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

Resources, Community, and
Economic Development Division

B-270704

February 22, 1996

The Honorable Dan Glickman
The Secretary of Agriculture

Dear Mr. Secretary:

Recently, large portions of the U.S. Department of Agriculture's (USDA) marketing gains and loan deficiency payments have gone to cooperative marketing associations known as CO-OPs, which then distribute these benefits to individual members. The benefits accrue under the Food Security Act of 1985, which gives producers and CO-OPs the option of repaying their federal price support loans at a discount--known as a marketing gain--or receiving a payment equivalent to the discount--known as a loan deficiency payment. In 1993, CO-OPs received over $350 million in marketing gains and loan deficiency payments for cotton and rice, or 44 percent of all these benefits. Given this high level of payments to CO-OPs, we examined the adequacy of USDA's procedures for ensuring that the payments CO-OPs receive on behalf of their members do not exceed the annual statutory limit of $75,000 per person.

In summary, we found that USDA exercises little oversight over the marketing gains and loan deficiency payments received by individual CO-OP members. More specifically, it does not independently determine whether these benefits are within the statutory limit or whether individual CO-OP members receive only those benefits to which they are entitled. However, in our analysis of data from 10 CO-OPs, we found no instance in which the benefits paid to individual CO-OP members exceeded the statutory limit.

While we did not identify any CO-OP members who had received benefits in excess of the limit, we visited one rice CO-OP whose accounting methods could allow its members to receive more than they are entitled to receive. Although USDA, in effect, instructed the CO-OP to discontinue this practice, the CO-OP continues to use it.

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By June 1996, USDA plans to implement actions that are intended to improve its oversight of payments to CO-OP members. In addition, it intends to review the potential for overpayment that we identified at the rice CO-OP.

BACKGROUND

Under the Agricultural Act of 1949, as amended, a producer can obtain federal price support assistance as an individual and/or as a member of an approved CO-OP. This assistance takes several forms, including nonrecourse loans provided by USDA's Commodity Credit Corporation (CCC). CCC makes these loans at a legislatively established loan rate, and producers and CO-OPs, in turn, pledge their stored commodities as collateral. Nonrecourse loans give producers and CO-OPs the option to (1) repay the loan in full or (2) forfeit the commodities as full repayment of the loan. For both cotton and rice, the quality of the commodity reported to USDA affects the amount of the loan a CO-OP and/or individual producer is entitled to receive.

The Food Security Act of 1985 introduced a new concept, the marketing loan provision, which allows producers to redeem nonrecourse loans at a discount, referred to as a *marketing gain*. For example, if the adjusted world price for cotton falls by 4 cents per pound below the established loan rate, producers and/or CO-OPs could realize a marketing gain of 4 cents per pound by paying off the original loan at the adjusted world price.

Alternatively, producers and CO-OPs can choose not to pledge their crops as collateral for federal loans and instead be paid the difference between the adjusted world price and the loan rate. This difference is known as a loan deficiency payment. For the 1993 crop year, U.S. cotton and rice producers received marketing gains and loan deficiency payments of over $794 million. Of this amount, over $350 million, or 44 percent, was received through 11 cotton and 4 rice CO-OPs.

The Congress limits total marketing gains and loan deficiency payments for all crops to $75,000 per person annually.[1] Because producers may receive

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[1]For the purpose of calculating payment limits, the definition of "person" includes not only individuals but also corporations, limited partnerships, and associations. Under this definition, an individual can, under certain business arrangements, receive more than $75,000 in marketing gains and

price support payments through more than one CO-OP, as well as through a USDA county office, USDA allocates a proportionate amount of a producer's total payment limit to each CO-OP and county office from which the producer receives payments. Each CO-OP is then responsible for (1) calculating marketing gains and loan deficiency payments for its members and (2) ensuring that its members do not receive payments exceeding their portion of the USDA-assigned payment limit.

USDA PROVIDES LITTLE OVERSIGHT OF PAYMENTS TO CO-OP MEMBERS

USDA maintains automated information on the benefits paid to each CO-OP as a whole and on the portion of the payment limit allotted to each member in a CO-OP. However, it does not independently determine whether the payments to individual members are within the statutory limit or whether the CO-OPs properly calculate the payments to their members.[2]

Although USDA's oversight of payments is limited, our assessment of the payment records for more than 35,000 members of eight cotton and two rice CO-OPs did not identify any payments to individual CO-OP members that exceeded the statutory limit. However, we cannot rule out the possibility that some CO-OP members received payments in excess of the limit because we assessed only the benefits that producers received from a single CO-OP. We did not determine, except for one CO-OP, whether producers might have exceeded the limit by receiving payments through other CO-OPs. In addition, we did not determine whether producers received payments as members of multiple entities, such as partnerships.

While we did not find any payments to CO-OP members that exceeded the statutory limit, we visited one rice CO-OP whose accounting practices could result in excessive payments to its members. This CO-OP uses a continuous weighted average accounting method to calculate the quality of the rice that

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loan deficiency payments.

