2014 Explanatory Notes
Grain Inspection, Packers and Stockyards Administration

Contents

Purpose Statement

The Grain Inspection, Packers and Stockyards Administration (GIPSA) was established October 20, 1994, under the authority of the Agriculture Reorganization Act of 1994 (P.L. 103-354), to administer the programs and functions of the former Federal Grain Inspection Service (FGIS) and the Packers and Stockyards Administration (PSA). The mission of the agency is to facilitate the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and to promote fair and competitive trading practices for the overall benefit of consumers and American agriculture. GIPSA is composed of three major activities: (1) Grain Regulatory Program, (2) Inspection and Weighing Services, and (3) Packers and Stockyards Program (P&SP).

GIPSA's Grain Regulatory Program, which is carried out under the authority of the United States Grain Standards Act, as amended (USGSA), and the Agricultural Marketing Act of 1946 (AMA), is currently funded through appropriations. As part of the Grain Regulatory Program, GIPSA promotes and enforces the accurate and uniform application of the USGSA and applicable provisions of the AMA; identifies, evaluates, and implements new or improved techniques for measuring grain quality; and establishes and maintains testing and grading standards to facilitate the marketing of U.S. grain, oilseeds, and related products.

Inspection and Weighing Services are authorized under both the USGSA and the AMA. The USGSA requires the mandatory inspection and weighing of grain at export ports by GIPSA or delegated State agency personnel, and the permissive inspection and weighing of grain at domestic locations by designated State and private agency personnel. The USGSA also requires GIPSA to supervise all official inspection and weighing activities. On a request basis, GIPSA performs inspection of rice and related commodities under the AMA. Both statutes require GIPSA to collect user fees to fund the costs of operations including the supervision and administration of Federal grain inspection and weighing activities.

P&SP activities are authorized by the Packers and Stockyards Act of 1921 (P&S Act), as amended, and Section 1324 of the Food Security Act of 1985. These activities are currently funded through appropriations. GIPSA's Packers and Stockyards Program (P&SP) is responsible for administering the P&S Act, which prohibits unfair, deceptive, and fraudulent practices by market agencies, dealers, packers, swine contractors, and live poultry dealers in the livestock, poultry, and meatpacking industries. The P&S Act makes it unlawful for a regulated entity to engage in unfair, unjustly discriminatory, or deceptive practices. Packers, live poultry dealers, and swine contractors are also prohibited from engaging in specific anti-competitive practices. P&SP conducts two broad types of activities–regulatory and investigative–in its administration and enforcement of the P&S Act. P&SP activities cover two general areas: Business Practices and Financial Protection. Business Practices are further divided into Competition and Trade Practices.

GIPSA headquarters is located in Washington, D.C. GIPSA's grain-related field activities are located in 7 field offices, 1 Federal/State office, and 3 suboffices. P&SP field activities are located in 3 regional offices with 55 resident agent positions across the nation. As of September 30, 2012, there were 638 permanent full-time employees, including 79 in the headquarters office and 559 in field offices.

Available Funds and Staff Years
(Dollars in thousands)

Item	2011 Actual Amount	2011 Actual Staff Years	2012 Actual Amount	2012 Actual Staff Years	2013 Estimate Amount	2013 Estimate Staff Years	2014 Estimate Amount	2014 Estimate Staff Years
Detailed information for each account can be found in the Project Statements.								
Salaries and Expenses:								
Discretionary Appropriations..........	$40,342	310	$37,750	294	$37,981	291	$40,531	288
Rescission...	-81		-					
Total Available..................................	40,261	310	37,750	294	37,981	291	40,531	288
Lapsing Balances..................................	-486	-	-863	-	-	-		
Obligations..	39,775	310	36,887	294	37,981	291	40,531	288
Obligations under other USDA appropriations:								
Ag. Marketing Service - pesticide sales data...	223	1	69	-	182	-	70	
Farm Service Agency for Commodity Credit Corp.............	842	6	1,006	7	1,005	7	1,005	7
Misc, reimbursable.............................	51	1	34	1	34	1	34	1
Total, Other USDA...........................	1,116	8	1,109	8	1,221	8	1,109	8
Total, Agriculture Appropriations......	40,891	318	37,996	302	39,202	299	41,640	296
Non-Federal Funds								
Inspection and Weighing.....................	45,620	403	43,967	384	50,000	380	50,000	376
Total, GIPSA..	86,511	721	81,963	686	89,202	679	91,640	672

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Permanent Positions by Grade and Staff Years

Item	2011 Actual			2012 Actual			2013 Estimate			2014 Estimate		
	Wash. D.C.	Field	Total	Wash. D.C.	Field	Total	Wash. D.C.	Field	Total	Wash. D.C.	Field	Total
SES...............	3	1	4	3	1	4	3	1	4	3	1	4
GS-15	8	4	12	7	3	10	6	2	8	5	2	7
GS-14	20	19	39	16	25	41	15	24	39	13	24	38
GS-13	47	37	84	28	39	67	26	38	66	27	35	65
GS-12	16	85	101	12	102	114	12	102	114	12	102	114
GS-11	10	72	82	5	73	78	5	72	77	5	72	77
GS-10	1	9	10	0	6	6	0	6	6	0	6	6
GS-9	7	160	167	2	144	146	2	144	146	2	143	145
GS-8	4	11	15	5	11	16	5	10	15	5	10	15
GS-7	5	50	55	1	42	43	1	41	42	1	40	41
GS-6	2	45	47	0	63	63	0	63	63	0	63	63
GS-5	0	40	40	0	47	47	0	47	47	0	46	46
GS-4	0	8	8	0	2	2	0	2	2	0	2	2
GS-3	0	1	1	0	1	1	0	1	1	0	1	1
Total Perm. Positions	124	541	665	79	559	638	75	553	628	71	547	624
Total, Perm. Full-Time Employment												
EOY	124	541	665	79	559	638	75	553	628	71	547	624
Staff Year Est	124	597	721	79	607	686	75	604	679	71	601	672

Size, Composition, and Annual Operating Costs of Vehicle Fleet

The passenger motor vehicles of the Grain Inspection, Packers and Stockyards Administration are mainly used by professional resident agents, auditors, marketing specialists, economists and managers to conduct competition, financial and trade practice compliance and investigative activities. These activities are located in rural areas and a high degree of mobility is required. The use of common carriers is seldom feasible. Comparative studies of cost requirements involved in the use of private and Government vehicles have shown that it is more economical to make Government vehicles available than to make reimbursements for the use of private cars. Leased vehicles are replaced based on the General Services Administration (GSA) age and mileage requirements.

GIPSA pools the use of motor vehicles for different activities in order to keep the number of vehicles to a minimum and reduce overall costs of maintenance. One change to the fleet is the transition to agency-owned vehicles from leased vehicles from GSA. These replacements are due to a cost analysis which showed that owning vehicles would be more cost effective than leasing vehicles. GIPSA acquires owned vehicles and replaces leased vehicles on a one-to-one basis but there is generally a lag time between the acquisition of vehicles and expiration of leases. The actual total vehicles, once leases are caught up will be 126 vehicles for 2012.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION
Size, Composition, and Annual Operating Costs of Vehicle Fleet

Fiscal Year	Number of Vehicles by Type *								Annual Operating Costs ($ in 000) **
	Sedans and Station Wagons	Light Trucks, SUVs, and Vans		Medium Duty Vehicles	Ambu-lances	Buses	Heavy Duty Vehicles	Total Number of Vehicles	
		4x2	4x4						
2011	52	64	11	-	-	-	-	127	$557
Change	-1	+7	- 3	+1	-	-	-	+4	-2
2012	51	71	8	1	-	-	-	131	555
Change	-1	-8	+1	-	-	-	-	-8	-9
2013	50	63	9	1	-	-	-	123	546
Change	-1	-1	-1	-	-	-	-	-3	- 1
2014	49	62	8	1	-	-	-	120	539

* Numbers include vehicles owned by the agency and leased from commercial sources or GSA.

** Excludes acquisition costs and gains from sale of vehicles as shown in FAST.

Statement of Proposed Purchase of Passenger Motor Vehicles

Fiscal Year	Net Active Fleet, SOY	Disposals	Acquisitions			Net Active Fleet, EOY
			Replace-ments	Additions to Fleet	Total	
2011	52	-1	0	0	0	51
2012	51	-1	0	0	0	50
2013	51	-1	0	0	0	49
2014	49	0	0	0	0	49

Additions to fleet: for FY 2011 through FY 2014, GIPSA had no and anticipates no additions of passenger motor vehicles (i.e. sedans and station wagons).

The estimates include appropriation language for this item as follows:

Salaries and Expenses

For necessary expenses of the Grain Inspection, Packers and Stockyards Administration, $40,531,000: Provided, that this appropriation shall be available pursuant to law (7 U.S.C. 2250) for the alteration and repair of buildings and improvements, but the cost of altering any one building during the fiscal year shall not exceed 10 percent of the current replacement value of the building.

SALARIES AND EXPENSES

2013 Estimate……...	$37,981,000
Budget Estimate, 2014...	40,531,000
Change in Appropriation...	+2,550,000

SUMMARY OF INCREASES AND DECREASES
(Dollars in thousands)

	2011 Actual	2012 Change	2013 Change	2014 Change	2014 Estimate
Discretionary Appropriations:					
Packers & Stockyards Program....................	$22,467	-$1,197	+130	+$1,218	$22,618
Grain Regulatory Program...........................	17,794	-1,314	+101	+1,332	17,913
Total, Appropriation or Change...............	40,261	-2,511	+231	+2,550	40,531

Project Statement
(On basis of appropriations)
(Dollars in thousands)

Program	2011 Actual		2012 Actual		2013 Estimate		Change		2014 Estimate	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Discretionary Appropriations:										
Packers and Stockyards.	$22,467	175	$21,270	165	$21,400	163	+$1,218	-3	$22,618	160
Grain Regulatory............	17,794	135	16,480	129	16,581	128	+1,332	-	17,913	128
Total Adjusted Approp..	40,261	310	37,750	294	37,981	291	+2,550	-3	40,531	288
Rescission...........................	81	-	-	-	-	-	-	-	-	-
Total Appropriation............	40,342	310	37,750	294	37,981	291	+2,550	-3	40,531	288
Recission.............................	-81	-	-	-	-	-	-	-	-	-
Lapsing Balances............	-486	-	-863	-	-	-	-	-	-	-
Total Obligations................	39,775	310	36,887	294	37,981	291	+2,550	-3	40,531	288

Project Statement
(On basis of obligations)
(Dollars in thousands)

Program	2011 Actual		2012 Actual		2013 Estimate		Change		2014 Estimate	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Discretionary Obligations:										
Packers and Stockyards.	$22,319	175	$21,000	165	$21,400	163	+$1,218	-3	$22,618	160
Grain Regulatory.............	17,456	135	15,887	129	16,581	128	+1,332	-	17,913	128
Total Obligations............	39,775	310	36,887	294	37,981	291	+2,550	-3	40,531	288
Lapsing Balance.............	486	-	863	-	-	-		-		-
Total Available...............	40,261	310	37,750	294	37,981	291	+2,550	-3	40,531	288
Recission.......................	81	-	-	-	-	-	-	-	-	-
Total Appropriations…….	40,342	310	37,750	294	37,981	291	+2,550	-3	40,531	288

JUSTIFICATION

(1) An increase of $270,000 to fund the 2014 pay increase ($31,304 for annualization of the 2013 pay increase and $238,696 for the 2014 pay increase).

