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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D C 20548

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RESOURCES AND ECONOMIC DEVELOPMENT DIVISION

CAO 00250

OCT 29 1973

Mr. Kenneth E. Frick
Executive Vice President
Commodity Credit Corporation 7 6C00250
Department of Agriculture

Dear Mr. Frick.

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We have surveyed the management of the Commodity Credit Corporation's loan program for farm-stored grain. The program is administered by the Agricultural Stabilization and Conservation Service (ASCS). Our survey included an examination of program records and discussions with officials at three ASCS county offices in Minnesota. We also reviewed reports issued in 1972 by the Office of the Inspector General on its audits of the commodity loan program at ASCS State and selected county offices in Illinois, Iowa, Kansas, Minnesota, and Nebraska.

In February 1973 we discussed with members of your staff our findings that (1) producers were removing, without authorization, grain stored on farms as collateral for price-support loans and (2) ASCS State and county offices were not consistently imposing the penalties prescribed by ASCS for such removals. We advised your staff that we had brought one collateral shortage case to the attention of the ASCS State office. ASCS referred the case for investigation to the Office of the Inspector General which subsequently referred the case to a U.S. Attorney for prosecution. We understand that the U.S. Attorney obtained a judgment against the producer and that the judgment was satisfied on August 30, 1973.

During the February 1973 discussion with your staff, we pointed out the need for ASCS to strengthen the criteria pertaining to unauthorized removals and related penalties. Your staff agreed that action was needed to deal with these matters.

On June 28, 1973, the Deputy Administrator, State and County Operations, issued a notice (LP-259) to ASCS State offices. The notice provides that:

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- Any removal of mortgaged loan collateral prior to repayment of the loan or receipt of a release authorization from the county office is to be considered an unauthorized removal.
- Specific mandatory penalties are to be imposed by county committees for all unauthorized removals, with more severe penalties prescribed for second offenders.
- Additional penalties could be imposed at the discretion of the county committees.

No authority to waive the mandatory penalties was provided for in the notice.

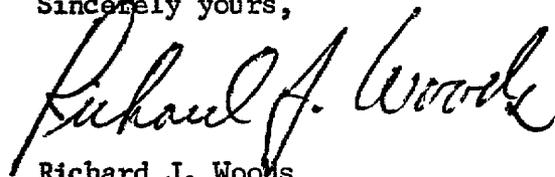
We believe that the actions required by the notice, if implemented, will discourage unauthorized removals of loan collateral but we believe also that additional controls are needed to insure that the prescribed procedures are effectively and uniformly implemented. Accordingly we recommend that ASCS:

- Require county committees to submit periodic reports to State offices on grain shortage cases, including their status and disposition.
- Require that State offices review county committee reports of grain shortage cases and furnish the Deputy Administrator, State and County Operations, summary reports on shortage cases and the results of State office reviews of county committees' actions on such cases.

We believe that these actions will permit a systematic focus by ASCS management on the loan program for farm-stored grain. Although we plan no further review of the program at this time, we would appreciate your advice as to actions taken on our recommendations.

We appreciate the courtesies and cooperation given to our representatives during the survey. A copy of this letter is being furnished to the Inspector General, Department of Agriculture.

DLC 00819
Sincerely yours,



Richard J. Woods
Assistant Director