[2]USDA also periodically conducts administrative reviews of each CO-OP. However, these reviews typically do not include evaluations of whether payments to members were properly calculated or were within the payment limit.

the CO-OP places under loan[3] and at times rounds up the resulting calculation of quality. These accounting practices may overstate the quality of the rice, leading to excessive loans.

We did not calculate the impact of these practices on the loans and payments recently received by this CO-OP. However, a 1988 audit[4] by USDA's Office of Inspector General found that this CO-OP and one other had received more than $10 million in excessive loans for their members because they had used these accounting methods.

On the basis of the 1988 audit, USDA told the CO-OPs that they should not obtain price support payments for a quantity or quality of rice that exceeds the quantity or quality of the rice received from members. In effect, USDA instructed these rice CO-OPs not to use the continuous weighted average accounting method. While one CO-OP discontinued this practice, the other has not.

USDA HAS PROPOSED ACTIONS TO IMPROVE ITS OVERSIGHT

USDA plans to have in place by June 1996 an improved automated system to provide information on payments to individual CO-OP members. The current system provides information on a producer's eligibility for the program's benefits and on the payment limit established for each producer. The planned enhancements will enable USDA to track a CO-OP's payments to individual members. Thus, the system will be able to determine if producers are eligible for benefits, identify the amount of the benefits received by each CO-OP member, and determine whether payment limits have been exceeded.

USDA also plans to review the rice CO-OP that continues to use accounting practices that could lead to excessive loans and potential overpayments. It

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[3]This CO-OP determines the continuous weighted average of rice quality each day by (1) calculating the total amount of rice on hand at each quality level (milling yield), (2) determining what percent of the total each quality level represents, and (3) adding these figures to compute the continuous weighted average quality for all rice delivered to the CO-OP to date.

[4]Agricultural Stabilization and Conservation Service Administration of 1986 and 1987 Price Support Loans to Rice Cooperatives, Audit Report No. 03641-2-Te (Sept. 23, 1988).

will conduct the review in February 1996 and take whatever corrective actions the review indicates are necessary.

AGENCY COMMENTS

We provided copies of a draft of this report to USDA's Chief, Policy and Procedures Branch, Price Support Division, Washington, D.C.; the Associate Director, USDA's Kansas City Management Office, Kansas City, Missouri; and, the acting assistant to the Regional Inspector General for Audit, USDA's Office of Inspector General, Kansas City, Missouri. These officials generally agreed with the information contained in the report. They also provided several technical clarifications, which we incorporated where appropriate.

SCOPE AND METHODOLOGY

To examine USDA's oversight of marketing gains and loan deficiency payments, we met with officials of USDA's Price Support Division in Washington, D.C.; USDA's Arkansas and Alabama state offices; three USDA county offices in Arkansas, Alabama, and Texas; the Kansas City Commodity Office; and the Kansas City Management Office. We also visited and/or reviewed the records for 8 (2 cotton CO-OPs and one computer servicing agency that processes the program's benefits for 6 smaller cotton CO-OPs) of 11 cotton CO-OPs and for 2 of 4 rice CO-OPs. The eight cotton CO-OPs received 48 percent of the marketing gains and loan deficiency payments received by cotton CO-OPs in 1993, and the two rice CO-OPs received 82 percent of such benefits received by rice CO-OPs in 1994.

To determine whether marketing gains and loan deficiency payments to individual CO-OP members exceeded the statutory limit, we examined 1993 cotton and 1994 rice payment data[5] from 10 CO-OPs and USDA's records. We combined the benefits received by members of these CO-OPs with any benefits they had received through USDA county offices. We then compared

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[5]We planned, initially, to use 1994 data for both cotton and rice payments because 1994 was the most recent year for which complete data were available for both commodities. However, cotton prices were high in 1994, and producers received relatively little price support assistance for cotton during that year. We therefore used data from 1993, when prices for cotton were lower and benefit payments were higher, to assess the adequacy of USDA's procedures for ensuring compliance with the statutory limit.

these total benefits with the $75,000 payment limit. Because two of the rice CO-OPs are located in close proximity to one another, we also examined the records for producers who were members of both CO-OPs. We did not verify the accuracy of the CO-OP and USDA data. Except for the two rice CO-OPs located near each other, we did not determine whether these CO-OP members were also receiving payments from other CO-OPs, nor did we determine whether they were receiving payments as members of multiple entities. We conducted our work from June 1995 through January 1996 in accordance with generally accepted government auditing standards.

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Copies of this report are being sent to the Chairmen of the Senate Committee on Agriculture, Nutrition, and Forestry and the House Committee on Agriculture and to other interested parties. Copies will also be made available to others upon request.

Please contact me at (202) 275-5138 if you or your staff have any questions about this report.

Sincerely yours,

Robert A. Robinson
Director, Food and
Agriculture Issues

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