This increase will enable GIPSA to maintain staffing levels, which are critical to achieving the agency's objective of facilitating the marketing of livestock, poultry, meat, cereals, oilseeds and related agricultural products and promote fair and competitive trading practices for the overall benefit of consumers and American agriculture. Approximately 80 percent of GIPSA's budget is in support of personnel compensation.

(2) An increase of $1,067,000 ($21,400,000 available in FY 2013) for P&SP to purchase necessary equipment, supplies, and other support expenses.

The Agency's P&SP promotes fair business practices, financial integrity, and competitive markets for livestock, meat, and poultry. Through its oversight activities, including monitoring programs, inspections, compliance reviews, and investigations, P&SP fosters fair competition, provides payment protection, and guards against deceptive and fraudulent trade practices that affect the movement and price of meat animal and their products to producers and consumers. The fund increase will strengthen direct enforcement of the Packers and Stockyards Act (P&S Act) and promote greater voluntary compliance with the P&S Act by offsetting past year staff attrition. The funds will supplement GIPSA enforcement staff with the equipment, supplies, and other support expenses needed to complete their jobs. P&SP relies on 55 resident agents and auditors, with assigned duty stations in their homes across the United States to conduct a large percentage of its front line regulatory inspections and investigations. These agents must travel, at times long distances, in conducting regulatory and investigative field work. Travel is an essential component of allowing GIPSA's resident agents to successfully perform their job function. Funding is also needed to provide all P&SP staff with the necessary equipment and supplies, such as computers and high speed scanners, to conduct their jobs. Without an increase in funding, the program will have to reduce staff in order to maintain sufficient resources (gas, supplies, travel, etc.) to support field activity. By providing staff with resources to travel and the tools needed to successfully conduct their work, GIPSA was able to exceed the target and achieve a level of 87 percent industry compliance with the P&S Act in FY 2012. GIPSA expects that the level of compliance in FY 2013 and FY 2014 will return to the target level of 81 percent, even with the increased funding. Industry compliance can vary because of the continued financial pressures the regulated industry is experiencing, the uncertainty induced in the measure from external factors such as economic conditions, particularly credit availability for smaller firms, the limitations on enforcement in the poultry sector, and structural changes taking place in the regulated industry such as shifts from spot markets to contract markets, and the unknown effect of these changes in industry business practices on entity compliance with the Act. In summary, the funds will assist to offset staff attrition experienced recently and providing staff with the equipment, supplies, and other operating expenses to effectively conduct field operations to maintain target compliance levels in the face of increased economic pressures that have tended to increase regulated entities' incentives to forego compliance with the P&S Act.

(3) An increase of $1,213,000 ($16,581,000 available in FY 2013) for the Grain Regulatory Program to purchase necessary capital equipment including scientific equipment and other support services.

The Agency's Grain Regulatory Program facilitates the marketing of U.S. grains, oilseeds, and related agricultural products by providing farmers, handlers, processors, exporters, and international buyers with information that accurately and consistently describes the quality of these products. To maintain the Agency's worldwide reputation as leader in grain quality assessment, GIPSA is seeking an increase of $1,213,000 for equipment needed to complete development of tests to determine key market factors for rice, and for equipment needed to refine and expand effective mycotoxin and pesticide residue testing and monitoring programs for U.S. grain exporters.

GIPSA is continually developing and refining practicable, rapid and reproducible tests to determine specific qualities that enhance the marketability of U.S. grains, rice and pulse crops. GIPSA seeks funding for equipment necessary to finalize development and implementation of objective tests for use by the rice industry. One test could conceivably measure the amount of surface lipids in rice, a factor currently measured by the rice industry but for which no standard means of determining measurement consistency is currently provided by GIPSA. The rice surface lipids factor may also be useful as an independent and objective measure of determining the degree of milling in rice, a measure for which the rice industry has expressed a strong market need. GIPSA has made major strides in the last fiscal year towards development of this test, and is in the process of initiating a pilot in FY 2013, with plans for full implementation in FY 2014. However, implementation of the test will require FGIS to procure near infared detectors, commonly known as NIRT detectors, to perform the test at field sites. Another test in development is a systemic process using optical scanners for determining the percentage of broken kernels in rice. Both these tests could replace the current process of visual assessments used to determine these conditions. Replacing visual assessment with a systemic, standardized means to assess these conditions will provide greater stability since the the assessment will be based on an objective standard determined by equipment. Doing so will enhance the overall marketing environment for rice.

GIPSA also seeks to refine and expand effective mycotoxin testing and monitoring programs for U.S. grain exporters. These programs are essential for demonstrating that U.S. grain is wholesome and safe for consumption, thereby confirming the high value of U.S. grain commodities. Overseas governments continue to enforce stringent controls on levels of harmful mycotoxins such as aflatoxin. Drought conditions throughout the US in crop year 2012 further heightened concerns about the presence of aflatoxin, and increased the demand for rapid, accurate tests to determine aflatoxin. Private entities working under GIPSA's supervision perform rapid field tests to detect these mycotoxin residues, and have requested that GIPSA not only expand the number and types of rapid tests available to them, but also to implement a program that independently monitors the accuracy of these vital test results. To do so, GIPSA must test the efficacy of the rapid test kits against reference materials developed by GIPSA. Additional equipment, primarily liquid and gas chromatographs, will allow GIPSA to expand the standard reference materials against which rapid test kits developed for use in the field are compared to ensure that U.S. grain meets global mycotoxin requirements.

SALARIES AND EXPENSES

SUMMARY OF INCREASES AND DECREASES
(Dollars in thousands)

Item of Change	Current Law	Program Changes	President's Request
Packers and Stockyards........	$22,618	(-$22,467)	$22,618
Grain Regulatory..................	17,913	(-5,000)	17,913
Total Available...............................	40,531	(-27,467)	40,531

USER FEES - PROPOSED LEGISLATION

Explanation of Proposed Legislation:

Program: Packers and Stockyards Program

Proposal: Amend the Packers and Stockyards Act to provide authority to collect license fees to cover the cost of the program.

Rationale: This proposal would require the beneficiaries of the program (i.e., livestock market agencies, dealers, stockyards, packers, live poultry dealers, and swine contractors) to pay for the services they receive. These market participants benefit because they are protected from the adverse effects of anticompetitive and unfair business practices in meat and poultry marketing and distribution.

Goal: Transfer the cost from the American taxpayer to the beneficiaries of the program.

Offsets: Estimated receipts in FY 2014 would be $22,467,000.

Budget Impact: ($ in thousands)

	2012	**2013**	**2014**	**2015**	**2016**
Discretionary Budget Authority	0	0	-22,617	-22,617	-22,617
Discretionary Outlays	0	0	-18,415	-18,979	-19,586

Program: Grain Regulatory Program

Proposal: GIPSA develops, reviews, and maintains official U.S. grain standards that describe the grain characteristics in terms of physical, sanitary, and intrinsic value at the time of inspection. These standards provide a common language for use by producers, sellers, and buyers of U.S. grain. This proposal would initiate a user fee for this service.

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Rationale: Because these standards benefit and are used almost solely for the grain trading industry, and because they facilitate the orderly marketing of grain products, it is industry that should bear the cost.

Goal: Transfer the cost from the American taxpayer to the beneficiaries of the U.S. grading standards.

Offsets: Estimated receipts in FY 2014 would be $5,000,000.

Budget Impact: ($ in thousands)

	2012	**2013**	**2014**	**2015**	**2016**
Discretionary Budget Authority	0	0	-5,000	-5,000	-5,000
Discretionary Outlays	0	0	-4,135	-4,228	-4,451

Geographic Breakdown of Obligations and Staff Years
(Dollars in thousands)

State/Territory	2011 Actual		2012 Actual		2013 Estimate		2014 Estimate	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Arkansas.............................	$81	1	$81	1	$81	1	$86	1
Colorado.............................	5,673	58	5,673	52	5,673	52	5,989	51
District of Columbia...........	16,560	73	15,000	58	15,660	55	15,904	55
Georgia...............................	4,483	46	4,403	43	4,483	43	4,908	42
Idaho...................................	178	2	178	3	178	3	188	3
Iowa....................................	4,761	55	4,610	51	4,861	51	4,862	51
Louisiana............................	1,286	14	1,200	18	1,300	18	1,431	18
Missouri..............................	5,524	52	4,524	54	4,530	54	5,838	53
North Dakota.......................	80	1	80	1	80	1	95	1
Ohio....................................	322	2	336	4	332	4	347	4
Oregon................................	428	3	403	5	404	5	443	5
Texas..................................	276	2	276	4	276	4	301	4
Washington........................	123	1	123	1	123	1	139	1
Obligations......................	39,775	310	36,887	294	37,981	291	40,531	288
Lapsing Balance............	486	-	863	-	-	-	-	-
Total, Available...............	40,261	310	37,750	294	37,981	291	40,531	288

Classification by Objects
(Dollars in thousands)

		2011 Actual	2012 Actual	2013 Estimate	2014 Estimate
Personnel Compensation:					
	Washington D.C.	$6,907	$4,375	$4,370	$4,500
	Field	17,761	16,949	16,940	17,005
11.0	Total personnel compensation	24,668	21,324	21,310	21,505
12.0	Personnell benefits	7,388	6,652	6,650	6,600
13.0	Benefits for former personnel	66	196	100	110
	Total, personnel comp. and benefits	32,122	28,172	28,060	28,215
Other Objects:					
21.0	Travel and transportation of persons	983	732	700	880
22.0	Transportation of things	54	30	40	50
23.2	Rental payments to others	61	94	96	98
23.3	Communications, utilities, and misc. charges.	871	662	856	855
24.0	Printing and reproduction	58	23	48	53
25.2	Other services from non-Federal sources	3,767	906	1,140	1,544
25.3	Other purchases of goods and services from Federal sources	-	5,517	5,319	5,400
26.0	Supplies and materials	973	555	725	900
31.0	Equipment	886	196	997	2,521
42.0	Insurance Claims	0	0	0	15
	Total, Other Objects	7,653	8,728	9,921	12,316
99.9	Total, new obligations	39,775	36,887	37,981	40,531

Position Data:

	2011 Actual	2012 Actual	2013 Estimate	2014 Estimate
Average Salary (dollars), ES Position	$150,500	$150,500	$150,500	$151,500
Average Salary (dollars), GS Position	$62,800	$62,800	$62,800	$62,900
Average Grade, GS Position	11.6	11.6	11.6	11.6

SALARIES AND EXPENSES
STATUS OF PROGRAM

GRAIN REGULATORY PROGRAM

GIPSA's Federal Grain Inspection Service (FGIS) establishes quality standards for grains, oilseeds, pulses, and legumes; provides impartial inspection and weighing services through a network of Federal, State, and private entities; and monitors marketing practices to enforce compliance with the U.S. Grain Standards Act, as amended (USGSA) and Agricultural Marketing Act (AMA) of 1946. Through these activities, FGIS facilitates the marketing of grain, oilseeds, and related products.

