has recorded a liability in its accounts. As of September 30, 1989 and 1988, this accrued liability totalled $2,416 million and $1,815 million, respectively, in principal and $192 million and $146 million, respectively, in interest.

Contracts to acquire commodities, considered contingent liabilities, are not reflected in the accounts. The approximate contract values of undelivered commodities under contracts to acquire such commodities at September 30, 1989 and 1988, were $165 million and $214 million, respectively.

Pending Litigation

As of September 30, 1989, any amount of loss associated with pending litigation against the Corporation is immaterial in relation to the financial statements taken as a whole.

Subsequent Event

On January 16, 1991, war broke out in the Middle East which has further increased the likelihood that some CCC loans and guarantees to certain countries may not be collected. CCC's liability for losses related to these loans and guarantees is approximately $2 billion.

Note L - Capital Stock

CCC's capital stock of $100 million was subscribed by the United States as provided in the Commodity Credit Corporation Charter Act. The charter requires CCC to pay interest on its capital stock to the U.S. Treasury at rates determined by the Secretary of the Treasury. The amount and rate paid to Treasury during fiscal year 1989 was $8.8 million and 8.750 percent. The amount and rate paid to Treasury during fiscal year 1988 was $8.8 million and 8.750 percent.

Note M - Public Law 83-480 Equity

Beginning in fiscal year 1989 and restated for fiscal year 1988 for comparability purposes, CCC reclassified the following accounts for P.L. 83-480 foreign loans and donations.

Appropriated Capital

Reclassified from a deposit and trust liability, the appropriated capital account represents the amount of unexpended appropriations for foreign loan and donation programs.

Invested Capital

Reclassified from part of obligations due, invested capital, funded primarily by appropriations, represents CCC's equity in the P.L. 480 loan receivables. Invested capital represents cumulative loans made since program inception funded by appropriations.

Cumulative Results of Operations (Deficit)

Reclassified from the balance of obligations due, cumulative results of operations under P.L. 480 for September 30, 1989 and 1988 consisted of:

	September 30	
	1989	1988
	(In Millions)	
Interest Earnings from Program Inception	$ 3,148	$ 2,841
Provision for Doubtful Accounts	(4,617)	(3,415)
Foreign Currency Gains	136	108
Cumulative Results of Operations (Deficit)	$ (1,333)	$ (466)

Note N - Interest Income

CCC

Interest income on CCC loans delinquent 90 days or more is offset by a 100 percent provision for doubtful accrued interest receivable. This offset is not part of the provision for doubtful accrued interest receivable as included on the Interest Expense line of the Statement of Operations (see Note 0).

The effect on interest income on CCC loans for fiscal years 1989 and 1988, respectively, was:

	1989	1988
	(In Millions)	
Interest Income Before Offset	$ 922	$ 786
Adjustment for Accrued Interest on Loans in Arrears 90 Days or More	28	(274)
Interest Income - CCC	$ 950	$ 512

P.L. 480 Program

Interest income on P.L. 480 loans delinquent 90 days or more is offset by a 100 percent provision for doubtful accrued interest receivable. This offset is not included in the provision for doubtful accrued interest receivable, as reported in the P.L. 480 Program section of the Statement of Operations (see Note Q).

The effect on interest income on P.L. 480 loans for fiscal years 1989 and 1988, respectively, was:

	1989	1988
	(In Millions)	
Interest Income Before Offset	$ 306	$ 311
Adjustment for Accrued Interest on Loans in Arrears 90 Days or More	(53)	*
Interest Income - P.L. 480	$ 253	$ 311

* Less than $500 thousand.

Note O - Interest Expense

Interest expense includes a provision for doubtful accrued interest receivables. This provision does not include the 100 percent provision on interest accrued on loans delinquent 90 days or more (see Note N).

The effect on interest expense for fiscal years 1989 and 1988, respectively, was:

	1989	1988
	(In Millions)	
Interest Expense Before Adjustment for Doubtful Accrued Interest Receivable	$ 1,010	$ 676
Adjustment to Allowance for Doubtful Accrued Interest Receivables - Current	(21)	26
Interest Expense	$ 989	$ 702
Interest Paid	$ 622	$ 993

Note P - FCIC Transfers

Under the Food Security Act of 1985 (P.L. 99-198), which amended 7 U.S.C. 1516 (c)(1) of the Federal Crop Insurance Act of 1980, funds in the amount of $400 million and $900 million were transferred to the Federal Crop Insurance Corporation (FCIC) during fiscal years 1989 and 1988, respectively, in order to assure timely indemnity payments to insured producers. $300 million transferred to FCIC in 1987 was erroneously reported as an expense of fiscal year 1988. The 1988 financial statements have been restated to reflect a prior period adjustment of $300 million.

Note Q - Provision for Doubtful Accrued Interest Receivable

The provision for doubtful P.L. 480 accrued interest receivable, as shown on the Statement of Operations, does not include the 100 percent provision on interest accrued on loans delinquent 90 days or more (see Note N).

The effect on the provision for doubtful accrued interest receivable for fiscal years 1989 and 1988, respectively, was:

	1989	1988
	(In Millions)	
Provision for Doubtful Accrued Interest Before Offset	$ 64	$ 18
Adjustment for Accrued Interest on Loans Arrears 90 Days or More	(53)	*
Provision for Doubtful Accrued Interest	$ 11	$ 18

* Less than $500 thousand.

Note R - Cumulative Effect of Prior Period Adjustments

For the first time in 1989, CCC recorded allowances for doubtful foreign loan receivables and an accrued liability for guarantees. The establishment of these allowances and the accrued liability, as such, are prior period adjustments and, consequently, the 1988 financial statements have been restated to reflect the cumulative effect of these changes. In addition, $300 million transferred to FCIC in 1987 was erroneously reported as an expense of fiscal year 1988. The cumulative effect of these prior period adjustments, as well as the change in accounting for the P.L. 480 program (see Note B), on the fiscal year 1988 beginning equity of the U.S. government is:

	CCC	P.L. 83-480 Cumulative Results of Operations (Deficit)
	(In Millions)	
Allowance for Doubtful Foreign Loans:		
Principal	$ (1,122)	$ (2,298)
Interest	(204)	(118)
Accrued Liability on Guarantees	(1,548)	--
FCIC Transfer	(300)	--
Interest Earnings	--	2,530
Foreign Currency Gains	--	127
Total Cumulative Effect of Prior Period Adjustments	(3,174)	241
Financed by Appropriations	3,174	0
Net Cumulative Effect of Prior Period Adjustments	$ 0	$ 241

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