



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

MR. FITZGERALD
9065
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COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

GAO 00130

JAN 29 1979

Mr. Ray V. Fitzgerald
Administrator, Agricultural
Stabilization and Conservation Service *AGC 00514*
Department of Agriculture



Dear Mr. Fitzgerald:

We have recently completed a limited review of the management of the [Commodity Credit Corporation's (CCC) commodity loan and grain reserve programs] *AGC 00250*. The programs are administered by the Agricultural Stabilization and Conservation Service (ASCS). Our review was directed primarily toward determining the adequacy of the controls over loan collateral commodities stored on the farm. Our detailed work covered primarily the ASCS State and three county offices in Minnesota. We also did limited work in three counties in Kansas and obtained data from ASCS headquarters and the Kansas State ASCS office. In addition, we inquired into the audit work of the Department's Office of Inspector General (OIG) as it related to CCC's commodity loan and grain reserve programs.

REC-0619

In November 1978 we discussed with ASCS headquarters officials the need for some improvements in (1) the methods followed by county commodity inspectors in taking [grain measurements which, along with the test weight, are used as a basis for determining loan amounts under both programs and storage payments under the reserve program and (2) identifying storage facilities containing CCC's loan collateral.] We noted that:

- Procedures needed to be established and issued to State and county offices on how measurements are to be taken.
- A more durable commodity loan seal needed to be developed and used in lieu of the current paper seal.
- The storage facilities containing CCC's collateral needed to be identified on the exterior and the identification recorded on the producers' loan documents.

Handwritten signatures and initials

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We believe that these improvements are needed to establish uniformity in the methods followed by commodity inspectors in measuring grain and to make sure that CCC's collateral is adequately identified. In our review, we found that:

(--Some States and counties require that the grain be in a measurable position before measurement, such as being leveled or having bulkheads (wooden partitions) installed in flat storage structures; *whereas* other States and counties do not.

--The extent of judgment used and number of measurements taken by the inspectors in determining the dimensions of grain varied.] The inspectors in the Minnesota counties used considerable judgment in visually estimating where the grain would level off and measured to that point. [Generally, only overall measurements (height, width, and length) were taken regardless of the size of the facility, the number of cones, or different grain levels.] In one county in Kansas, the inspector took more measurements than the inspectors took in Minnesota. In flat storage structures, the inspector took measurements at various intervals which were used to determine the height of the grain at the edges and through the middle. In round bin structures, the inspector took two sets of measurements--one of the diameter and the height of the grain at the outer edges and one of the cone. The quantity of grain in the cone was computed separately.

(--Although ASCS has established procedures on how to draw a representative sample for test weight, the methods used by the inspectors in the Kansas and Minnesota counties differed significantly.] The inspectors in the Kansas counties used a grain probe and took a sample of grain from different areas and depths. The inspectors in the Minnesota counties did not have or use grain probes but normally obtained the sample from the top of the grain and from one place.

--At the time the loan document is prepared, the producer provides the legal description of the location of the storage facility, such as a specific quarter section. However, in those cases where the producer has numerous storage facilities in the same general location, [the inspector may have difficulty locating the specific storage facility to be inspected, The producers are given paper

As more commodity loan records are not always attached to the applicable bins under loan.

commodity loan seals at the time of certification and instructed to attach them to the applicable bins under loan. However, for various reasons, such as the possibility of weather or rodent damage or forgetting or misplacing the seals, the producers did not always post the seals.

Because CCC assumes responsibility for physical loss or damage to farm-stored collateral in cases of certain disasters, storage facilities should be clearly identified. This identification would also help to reduce the amount of time the inspector spends trying to locate the producer to identify the appropriate storage facility so that the collateral under loan can be inspected.

The OIG in a letter dated August 4, 1978, advised you of some similar problems identified in its audits, including

- multiple similar problems in audits including*
- commodities under loan not always properly tested,
 - commodity loan seals not attached to grain bins, and
 - loan quantities incorrect, collateral not leveled to permit accurate measurements.

to a meeting before [redacted]

In our November meeting with ASCS headquarters officials *have* they agreed that procedures should be developed showing how grain measurements are to be taken, that storage facilities containing CCC's collateral should be better identified, and that an exterior identification would help to facilitate the inspectors' work. They indicated that identification has been a problem over the years and that a more durable seal should be looked into.]

We would appreciate receiving your comments and advice as to the action taken or planned on these matters. If you desire, we will be happy to discuss these matters in more detail with you.

A copy of this letter is being furnished to the Inspector General. We wish to acknowledge the cooperation and courtesies which were extended to our representatives during this review.

Sincerely yours,

Oliver W. Krueger
Oliver W. Krueger
Assistant Director