Current Activities:

Providing the Market with Terms and Methods for Quality Assessments

Official Moisture Measurement Technology
Moisture measurement remains one of the most important official and commercial grain inspection activities because of moisture content's impact on end-use value (dry matter content) and storability. FGIS research has resulted in the Unified Grain Moisture Algorithm (UGMA)—an approach to grain moisture measurement that has shown its potential to improve grain moisture measurement by: 1) yielding improved accuracy, 2) permitting multiple manufacturers to design moisture meters that can use common calibrations and give equivalent results, and 3) reducing the cost of on-going calibration maintenance. In FY 2012, FGIS performed an evaluation of the effects of moisture gradients within grain samples (such as can occur at harvest) for different moisture technologies. The UGMA technology showed significant improvement relative to the current official moisture meter. Also, the UGMA technology was found to yield much better accuracy for corn of varying test weights. FGIS developed evaluation criteria for "UGMA-Compatible" moisture meters, evaluated and approved two commercially-available models, purchased moisture meters, performed initial performance verifications for all official UGMA meters, developed final calibrations, and implemented the UGMA moisture meters for corn, soybeans, sorghum, and sunflower seed on September 10, 2012. In FY 2013, FGIS will finalize calibrations for the remaining commodities under its jurisdiction and implement the UGMA moisture meters for those commodities on May 1, 2013.

Wheat Functionality – Protein Quality Assessments
The intrinsic qualities of wheat affect the quality of end products. To best determine the ability of wheat to meet specific end-use needs, accurate test methods are needed to differentiate functional qualities. These methods should also be practical, rapid, and reproducible among different laboratories to provide value transparency from the producer to the processor and provide information that better predicts appropriate end-uses, thereby enhancing the marketability of U.S. wheat.

Farinograph tests are widely used to determine certain quality factors. FGIS studies have shown significant differences in Farinograph test results among commercial laboratories, which can lead to confusion in wheat markets. In 2012, FGIS evaluated the new AT model, developed FGIS procedures for using the instrument, and successfully transferred those procedures to another AT model instrument. In 2013, FGIS plans to further test FGIS method reproducibility among several wheat functional property testing labs in the U.S. using the new AT model instrument to improve the Farinograph method in the marketplace.

Gluten strength is one of the most important aspects of wheat functionality, but the market lacks a consistent definition of this characteristic. In FY 2012, FGIS began evaluating the near-commercial prototypes and developing FGIS test procedures to assess gluten strength. In FY 2013, FGIS will continue to systematically evaluate the new instruments and participate in collaborative studies to further evaluate the method's effectiveness and value in describing the functional properties of wheat.

Wheat classing continues to be one of the most difficult challenges within the official inspection system. There is a need for an objective method to perform varietal identification of wheat cultivars (and thereby, classing) to augment visual analyses. FGIS has established a reference High Performance Liquid Chromatography (HPLC) method that is based upon work performed at the USDA's Agricultural Research Service laboratory in Manhattan, Kansas, and has demonstrated the utility of the method. In FY 2011, FGIS tested and improved the accuracy and generality of this method for objectively identifying wheat varieties using results obtained from another laboratory. This test is now routinely used to assist official inspectors at FGIS' Board of Appeals and Review in classifying challenging wheat samples. In FY 2012, this method was further refined to test single kernels of wheat. In FY 2013, this method will be further tested in collaboration with other U.S. laboratories.

Falling Number test is an important measure of sprout damage in wheat and an indicator of performance of wheat during the processing of wheat flour for making various wheat products. In FY 2012, FGIS initiated a pilot quality assurance program for the falling number test. In FY 2013, the falling number testing program will be strengthened through a new monitoring program to ensure the consistency of results among official inspection and testing labs.

Mycotoxin and Biotechnology Rapid Test Evaluations

The grain industry needs fast, reliable tests to detect and quantify the incidence of fungal-produced mycotoxins in grain and to detect the presence of genetically-engineered (GE) traits in grains. To ensure that commercially available tests provide reliable results, FGIS offers a performance evaluation and certification program.

In FY 2012, a total of 40 rapid test kits were evaluated for the analysis of mycotoxins (aflatoxins, deoxynivalenol, fumonisins, ochratoxin A, and zearalenone). Of the 40 test kits, 32 met the FGIS performance criteria and were certified. In addition, three test kits were evaluated and certified for detection of GE events (Alpha amylase, Vip3a, and Cry 34Ab1 proteins).

Reference Method Analyses

FGIS establishes and performs reference methods for protein, moisture, oil, fatty acid composition, and mycotoxins. These methods are used to maintain the accuracy of current testing in the official inspection system and to support development of new rapid field tests. The protein, moisture, oil, and fatty acid reference analyses support the near-infrared spectroscopic, dielectric, and nuclear magnetic resonance instruments used for rapid inspection at field locations that perform official testing. The mycotoxin reference analyses support the evaluation and standardization of rapid tests for official and commercial grain inspection, support quality assurance programs to ensure consistent and reliable testing results, and are available for Board Appeals upon request. In FY 2012, FGIS validated improved reference methods for the determination of fumonisins in corn and ochratoxin in wheat.

Biotechnology

In the biotechnology arena, GIPSA provides several key services which assist in improving testing accuracy, protecting the integrity of U.S. grain and related markets, and harmonizing biotechnology reference methods.

The USDA/FGIS *Biotechnology Proficiency Program* now includes participants from160 organizations on five continents (Africa, Asia, Europe, and North and South America), with more than 80 percent of the participants from organizations outside the United States. This program, which FGIS initiated in 2002, enables organizations to assess and improve their accuracy and precision in identifying GE events in grains and oilseeds. FGIS disseminates blind test samples to participants bi-annually and compiles and disseminates the results of tests.

In recent years, there have been a few instances of inadvertent releases of unapproved GE events into the U.S. grain handling system. GIPSA is in the initial stages of developing a high throughput DNA extraction method for corn, soybeans, and rice. FGIS assists government and private laboratories that use protein- and DNA-based technologies by performing impartial third-party verification of their methods for both qualitative and quantitative detection of transgenic events in GE crops. FGIS provides expertise when responding to inadvertent releases of unapproved GE events.

There is a need for highly specific and accurate tests for the various GE crops grown in the United States. FGIS has developed intra-laboratory validated real-time polymerase chain reaction methods and has evaluated the accuracy, reliability, and proficiency of publicly available methods used to detect and identify GE grains and oilseeds. FGIS continues to collaborate with international organizations such as Codex Alimentarius, International Standards Organization, American Association of Cereal Chemists, American Oil Chemists' Society, Institute for Reference Materials and Measurements, and the Canadian Grain Commission to harmonize testing technologies for GE grains and oilseeds. Many of these collaborations result in publications in peer-reviewed scientific journals.

Sensory Reference Materials
FGIS' Visual Reference Image (VRI) system serves as the primary tool to ensure standardization of FGIS' sensory (visual) grain inspection services. In 2012, FGIS completed a multi-year project of image upgrades, edits, and replacement of the entire current official VRI library. FGIS also created a new visual reference image to be added to *Bean VRI 12.0, Water Blistered*, for white/off-white beans exhibiting an orange water blister.

Sorghum Odor
Sorghum odor determination is inherently difficult because of the range of odors present. Sorghum end-users may find different types and levels of odor acceptable based on their preferences and the grain's intended end-uses. This variance poses many challenges for the sorghum industry.

In the spring of 2009, FGIS established a Sorghum Odor Taskforce with representatives from across-section of the sorghum industry. FGIS' goals were to understand the needs of end-users; understand the challenges for producers and handlers; gain data and background information; and, achieve a common understanding of the acceptability of various odors and levels of intensity in grain sorghum. Sorghum "storage musty" odor was identified as a particular problem.

During FY 2012, with the assistance of Kansas State University, FGIS created reference sample materials and trained all official inspection personnel to be calibrated to the reference sample when assessing whether stored sorghum has a musty odor. FGIS distributed the reference samples to all official inspection laboratories that inspect sorghum and began routine use of the reference samples for maintaining close alignment among official inspectors. Responses from grain inspectors and the sorghum industry have been very positive. In FY 2013, FGIS will continue to supply sorghum odor reference samples to official inspectors and will investigate whether similar chemical reference samples are needed to improve consistency in assessing other types of grain odors.

Standardizing Commercial Grain Inspection Equipment
In 2012, through a reimbursable agreement with the National Institute of Standards and Technology (NIST), FGIS continued its cooperative effort with NIST and the National Conference on Weights and Measures (NCWM) to standardize commercial inspection equipment including moisture meters, near-infrared analyzers (for protein, oil, and starch), and test weight modules contained within moisture meters and near-infrared analyzers. FGIS served as the sole evaluation laboratory for grain inspection equipment under the NCWM's National Type Evaluation Program (NTEP). FGIS collected grain moisture meter calibration data for seven instrument models as part of the ongoing NTEP calibration program. Calibrations developed in this program provide traceability back to the official FGIS moisture program and air oven reference method and are used in the majority of moisture meters in commercial grain transactions throughout the United States.

In 2013, FGIS will collect grain moisture meter calibration data for six NTEP models and will conduct NTEP testing for new grain inspection equipment models upon request. With the completed renovation of NTEP laboratory testing facilities, evaluation of additional grain analyzer models is also anticipated for the upcoming year.

Rice
In 2012, FGIS developed a preliminary near-infrared (NIR) calibration to rapidly predict rice surface lipid content. New laboratory equipment, oil extractors, was acquired and test procedures were refined to provide the reference values needed for calibration development. Surface lipid measurements have the potential to supplement and perhaps replace official milling degree determinations. In 2013, FGIS plans to work with the rice industry to validate the rice surface lipid calibration and assess its usefulness in describing the extent of bran removal for commercially milled rice using near infared technology.

In 2013, FGIS plans to investigate the use of optical scanner technology to determine the percent of broken kernels in rice samples. The imaging instrument currently used to determine rice broken kernels is no longer manufactured and is not fully supported. The original instrument was expensive and proved to have limited application in grain inspection. Lower cost, widely available scanner technology could provide a viable alternative to grain inspectors' visual assessments of percent of broken kernels in milled rice.

Grain Sampling
Sampling is critical to the accuracy and integrity of FGIS results. In FY 2012, FGIS developed and implemented the drop sample testing procedure as an alternative to current but antiquated methods of check testing mechanical diverter sampling systems. The new method was communicated to stakeholders by a program notice. The drop sample testing method is successfully being used in the domestic and export facilities. GIPSA continues to address safety concerns associated with the current testing methods while working to provide more precise measurements of the performance of the diverter-type sampling systems.

Promoting U.S. Grain to International Customers
FGIS personnel frequently meet at the National Grain Center (NGC) with delegations visiting from other countries to brief them on the U.S. grain marketing system, our national inspection and weighing system, U.S. grain standards, and FGIS' mission. Briefings at NGC are tailored to address each group's interests and concerns. Presentations include explanations of the various services available from FGIS, the Agency's use of the latest technology to provide grain traders with accurate and reliable inspection and weighing information and, for importers or potential importers new to the U.S. grain market, information on contracting for the quality they desire. Often the group receives training on analytical testing procedures and grain inspection methods and procedures. These briefings foster a better understanding of the entire U.S. grain marketing system and serves to enhance purchasers' confidence in U.S. grain. Ultimately, these efforts help move our nation's harvest to end-users around the globe.

Visiting Trade and Governmental Teams
During 2012, FGIS personnel met with 36 teams from 24 countries: Brazil, Japan, Canada, Korea, China, Libya, Colombia, Mexico, Dominican Republic, Philippines, Egypt, Russia, El Salvador, Serbia, France, South Africa, Guatemala, Switzerland, Indonesia, Taiwan, Ireland, Ukraine, Israel, and Venezuela. During these meetings, an FGIS representative typically gives a presentation on the role and responsibility of the Agency and answers questions. The meetings are most often held in Washington, D.C. or at GIPSA's National Grain Center in Kansas City, Missouri, where the visiting teams may tour the building and meet other agency employees.

International Activities
In FY 2012, FGIS responded to customers' needs for technical assistance in foreign markets. Exporters, importers, and end-users of U.S. grains and oilseeds, as well as other USDA agencies, USDA Cooperator organizations, and other governments, occasionally ask for FGIS personnel to provide expertise. These activities include representing GIPSA at grain marketing and grain grading seminars, meeting with foreign governments and grain industry representatives to resolve grain quality and weight discrepancies, helping other countries develop domestic grain and commodity standards and marketing infrastructures, assisting importers with quality specifications, and training local inspectors in U.S. inspection methods and procedures. Such activities are typically coordinated by USDA's Foreign Agricultural Service (FAS) or USDA's Farm Service Agency (FSA). In these cases, FAS and FSA pay for the travel costs directly associated with the participating GIPSA representatives.

FGIS coordinated with representatives of U.S. Grains Council to conduct an export corn survey. The corn quality survey was conducted on corn exported through the Gulf and Pacific Northwest ports in February and March of 2012. GIPSA assisted with the survey by collecting samples, grading and testing the corn, and providing export inspection data.

Feed corn buyers in Korea have been complaining about inferior corn over past few years. In July 2012, U.S. Grains Council and the Korean Feed Association in conjunction with GIPSA monitored the levels of broken corn and foreign material, test weight, and moisture in three shipments of U.S. Yellow corn to Korean ports. An FGIS representative performed additional sampling of shipholds at loading and traveled to Korea to sample them when they arrived.

Soybeans to China
The U.S./China Memorandum of Understanding (MOU), which addressed China's concerns over soybean quality, plant health, and food safety on soybeans was signed in December 2010. Stemming from the MOU, officials from China's Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) and USDA agreed to conduct a joint survey of four U.S. soybean vessels to address their concerns regarding treated soybean seeds and other quality factors. Representatives from FGIS, Animal and Plant Health Inspection Service (APHIS), FAS, American Seed

Trade Association, North American Export Grain Association (NAEGA), and U.S. Soybean Export Council drafted and submitted a project protocol to AQSIQ in November 2012 for the soybean vessel surveying project. We are now finalizing the parameters of the study and seeking to identify potential vessels to use.

Promoting Standardization
In July 2012, FGIS placed one representative in Asia on a 2-week temporary duty assignment. The representative traveled to Vietnam, Malaysia, and Indonesia to give a presentation on the role of FGIS and conducted corn grading seminars for importers and end-users, at the request of the U.S. Grains Council.

Improving Safety for Railcar Stowage Exams
Eliminating the hazard of falling from a railcar car is a priority of both FGIS and loading facilities. FGIS, in conjunction with cooperating loading facilities, determined that it is feasible for an inspector to perform stowage examinations from inside the inspection lab, using video cameras mounted above the cars a short distance before the loading spout. With this arrangement, the rail cars are examined a few minutes before they are loaded. When cars do not pass inspection requirements, facility personnel can remove loose debris from cars before they reach the loading spout, but cars that require more extensive cleaning cannot be filled. If the video inspection is inconclusive, the car will be physically inspected in an area where fall protection is installed.

As of October 2012, 77 facilities have been reported to FGIS as having video stowage exam systems which are approved and operational. This represents an increase of 19 facilities since the 2011 report.

<u>Protecting the Integrity of U.S. Grain and Related Markets</u>

Alleged Violations
At the beginning of fiscal year FY 2012, eight cases involving alleged violations of the U.S. Grain Standards Act (USGSA) and the Agricultural Marketing Act of 1946 were pending. During the year, FGIS opened nine new cases stemming from allegations of altering official documents and equipment, using unapproved equipment and improper sampling procedures, engaging in prohibited or deceptive grain handling practices, exporting grain without mandatory weighing services, assaulting/intimidating official personnel, and providing official services outside of an official agency's assigned geographical area. FGIS referred one case to the Office of Inspector General (OIG) for criminal investigation; suspended proposed action on two cases after the official agency provided written confirmation that they were terminating their designation as an official agency; issued one warning and three caution letters where violations occurred; and issued three information letters where the violations were deemed minor or unintentional. In all, FGIS closed six cases including five from prior years and one from 2012.

FGIS oversees 54 official State and private agencies that provide official services under the USGSA. FGIS supervises 42 official private agencies and seven official State agencies that are designated to provide official inspection and/or weighing services in domestic markets; 4 official State agencies that are delegated to provide mandatory official export inspection and weighing services and designated to provide official domestic inspection and weighing services within the State; and one official State agency that is delegated to provide mandatory official export inspection and weighing services within the State.

The USGSA requires that designations be renewed every three years. In FY 2012, FGIS renewed 20 official agencies for full three-year designations including 16 private and 4 State agencies.

Contract Review Program
In 2009, FGIS initiated a program to assess export shippers' compliance with contractual sales terms. The goal of the program is to ensure integrity and transparency throughout the official inspection system by making certain that shippers do not present false or misleading applications for official inspection services.

In 2011, FGIS concluded the first phase of the program and found a high level of compliance within the export community with contractual sales terms and official export requirements. Nonetheless, a few problem areas were detected, primarily stemming from some exporters' misunderstanding of official inspection and weighing requirements when shipping grain in containers.

In 2012, FGIS continued the program by working with shippers of container shipments. Shippers were informed of the review findings and of their legal and regulatory requirements if discrepancies were found.

Container Inspection and Weighing Services

The U.S. grain industry has experienced a significant increase in the demand for grain exported in containers. A surplus of empty containers allows grain exporters to capitalize on opportunities to ship grain at lower freight rates and deliver grain to small business entities.

Expansion of the containerized grain export market has exceeded most forecasts. Inspection of containerized cargo has increased from 0.7 percent of total grain exported (metric tons) in 2005 to 3.9 percent of total grain exported (metric tons) in 2012 and represented 1.5 percent of total grain officially inspected (metric tons) by FGIS in 2012.

To ensure that FGIS regulations and service operations effectively address current and evolving market conditions, FGIS in FY 2012 completed a comprehensive review of the policies and procedures governing official inspection and weighing services for grain exported in containers. FGIS is developing outreach material for current and potential buyers of U.S. grain to enhance understanding of the sampling, inspection, and certification process for grain exported in containers.

Resolution of Issues Raised by International Customers

FGIS administers a formal process for investigating grain quality and weight discrepancies. When an importer of U.S. grain reports a discrepancy on quality or weight, FGIS analyzes samples retained on file from the original inspection and samples submitted from the complainant (if the buyer chooses to submit them) to evaluate the accuracy of the initial inspection. This process allows FGIS to verify whether the original inspection and weighing service provided at the time of loading was correct, based on all available information. FGIS then issues a report of findings.

Occasionally, a particular buyer or importing country reports repeated discrepancies that cannot be resolved by a shipment-by-shipment review under this process. In such cases, FGIS may conduct collaborative sample studies or joint monitoring activities to address the discrepancy in a more comprehensive manner.

In FY 2012, FGIS received 5 quality complaints and no weight complaint from importers on grains inspected under the USGSA, as amended. These complaints involved 236,666 metric tons, or about 0.2 percent by weight, of the total amount of grain exported during the year.

TABLE 1: Summary of Complaints Reported by Importers on Inspection and Weighing, FY 2012

Complainant	Grain	No. of Complaints	Nature of Complaint
Asia			
China	Soybeans	2	Treated soybeans
	Corn	1	Treated Soybeans
	Corn	1	Broken corn and foreign material
Central/South America			
Venezuela	Wheat	1	Foreign material
TOTAL		5	

PACKERS AND STOCKYARDS PROGRAM

GIPSA's Packers and Stockyards Program (P&SP) is responsible for administering the Packers and Stockyards Act (P&S Act). The Act prohibits unfair, deceptive, and fraudulent practices by market agencies, dealers, packers, swine contractors, and live poultry dealers in the livestock, poultry, and certain meatpacking industries, as well as affording livestock sellers and poultry growers specified financial protections. Packers, live poultry dealers, and swine contractors are also prohibited from engaging in specific anti-competitive practices. P&SP conducts two broad types of activities–regulatory and investigative–in its administration and enforcement of the P&S Act. Program activities cover two general areas: Business Practices and Financial Protection.

Regulatory and investigative actions frequently find that entities are in compliance with the Act. When violations are discovered, GIPSA assesses fines for admitted violations or pursues administrative or civil litigation with the USDA Office of the General Counsel before a USDA Administrative Law Judge or through the Department of Justice. Litigation may also result in a fine against the offending entity (Table 2) or a suspension of a registration required under the P&S Act to conduct regulated activity.

Table 2: Penalties Levied for P&S Act Violations, 2008-2012

Type Judgment	2008	2009	2010	2011	2012
Stipulations ($)	$ 23,275	$ 30,775	$127,787	$ 364,800	$ 305,390
Administrative Penalties ($)	657,770	364,700	341,027	662,470	1,473,093
DOJ Civil Penalties ($)	51,240	59,580	346,705	70,480	425,540

GIPSA maintains a toll-free telephone number and a dedicated e-mail address to allow members of the grain, livestock, and poultry industries and the public to report complaints and share concerns. Individuals or firms with complaints about the industries are encouraged to call the appropriate regional office to discuss their concerns, anonymously if desired. GIPSA responds to all of these complaints and sources of information.

GIPSA may also initiate investigations independently, for example, as a result of information obtained from monitoring industry behavior.

Current Activities:

<u>Business Practices</u>

The Business Practices units include lawyers, economists, and marketing specialists who focus on competition and trade practice issues. This unit is supported by resident agents that are remotely located throughout the country. The business practices unit conducts regulatory reviews and investigations to identify alleged unfair trade practices at auction markets, livestock dealers and order buyers, slaughtering packers, live poultry dealers, and meat dealers and brokers, and monitors market and firm prices for indications of anti-competitive firm behavior.

Competition and Trade Practices

To obtain compliance with the P&S Act, GIPSA undertakes investigative and regulatory activities. These are identified as either competitive or trade practices activities. Investigations are enforcement actions conducted when there is reason to believe a violation of the P&S Act is occurring. Investigations at a firm-level may be a follow-up to previously identified violations, in response to industry-driven complaints, and in response to possible violations found while conducting regulatory activities on a business' premises, or through other monitoring activities. Investigations may be conducted as rapid response actions to prevent irreparable harm to the regulated industries. In 2012, GIPSA closed 18 competition investigations, 1,210 financial investigations, and 1,317 trade practice investigations, for a total of 2,545 investigations closed by GIPSA. An additional 152 were closed that GIPSA had referred to OGC, and 25 were closed by DOJ.

Regulatory activities, on the other hand, are activities undertaken to determine if a regulated entity is complying with the P&S Act. Two examples of regulatory activities are scale and weighing inspections and audits of custodial bank accounts maintained by market agencies for seller proceeds. In 2012, 796 scale and weighing checks were conducted, finding 118 violations; and 331 custodial account audits resulted in account corrections worth approximately $6.0 million. Regulatory activities also include market level monitoring, which is generally conducted using data that are available in the public domain. Examples include, but are not limited to, monitoring fed cattle and hog prices, and structural changes in the livestock, meat, and poultry industries. Monitoring activities have led to firm-level investigations.

Market Price Monitoring
The current fed-cattle and hog market price monitoring program was implemented in 2004, but has since evolved into an enhanced program that includes a weekly internal reporting regime based on statistical models, one for the fed-cattle markets and the other for hog markets. The statistical models rely on USDA's Agricultural Marketing Service (AMS) publicly reported price data to assess regional price differences. If a statistically significant price difference is detected, P&SP initiates a regulatory review work plan to determine whether those price differences are caused by an undue or unreasonable preference or disadvantage in violation of section 202 (b) of the Act or by uncontrollable external factors, such as weather or other external macroeconomic conditions. If the initial regulatory reviews of price differences do not clarify whether they were caused by external market factors, a field investigation is opened into the incident.

The statistical model similar for daily monitoring of hog market prices includes the three AMS barrow and gilt price reporting areas. These AMS market areas include Iowa-Minnesota, the eastern Corn Belt, and the modified western Corn Belt. AMS includes Iowa and Minnesota in its market reports for the western Corn Belt region, but to ensure non-overlapping markets, P&SP modified the territory to remove the Iowa and Minnesota hog transactions and prices from this region. Live and carcass prices are monitored, except in the modified western Corn Belt market, which only reports carcass prices.

Whether P&SP is monitoring fed-cattle or hog prices, when the statistical model reports an outlier, an economist from the Business and Economic Analysis Division in headquarters reviews the suspect price and makes a recommendation report, which is reviewed by an economist in the regional office. Based on the report and reviewer comments, the supervisor either closes the review or opens an investigation and requests individual firm transactions data from AMS.

Committed Procurement Review and Audit
P&SP monitors the use of "committed procurement" arrangements, which commit cattle and hogs to a packer more than 14 days prior to delivery. Each year, P&SP economists obtain fed-cattle and hog procurement data for the previous calendar year from the four largest beef packers and four largest hog packers. If the packers change their procurement arrangements with suppliers from previous years, P&SP also collects any new or modified written marketing agreements or contracts. P&SP economists review the contracts and, if necessary, discuss them with the packers to determine how the terms of the agreements relate to committed procurement categories of interest. Economists then classify, review, and tabulate the individual transactions data and calculate the reliance of the top packers on committed procurement methods. Finally, P&SP economists reconcile the calculations based on the detailed transaction data on committed procurement as reported by the packers in their Packer Annual Reports.

If there are significant differences between the transaction data and the Packer Annual Report submissions on committed procurement, the economists contact the packers to identify the cause of the discrepancy. If necessary, P&SP meets with the packers in person to discuss the packers' procurement methods and explain how they should be reported on the Packer Annual Report. These meetings foster a mutual understanding of the reporting requirements for committed procurement and more reliable reporting and calculation of the packers' reliance on committed procurement methods.

Relying on written contracts and other information collected during the committed procurement reviews, P&SP agents analyze the various procurement and pricing methods used by hog and fed-cattle packers. Agents obtain and review contracts and agreements as necessary to determine if there have been any competition violations of the Act. The contracts are also used in procurement reviews of the packers to help determine if proper payment practices are being followed.

Poultry Contract Compliance Review Process

In FY 2012, P&SP conducted 44 poultry reviews, 34 of these reviews were based on a random sample. These reviews are based on standard operating procedures established in 2009 and are now included as a component of P&SP's performance measure (see Performance and Efficiency Measurement section). Poultry contract reviews may be initiated based on industry intelligence or complaints in addition to those conducted based on random samples.

The standard operating procedure for conducting poultry contract reviews is electronically documented with links to the Packers and Stockyards Automated System (PAS), the P&SP's automated workflow software. P&SP agents follow these procedures when conducting poultry contract reviews. In general, the agent will collect relevant background information on the firm that is under review prior to conducting a site visit. Once on-site, the agent will conduct an interview and obtain copies of the grower contract being used at the plant location and 3 months of weekly ranking sheets for the contract. These documents are reviewed for consistency and adherence to P&S Act regulations. One week of payment data from the settlement sheet is selected as a random sample for a detailed review for accuracy and completeness. The results are compared to the firm's ranking sheets, settlement sheets, and payments to the growers to ensure consistency with the contract. If discrepancies are found, an investigation is opened. If the firm's practices are determined to be free of violation, the agent provides an exit interview indicating this to the firm's management.

<u>Financial Protection</u>

The financial units have the primary responsibility to enforce the financial provisions of the P&S Act and regulations. These enforcement actions assist in maintaining the financial integrity and stability of the livestock, poultry, and meatpacking industries. Enforcement is carried out through review of annual and special reports, and by on-site financial compliance reviews and investigations. When GIPSA determines a potentially serious financial situation exists that may cause imminent and irreparable harm to livestock producers, rapid response teams are deployed to investigate the problem. Under the P&S Act, regulated businesses must be solvent (current assets must exceed current liabilities). GIPSA requires special reports from firms whose annual reports disclose insolvencies. In addition, on-site financial investigations are conducted to follow up on reported insolvencies or other financial issues.

Trusts and Bonds

The P&S Act also establishes a statutory trust on certain assets of packers and live poultry dealers for the benefit of unpaid cash sellers of livestock, and unpaid cash sellers or contract growers of live poultry grown for slaughter. When a trust claim is filed, GIPSA analyzes the claim to determine if the claim appears to be timely and supported by adequate documentation. Additionally, all market agencies, dealers, and slaughtering packers purchasing over $500,000 of livestock annually are required to file and maintain bonds or bond equivalents for the protection of livestock sellers. When a seller fails to receive payment on a transaction, they must file a bond claim within 60 days of the transaction. Both trustees and bond sureties receive GIPSA's analysis as a courtesy. GIPSA does not pay trust or bond claims, and cannot compel payments. In 2012, there were 6 dealer, 5 market, and 1 packer failures, and for the 3 dealer, 2 market, and 1 packer failure cases that were closed, consigners received restitution of 27, 8, and 0 percent respectively.

Failures and Restitution

Since 2006, an average of 16 dealer failures closed each year, ranging from 3 to 31 failures per year. During that same time period, producers on average received 26 percent payment of amounts owed to them, with recovery ranging from 5 to 56 percent (Table 3).

Table 3: Total Dealer Financial Failures and Restitution, 2006-2012

Fiscal Year	No. of Failures Closed	Closed, Owed For Livestock ($)	Closed, Restitution From Bonds ($)	Closed, Restitution From Other Sources ($)	Closed Recovery (%)
2006	13	3,018,131	134,936	26,856	5
2007	31	6,941,930	257,634	549,303	12
2008	20	2,054,647	843,682	301,916	56
2009	25	3,134,145	348,018	411,133	24
2010	7	213,332	20,000	0	9
2011	14	878,620	407,105	4,479	47
2012	3	512,255	100,000	40,600	27
Ave.	16	2,393,294	301,625	190,612	26

Auction markets may be especially vulnerable to a domino-like effect from dealer failures since many dealers purchase livestock from auction markets. Since 2006, about 6 auction markets failed per year, with consignors receiving an average restitution of 40 percent. In 2012, the average restitution for auction markets was 8 percent (Table 4).

Table 4: Total Auction Market Financial Failures and Restitution, 2006-2012

Fiscal Year	No. of Failures Closed	Closed, Owed Consignors ($)	Closed, Restitution From Bonds ($)	Closed, Restitution From Other Sources ($)	Closed Recovey (%)
2006	9	979,543	267,174	19,380	29
2007	11	511,704	37,252	155,890	38
2008	6	602,100	237,734	352,111	98
2009	7	981,189	261,498	1,365	27
2010	4	20,901	4,547	0	22
2011	4	158,279	0	89,586	57
2012	2	326,178	25,000	0	8
Ave.	6	511,413	119,029	88,333	40

Since 2006, an average of 15 packers suffered financial failures each year, owing livestock sellers about $4,380,335 per year, with an average restitution rate of 56 percent (Table 5).

Table 5. Total Packer Financial Failures, Bond Payout, and Payout From Other Sources, 2006-2012

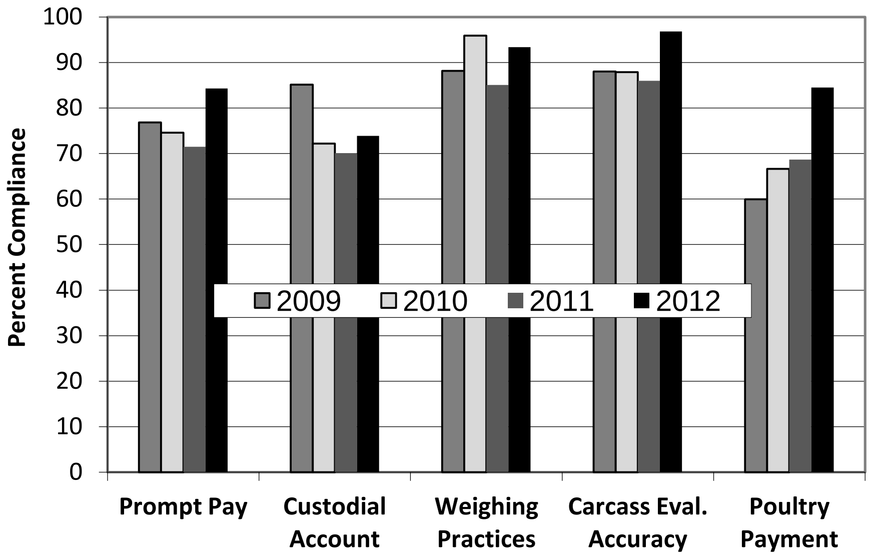
			Closed, Restitution		
Fiscal Year	No. of Failures Closed	Closed, Owed ($)	From Bonds ($)	From Other Sources ($)	Closed Recovey (%)
2006	13	755,550	35,267	683,834	95
2007	31	4,118,456	40,000	4,083,946	100
2008	20	3,498,895	0	1,588,620	45
2009	25	15,676,349	196,208	9,999,228	65
2010	7	5,960,684	748,435	3,825,518	77
2011	10	647,986	0	62,195	10
2012	1	4,422	0	0	0
Ave.	15	4,380,335	145,701	2,891,906	56

Centralized Reporting Unit
GIPSA formed a centralized reporting unit (CRU) in FY 2008 to receive and handle annual reports submitted by entities that are regulated under the P&S Act. Fully functional in 2009, the CRU increased the efficiency in processing annual reports and enhanced the agency's ability to take enforcement action against firms that fail to complete or submit an annual report and firms that submit incomplete forms in a timely fashion. In 2012, the CRU continued to analyze annual reports submitted by firms to determine if custodial accounts are short, set appropriate bond amounts, and monitor trade practices.

Efficiency and Performance Measurement
P&SP conducts two broad types of activities to enforce the P&S Act: investigative and regulatory. Investigations are conducted at the regional office level when there is reason to believe a violation of the P&S Act is occurring or has occurred. Regulatory activities are monitoring activities carried out be regional personnel to determine if a regulated entity is complying with the act. Efficiency at achieving industry compliance is measured through the number of days it takes to complete the investigative phase of investigations and number of days to complete regulatory monitoring activities. In fiscal year 2012 P&SP closed 2,588 investigations in an average of 83 days, versus 2,144 closed in an average of 93 days in fiscal year 2011. Increasing investigative efficiency and the number of investigations closed by 20 percent resulted in reducing the days required for investigations by about 11 percent. P&SP also held regulatory efficiency relatively constant, with 2153 regulatory actions closed in 2012 or 98 percent as many as the 2190 in 2011, requiring an average of 20 days each in 2012 versus 19 days in 2011.

GIPSA measures the overall performance of the P&SP by annually monitoring the regulated entities' compliance with the P&S Act. The aggregate industry compliance rate for 2012 increased substantially to 87 percent from the 76 percent level in 2011. The industry compliance measure is based on random samples similar to manufacturing quality control programs. A composite index of five audit and inspections activities comprise the aggregate compliance rate—custodial account audits, prompt pay audits, packing scale inspections, dealer and market scale inspections, and poultry contract reviews (Figure 1). The results of the individual component inspections and audits that comprise the aggregate index showed a year-to-year increase in compliance rates in 2012 for all of the five areas reviewed. Improvement in the poultry payment review has been especially steady, increasing from the initial rate of 60 percent in 2009 to 85 percent in 2012.

FIGURE 1: Performance Measure Component Compliance Rates, 2009-2012



The number of P&SP employees has declined from 2000 to 2012 (176 versus 149) while key output performance measured by overall industry compliance has dramatically improved over the same time period. These relations show a significant increase in the capacity of the program to do more with approximately the same level of resources. These data along with the annual declines in the total number of financial failures (defined as a payment from a regulated entity's bond or trust funds) and in the total dollar amount of financial failures raise the question as to whether there is a direct relationship between P&SP activities and the incidence and dollar amounts of financial failures To examine this question, agency activity and performance data as well as industry compliance data from 2000 to 2012 were statistically analyzed.

The analysis resulted in prediction equations showing that two activities, increased closed field actions and increased formal complaints filed with the administrative law judge office, explained 89 percent of the variation in predicted industry compliance. To illustrate, in 2012 P&SP had filed 124 formal complaints and closed 1,918 field actions at the time of the statistical analysis. Substituting these levels of complaints and closed actions into the prediction equations yields a predicted compliance rate of 88 percent, almost identical to the actual compliance rate attained in 2012 of 87 percent. Picking a relatively recent past year to simulate a comparison of the effect of alternative levels of P&SP activities, in 2006 roughly 979 field actions were closed and 38 formal complaints were filed. Substituting these values into the prediction equations yields a predicted industry compliance of only 70 percent, 18 percentage points less than the rate predicted at the 2012 levels of closed field actions and formal complaints and 17 percentage points less than the actual rate attained by 2012.

The prediction equation can also be used to simulate the effect of alternative levels of P&SP activities on industry financial failures. Again using 2006 versus 2012 activities for a simulated comparison, the number of predicted financial failures declined from roughly 28 to 4 at 2006 versus 2012 levels of closed field activities and complaints. Multiple payouts from the same bond or trust fund are counted as one financial failure. Total dollar amounts of predicted failures also declined from an average of $5.5 million per year to roughly $0.2 million per year when comparing the simulated effects of levels of closed field activities and complaints at the 2006 and 2012 levels.

The results indicated that the number of field employees explain 95 percent of the variation in closed field activities, while only 5 percent of the variation in closed field activities was explained by other factors. For example, alternative simulations using the prediction equations revealed that 979 closed activities would be expected with 34 field employees; 1,345 activities with 41 field employees; 1,652 activities with 48 field employees; and 1,918 activities with 55 field employees.

Annual Industry Assessment

GIPSA completed the assessment of the industries regulated under the P&S Act based on data from annual reports filed by regulated firms for the firms' 2011 fiscal year. The assessment indicates that the four largest firms' share of total value of livestock purchases (i.e., aggregate industry concentration) remained constant in 2011 after declining nearly four percentage points in 2010. Four-firm concentration ratios by volume of steer and heifer slaughter increased by four percentage points in 2010, but declined by one point in 2011.

Concentration in poultry slaughter changed little in 2011. Cow and bull slaughter concentration remained unchanged after declining slightly in 2009 and again in 2010. Concentration in hog slaughter increased sharply in 2003, declined in 2006, increased in 2007 and remained essentially steady through 2010, but dropped six percentage points in 2011. Concentration in sheep slaughter declined in the first half of the decade then increased in 2005 and remained steady through 2009, but declined by five percentage points in 2010 and an additional point in 2011.

Pricing methods

Pricing methods are divided into two categories: live-weight or carcass pricing methods. With live-weight purchasing of livestock, the price is quoted and the final payment is determined based on the weight of the live animal. In a "carcass-based" purchase, the price is quoted and the final payment is determined based on the hot weight of each animal's carcass after it has been slaughtered and eviscerated. The proportion of cattle purchased on a carcass basis has varied since 2001 with no obvious trend, ranging from 53 percent to 63 percent of total purchases. The proportion of cattle purchased on carcass based is expected to remain in the 60-percent range with modest fluctuations. Although carcass-based purchases have been the predominant method used for hogs purchased for slaughter, the method declined as a share of the total by almost ten percentage points in 2011. In comparison, the volume of sheep purchased on a carcass basis increased by nearly 11 percentage points in 2011.

Procurement

The use of formula pricing methods for fed cattle increased in 2012, as the use of negotiated pricing declined. Packer feeding remained relatively constant, and forward contracting declined slightly. Packer feeding and forward contracting represent about 6 percent and 11 percent, respectively, of total fed cattle procurement. Patterns of use of alternative procurement and pricing methods for hogs were relatively unchanged in 2011, with about 68 percent purchased through various types of marketing arrangements, about 28 percent fed by packers, and the balance of just under four percent purchased on the negotiated spot market.

Procurement methods used in the purchase of sheep and lambs for slaughter are similar to those used for other animals and include purchase in spot markets, use of marketing agreements, use of various other forms of advance sales contracts, and packer feeding. As with other species, the various procurement methods used for lambs continue to evolve but GIPSA has not observed major changes in the methods in recent years and expects this stability to continue. Live poultry production is coordinated through production (grow-out) contracts, company-owned farms, and marketing agreements.

Industry Concerns

Ongoing changes in the marketing of cattle parallel changes initiated in the late 1990's in hog marketing and in poultry marketing as those industries matured in the late 1970's and early 80's. While differences among the markets will ensure that they remain unique there are nonetheless trends in cattle and hogs marketing toward the increased marketing of services along with the commodity.

Within poultry, the marketing of service by poultry growers developed along with the industry itself, and is reflected in a highly integrated industry with poultry companies owning poultry hatcheries, feed mills, the slaughtering processing facilities, and in some cases wholesale distribution capabilities for the processed retail-ready product. Outside of the integrated poultry market channel, poultry growers provide a service to the poultry companies through production contracts, which is the raising of company-owned chicks to a weight and size identified by the poultry company. Of the roughly 8.5 billion head of poultry slaughtered each year, all but roughly 2 percent on a per pound basis are raised through service production agreements, so in the case of poultry there is virtually no commodity market for slaughter-ready birds.

The situation in hogs varies considerably from poultry but has some key similarities. First is the low level of negotiated spot market transactions. For 2012, the negotiated spot market percentage in hogs was roughly 4 percent of total pounds dressed weight slaughtered which although larger than the poultry market is only so by a small amount relative to total volume exchanged. A significant difference between the hog and poultry market is the level marketed under production contracts versus marketing contracts. Measuring the volume of slaughter-ready hogs exchanged or transferred from producer to slaughter through production contracts is difficult and is likely close to the 2012 average of 28 percent of total volume accounted for by packer owned transfers in the Mandatory Price Reporting data maintained by Agricultural Marketing Service (AMS).

Perhaps more important is answering what is the difference between marketing contracts versus production contracts, and is the difference black and white or some shade of gray. MacDonald and Kolb (2008, USDA, ERS, EIB-72) describe marketing contracts as focusing on when a commodity is delivered, how much will be delivered, and specification of the commodity's price or a mechanism to determine that price. In contrast, they indicate production contracts specify services provided for what is being produced, the manner that compensation will be determined, and responsibilities for inputs. While these definitions cast a clear distinction, in practice many marketing contracts or arrangements will have terms that specify production practices, or required services, or value added commitments, prior to the commodity being accepted.

The trend in cattle marketing has been to a much larger usage of marketing arrangements that specify some level of service expectation with compensation based on formulas referencing negotiated spot market prices. For example, in 2000 the national negotiated spot market was roughly 62 percent on a head basis and by 2012 the volume had dropped to 34 percent. Regionally the Texas-Oklahoma-New Mexico AMS price reporting region was lowest with a trend line through weekly data indicating a value of approximately 17 percent on a head basis was sold through negotiated spot or grid transactions for the first week of September 2012.

In conclusion, the industry takes the transition occurring in cattle marketing seriously due to the development of value added programs between the cow-calf producer and the feedlot. Although there are many such programs an excellent example of such a program in southeastern Oklahoma can be reviewed at: http://www.noble.org/ag/economics/integrity-beef/. Another example that focuses less on the economic incentives and more on the desire retailers have to provide consumers with value beyond the marketed product itself is The Sustainability Consortium (TSC). TSC has developed Key Performance Indicators (KPI) in the form of questions that can be used to assess and track performance towards addressing the critical sustainability issues for consumer goods. The KPIs focus on the relevant environmental and social issues for a single product category, or family of consumer goods. An example of the level of information that would be available to consumers with products supplied through the TSC is the following question raised by a KPI on beef productivity: What percent of cattle supply comes from suppliers that track productivity of cattle, set goals and have a program in place to optimize productivity while minimizing methane emissions and manure? Regardless of how you would answer this question it is a sign along with the other example of the huge forces shaping cattle marketing. The open questions will be the shape regulations play in the enormously different industry compared to only 5 years ago.

Limitation on Inspection and Weighing Services Expenses:

Not to exceed $50,00,000 (from fees collected) shall be obligated during the current fiscal year for inspection and weighing services: Provided, That if grain export activities require additional supervision and oversight, or other uncontrollable factors occur, this limitation may be exceeded by up to 10 percent with notification to the Committees on Appropriations of both Houses of Congress

LIMITATION ON INSPECTION AND WEIGHING SERVICES

Estimate, 2013…………	$50,000,000
Budget Estimate, 2014…………	50,000,000
Change…………	-

Project Statement
(On basis of appropriation)
(Dollars in thousands)

Program	2011 Actual Amount	2011 Actual Staff Years	2012 Actual Amount	2012 Actual Staff Years	2013 Estimate Amount	2013 Estimate Staff Years	Change Amount	Change Staff Years	2014 Estimate Amount	2014 Estimate Staff Years
Total Obligations:										
Inspection and Weighing Activities..	$45,620	403	$43,967	384	$50,000	380	-	-4	$50,000	376
Bal. Available, SOY.	-14,662	-	-17,687		-13,300	-	-	-	-13,300	-
Transfers In..............	-445	-	-	-		-	-	-	-	-
Bal. Available, EOY.	17,687	-	13,300	-	13,300	-	-	-	13,300	-
Total Collected.............	48,200	403	50,000	384	50,000	380	1,313	-4	50,000	376

Inspection and Weighing Services

Geographic Breakdown of Obligations and Staff Years
(Dollars in thousands)

State/Territory	2011 Actual		2012 Actual		2013 Estimate		2014 Estimate	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Arkansas..............................	$2,197	20	$2,197	19	$2,379	19	$2,389	19
District of Columbia............	9,526	52	10,326	50	10,032	47	10,042	47
Idaho....................................	256	2	256	2	278	2	279	2
Iowa......................................	274	1	274	1	297	1	298	1
Louisiana.............................	17,563	180	13,788	170	19,889	170	19,901	168
Missouri...............................	239	2	240	2	260	2	260	2
North Dakota........................	1,238	9	1,661	9	1,347	8	1,355	8
Ohio......................................	2,166	18	2,561	16	2,343	14	2,351	14
Oregon.................................	4,146	38	4,320	36	4,489	38	4,506	38
Texas....................................	7,934	80	8,263	78	8,597	78	8,529	76
Washington.........................	81	1	81	1	89	1	90	1
Total, Obligations.............	45,620	403	43,967	384	50,000	380	50,000	376

Classification by Objects
(Dollars in thousands)

		2011 Actual	2012 Actual	2013 Estimate	2014 Estimate
Personnel Compensation:					
	Washington D.C.	$6,585	$6,001	$6,000	$5,990
	Field	24,444	24,574	24,570	24,500
11.0	Total personnel compensation	31,029	30,575	30,570	30,490
12.0	Personnel benefits	7,364	8,291	8,200	8,190
13.0	Benefits for former personnel	62	159	68	68
	Total, personnel comp. and benefits	38,455	39,025	38,838	38,748
Other Objects:					
21.0	Travel and transportation of persons	1,307	894	1,400	1,400
22.0	Transportation of things	43	111	110	112
23.2	Rental payments to others	83	716	718	720
23.3	Communications, utilities, and misc. charges	1,543	775	1,677	1,677
24.0	Printing and reproduction	49	48	50	50
25.2	Other services from non-Federal sources	3,574	1,453	3,764	3,764
25.3	Other purchases of goods and services from Federal sources	-	-	2,826	2,912
26.0	Supplies and materials	382	486	415	415
31.0	Equipment	184	451	202	202
42.0	Insurance and indemnities	0	8	0	0
	Total, Other Objects	7,165	4,942	11,162	11,252
99.9	Total, new obligations	45,620	43,967	50,000	50,000

Position Data:

	2011 Actual	2012 Actual	2013 Estimate	2014 Estimate
Average Salary (dollars), ES Position	$150,000	$150,000	$150,000	$152,500
Average Salary (dollars), GS Position	$58,700	$58,700	$59,000	$59,500
Average Grade, GS Position	10.7	10.7	10.7	10.7

INSPECTION AND WEIGHING SERVICES
STATUS OF PROGRAM

INSPECTION AND WEIGHING SERVICES

Providing Official Grain Inspection and Weighing Services
The U.S. Grain Standards Act, as amended (USGSA) requires generally that export grain be inspected and weighed; prohibits deceptive practices and criminal acts with respect to the inspection and weighing of grain; and provides penalties for violations. Services under the USGSA are performed on a fee basis for both export and domestic grain shipments. Official inspection and weighing of U.S. grain in domestic commerce are performed upon request. Table 1 displays an overview of GIPSA's inspection and weighing program activity.

TABLE 5: Inspection and Weighing Program Overview, Fiscal Years 2010-2012

Item	Fiscal Years		
	2010	*2011*	*2012*
Inspection Program			
Quantity of Grain Produced[1] (Mmt)[2]	480.7	464.1	462.1
Quantity of Standardized Grain Officially Inspected (Mmt) [3]			
Domestic	191.5	187.3	175.1
Export by GIPSA	77.7	81.2	63.9
by Delegated States	29.2	29.5	27.6
by Designated Agencies	11.5	12.3	13.4
Total	309.9	310.3	280.0
Weighing Program			
Official Weight Certificates Issued			
GIPSA	80,097	75,473	59,900
Delegated States/Official Agencies	222,781	265,686	253,960
Exported Grain Weighed (Mmt)			
GIPSA	77.1	80.3	63.2
Delegated States	29.0	29.1	27.4
Total	106.1	109.4	90.6

Current Activities:

Partnerships with States and Private Entities
GIPSA manages the national inspection and weighing system through a unique network of approximately 2,000 staff members at Federal, State, and private laboratories that serve grain producers, handlers, processors, and exporters across the country. GIPSA's State and private partners are authorized to provide official services on GIPSA's behalf under the authority of the USGSA and the Agricultural Marketing Act of 1946 (AMA). GIPSA delegates States to provide official inspection and weighing of U.S. grain at export port locations and designates States and private agencies to provide official inspection and weighing services in the domestic market. GIPSA has 41 agreements with States and private agencies to provide sampling or inspection services for miscellaneous processed commodities, graded commodities, or rice under the AMA.

[1] Source: USDA World Agricultural Supply and Demand Estimates. This figure includes production of wheat, corn, sorghum, barley, oats, and soybeans.
[2] Million metric tons.
[3] Includes grain for which GIPSA maintains official standards.

Service Delivery Modernization

FGIS*online* is a portfolio of online business applications that modernizes the delivery of GIPSA official inspection and weighing services. The online applications provide customers with fast, accurate services and access to a wealth of official inspection and weighing data. Some accomplishments for 2012 were:

The *Quality Assurance and Control application (QAC)* allows users to enter supervision data, access results, and track performance and ability of inspectors under the authority of GIPSA. All official service providers have transitioned to QAC which allowed GIPSA to decommission an old legacy system. QAC was enhanced to provide several user interactive reports, and many more reports will be added in 2013.

The *Inspection, Testing, and Weighing application (ITW)* captures testing and weighing results for grain and computes results for export ship-lots. All Delegated States have transitioned to ITW which allowed GIPSA to decommission an old legacy system. ITW was modified to address policy changes and user needs.

The *FGIS Official Service Provider Licensing application (FOL)* provides electronic examinations for official service providers to use for administering licensing exams for personnel who perform official functions under the USGSA and the AMA. FGIS released a new version of FOL that made significant improvements on the performance of the application.

The *GIPSA Billing Application (GBA)* allows GIPSA personnel to enter detailed billing information for invoicing through the Department's Financial Management Modernization Initiative (FMMI), and to manage inquiries of bills to their customers. It allows management to track revenues and improve evaluation of fees. It also improves the accuracy of invoices and reduces the time required to input the data for the bills. GBA now interfaces with the Department's FMMI application.

Distiller's Grains

As the production of grain-based ethanol has increased in recent years, so too have distiller's grains, the co-products of ethanol production. GIPSA facilitates the marketing of distiller's grains by providing inspection for insects prohibited by importing nations and testing for various mycotoxins. During FY 2011, GIPSA sampled nearly 47 percent of all exported distiller's grains and in FY 2012, GIPSA sampled over 50 percent of all exported distiller's grains. Foreign demand is projected to grow slowly for FY 2013 and beyond, owing to grain prices and global competition in both grain and ethanol markets. GIPSA expects to continue or increase sampling percentage to meet the phytosanitary requirements of importing nations

Providing Scale Testing for the Railroad Industry

FGIS owns and operates five specially designed and built railroad track scale test cars for testing master scales, grain industry railroad track scales, and other commercial railroad track scales. The test cars are maintained and operated out of the GIPSA Master Scale Depot in Chicago, Illinois.

The Master Scale Depot in Chicago is a National Institute of Standards and Technology (NIST)-certified Echelon III Metrology Laboratory where GIPSA annually calibrates three 100,000-pound test car units that are used to calibrate railroad and State-owned master scales and the GIPSA master scale. The GIPSA master scale is used to calibrate railroad test weight cars which are used to calibrate railroad track scales throughout the country. GIPSA also has two other specialized test weight cars that are used primarily to test and calibrate commercial railroad track scales. The Master Scale Depot also maintains weight standards from 500 to 5,000 pounds to calibrate test weights and test weight carts on an hourly fee basis to provide an additional source of revenue. GIPSA is recognized by NIST as the authority to do this work and, as such, provides traceability from the NIST to all commercial railroad track scales in the United States. As an accommodation, FGIS also tests a wide variety of large weights and standards for private companies on a cost-recovery basis.

Under an agreement with the Association of American Railroads (AAR), GIPSA annually tests all master scales and performs a number of field calibrations associated with the program. In accordance with AAR interchange rules, GIPSA must replace rail cars before they reach 50 years of age. Two of the test cars operated by GIPSA reached the 50-year mark and were replaced. The first replacement test car was completed in June 2010. The second car was completed in March 2012. Approximately half of the funding for the procurement of the rail cars came from user fees and half from appropriations. The AAR donated one used box car and also increased GIPSA annual funding in a 10-year agreement to continue the Master Scale Calibration Program. The agreement comes under GIPSA's user fee program. The agency bills AAR quarterly, according to the agreement.

Summary of Budget and Performance

Statement of Department Goals and Objectives

The Grain Inspection, Packers and Stockyards Administration (GIPSA) was established on October 20, 1994, under the authority of the Agriculture Reorganization Act of 1994 (P.L. 103-354), to administer the programs and functions of Federal Grain Inspection Service (FGIS) and the Packers and Stockyards Program (P&SP). The mission of the agency is to facilitate the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and to promote fair and competitive trading practices for the overall benefit of consumers and American agriculture.

The GIPSA has two strategic goals and four strategic objectives that contribute to one of the Secretary's Strategic Goals.

USDA Strategic Goal	Agency Strategic Goal	Agency Objectives	Programs that Contribute	Key Outcome
USDA Strategic Goal: Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving. .	**Agency Goal 1**: Promote fair and competitive marketing of livestock, meat, and poultry.	Objective 1.1: Protect fair trade practices, financial integrity, and competitive livestock, meat, and poultry markets.	Packers and Stockyards Program	Key Outcome 1: Maintain a fair and competitive marketplace for buying and selling U.S. livestock, meat and poultry.
	Agency Goal 2: Facilitate the marketing of U.S. grain and related agricultural products.	Objective 2.1: Provide the market with terms and methods for quality assessments. Objective 2.2: Protect the integrity of U.S. grain and related markets. Objective 2.3: Provide official grain inspection and weighing services.	Federal Grain Inspection Service	Key Outcome 2: Provide buyers and sellers of U.S. grain with an efficient, accurate, and reliable means to determine the value of the product being sold or purchased, thereby facilitating the marketing of America's grain domestically and around the world.

Key Outcome 1: Maintain a fair and competitive marketplace for buying and selling U.S. livestock, meat and **Key Outcome 1:** Maintain a fair and competitive marketplace for buying and selling U.S. livestock, meat and poultry.

Long-term Performance Measure: Percent of compliance with the Packers and Stockyards (P&S) Act.

Selected Past Accomplishments Toward Achievement of the Key Outcome:

- Packers and Stockyards Program – GIPSA measures the overall performance of the P&SP by annually monitoring the regulated entities' compliance with the P&S Act. The aggregate industry compliance rate for 2012 increased to 87 percent from the 76 percent of 2011. The industry compliance measure is based on random samples similar to manufacturing quality control programs. A composite index of five audit and inspections activities comprise the aggregate compliance rate—custodial account audits, prompt pay audits, packing scale inspections, dealer and market scale inspections, and poultry contract reviews. The results of the individual component inspection and audits that comprise the aggregate index show a year-to-year increase in compliance rates in 2012 for all of the five areas reviewed. The poultry contract compliance review especially shows steady improvement, 85 percent in 2012 from the initial rate of 60 percent in 2009, 67 percent in 2010 and 69 percent in 2011.

- Efficiency at achieving industry compliance is measured through the number of days it takes to complete the investigative phase of investigations. The time declined from 98 days in 2011 to 89 days for investigations closed within GIPSA in 2012. This rate varies somewhat depending on the number of cases referred to headquarters for enforcement action, and also case types, which can be more or less complex, ranging from inaccurate annual reports filed from regulated entities to complaints regarding unfair and undue behaviors on the part of regulated entities as well as complaints related to structural issues that involved the Department of Justice. Total number of regulatory actions plus investigations worked on during the year increased from 5,154 in 2011to 5,498 in 2012. In FY 2012, 3,044 investigations of regulated firms were opened while 2,792 cases opened from 2012 and prior years were resolved and closed, including those closed after referral to OGC and the Department of Justice. The comparable numbers for 2011 were 2,780 cases opened and 2,131 cases closed. Both these changes reflect increased output per P&SP agents from enhanced management practices such as the electronic case file management system that allows agents and supervisors to monitor workflow assignments and track overall work progress from assignment inception to completion.

Selected Accomplishments Expected at the FY 2014 Proposed Resource Level:

- In FY 2014, GIPSA expects to continue to focus staff resources on increasing industry compliance with the P&S Act. The focus involves two areas. First, GIPSA is reviewing the recommendation made by the National Research Council (at https://download.nap.edu/catalog.php?record_id=13304) on the public release of USDA/Food Safety and Inspection Service plant inspection results to obtain increased compliance to determine how GIPSA might adopt similar recommendation based on its regulatory reviews. Second, GIPSA is using the data compiled on a daily basis of its field inspections to prioritize and align scarce staff resources to optimize the effort expended in achieving greater industry compliance. GIPSA was able to realize an 87 percent level of industry compliance in 2012, exceeding its goal of 81 percent compliance. Nonetheless, until GIPSA can replicate the high level of compliance, 81 percent remains a realistic goal for future industry compliance given current economic conditions in the industry, the inability to effectively enforce compliance in the poultry sector, and staff reductions.

- In FY 2014, GIPSA will continue to implement most directives and policies stemming from the publication in December 2011 of the GIPSA 2008 Farm Bill regulation titled "Implementation of Regulations Required Under Title XI of the Food, Conservation and Energy Act of 2008; Suspension of Delivery of Birds, Additional Capital Investment Criteria, Breach of Contract, and Arbitration."

Efficiency Measure: Decrease the number of days needed to investigate and resolve potential violations within P&SP by 5 percent yearly.

Key Outcome 2: Provide buyers and sellers of U.S. grain with an efficient, accurate, and reliable means to determine the value of the product being sold or purchased, thereby facilitating the marketing of America's grain domestically and around the world.

Long-term Performance Measure: Percent of market-identified quality attributes for which GIPSA has provided standardization.

- In FY 2009, the GIPSA Market Opportunities Team evaluated its master list of market needs, in cooperation with entities representing all segments of the grain and related commodities markets, and correspondingly recalculated target levels of performance for FY 2010 and beyond. GIPSA was able to provide standardization for 98.6 percent of market identified attributes, prior to the recalculation. In FY 2012, GIPSA was able to provide standardization for 88.7 percent of targeted market identified attributes.

- In FY 2011 and FY 2012, GIPSA played a significant role in maintaining the level of U.S. grain exports traded without disruptions or reported quality discrepancies at 99 percent. This indicates the accuracy and reliability of GIPSA's grain quality measurements and the success of our efforts to ensure that all of America's international trading partners understand how grain quality is determined.

Selected Accomplishments Expected at the FY 2014 Proposed Resource Level:

- In FY 2014, GIPSA expects to provide standardization for 95.4 percent of all market-identified quality attributes. During FY 2014, GIPSA anticipates continued success in facilitating the marketing of U.S. grain and related agricultural products through the establishment of standards for quality assessments, regulation of handling practices, and management of a network of Federal, State, and private laboratories that provide impartial, user fee funded official inspection and weighing services. GIPSA will provide the market with quality assessment terms and methods that reflect the evolving market needs, including providing both direct product testing, and documentation of specific production or processing methods, to help the market differentiate its diverse products. To protect the integrity of U.S. grain and related markets, GIPSA will maintain regulatory requirements for grain handling, marketing, and performance of laboratories authorized to provide official grain quality assessments that promote fair marketing. The agency also will continue to provide official grain inspection and weighing services to American agriculture through the official national system, a network of Federal, State, and private service providers.

Efficiency Measure: Decrease the average time for GIPSA to issue an official certificate to 2.5 days from 3 days.

Strategic Goal Funding Matrix
(Dollars in thousands)

Program / Program Items	2011 Actual	2012 Actual	2013 Estimate	Change	2014 Estimate
Department Strategic Goal: Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving.					
Packers and Stockyards............................	$22,319	$21,000	$21,400	$1,218	22,618
Staff Years..	175	165	163	-3	160
Grina Regulatory.....................................	17,456	15,887	16,581	1,332	17,913
Staff Years...	135	129	128	-	128
Total Costs, All Strategic Goals..	39,775	36,887	37,981	2,250	40,531
Total FTEs, All Strategic Goals..	310	294	291	-3	288

Summary of Budget and Performance

Key Performance Outcomes and Measures

Goal: USDA will assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving.

Key Outcomes:

Outcome 1: A fair and competitive marketplace for buying and selling U.S. livestock, meat and poultry.

Outcome 2: An efficient, accurate, and reliable means to determine the value of the product being sold or purchased and facilitation of the marketing of America's grain domestically and around the world.

Key Performance Measures:

Measure 1: Percent of industry compliance with the Packers and Stockyards Act

Measure 2: Percent of market-identified quality attributes needed for trading for which GIPSA has provided standardization.

Agency Priority Goal Targets:

Performance Measures	**2008 Actual**	**2009 Actual**	**2010 Actual**	**2011 Actual**	**2012 Actual**	**2013 Target**	**2014 Target**
Percent of industry compliance with the Packers and Stockyards Act							
a. Percent	80	80	80	76	87	81[1]	81[1]
b. Dollars (in thousands)	$20,900	$20,400	$23,157	$24,467	$21,270	$21,195	$22,618
Percent of market-identified quality attributes needed for trading for which GIPSA has provided standardization.							
a. Percent	97.8	98.6	85.0[2]	86.8	88.7	92.7	95.4
b. Dollars (in thousands)	$11,000	$11,000	$10,900	$10,600	$10,832	$11,320	$11,650

[1] See explanation of compliance percentages on pages 20-9 and 20-37.
[2] In FY 2010, GIPSA recalculated its assessment of market needs based on input from domestic and international customers, producers, and trade associations representing all segments of the grain and related commodity markets. As a result, the target performance levels for the fiscal years 2010 and beyond were adjusted.

Full Cost by Department Strategic Goal
(Dollars in thousands)

Department Strategic Goal: Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving

Program / Program Items	2011 Actual	2012 Actual	2013 Estimate	2014 Estimate
Packers and Stockyards Program				
Packers and Stockyards Program	$19,600	$18,251	$18,612	$19,856
Indirect costs	2,,719	2,532	2,583	2,761
Total Costs	22,319	20,783	21,195	22,617
FTEs	175	173	168	165
Performance Measure:				
Rate of industry compliance with the P&S Act (%)	76	87	81[1]	81[1]
Grain Regulatory Program				
Grain Regulatory Program	$14,656	$13,437	$13,949	$15,030
Indirect costs	2,800	2,667	2,837	2,884
Total Costs	17,456	16,104	16,786	17,914
FTEs	135	133	129	127
Performance Measure:				
Percent of market-quality attributes for which GIPSA has provided standardization (%)	87	89	93	95
Total Costs, All Strategic Goals	39,775	36,887	37,981	40,531
Total FTEs, All Strategic Goals	310	306	297	292

[1] See explanation of compliance percentages on pages 20-9 and 20-37.