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REPORT TO THE CONGRESS

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B-118622

Agricultural Stabilization and Conservation Service

Department of Agriculture

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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MARCH 4, 1970

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-118622

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

This is our report on procedures to be improved for determining what constitutes a farm, for purposes of subsidy payments under the U.S. Sugar Program. The activities discussed in this report are administered by the Agricultural Stabilization and Conservation Service, U.S. Department of Agriculture. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Bureau of the Budget, and to the Secretary of Agriculture.

Comptroller General
of the United States

Contents

ABBREVIATIONS

ASC	Agricultural Stabilization and Conservation
ASCS	Agricultural Stabilization and Conservation Service
DASCO	Deputy Administrator for State and County Operations, ASCS
GAO	General Accounting Office
OIG	Office of the Inspector General, Department of Agriculture
USDA	United States Department of Agriculture

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

PROCEDURES TO BE IMPROVED FOR DETERMINING WHAT CONSTITUTES A FARM FOR PURPOSES OF SUBSIDY PAYMENTS UNDER THE U.S. SUGAR PROGRAM

Agricultural Stabilization and Conservation Service
Department of Agriculture B-118622

D I G E S T

WHY THE REVIEW WAS MADE

A main feature of the U.S. Sugar Program is the making of payments to sugar beet and sugarcane growers to augment their income and to compensate them for adjusting production when acreage allotments are in effect.

The program provides for a sliding-scale rate of payments to be made on the sugar production of a farm. A basic rate of 80 cents per hundredweight is paid on the first 350 tons of sugarcane or sugar beets produced by a farm. This rate is reduced by successive steps to 30 cents per hundredweight on production above 30,000 tons.

Since this sliding-scale method favors the small-size farm, it is important, for subsidy payment purposes, that reliable procedures be followed in determining what constitutes an individual farm.

State and county Agricultural Stabilization and Conservation committees are responsible for local administration of the Sugar Program in accordance with the Sugar Act and related Department of Agriculture regulations, policies, and procedures.

Because of the significant Sugar Program payments--about $92 million for the 1968 crop to producers in 23 States and Puerto Rico--the General Accounting Office (GAO) wanted to find out how the Agricultural Stabilization and Conservation Service was administering the "farm constitution" aspect of the program; that is, how it was determining what constitutes a single farm.

FINDINGS AND CONCLUSIONS

In six of the seven States included in the review, county offices and committees had not adequately reviewed constitutions of sugar beet and sugarcane farms. Likewise, State offices and committees had not effectively monitored this aspect of the program. (See p. 9.)

GAO concluded that a number of sugar beet and sugarcane farms had been constituted improperly. As a result, the Agricultural Stabilization and Conservation Service had made overpayments to producers and had increased program costs. (See p. 9.)

For example, GAO found instances where two or more separately constituted farms were owned and operated by the same individual or individuals. According to the agency's guidelines, such farms should have been constituted as one farm for subsidy payment purposes. Because of the sliding-scale method of payment, the farm owners received total payments in excess of what they would have received had the farms been constituted as a single farm. (See p. 9.)

Improper constitutions of farms have also reduced the effectiveness of the National Sugar Beet Acreage Reserve program which was designed to encourage new growers to produce sugar beets. (See p. 9.)

GAO recognizes the difficulties involved in administering the subsidy payment provisions of the Sugar Program--especially the need for individual judgments in deciding on the constitutions of farms. These difficulties underscore the need for strong review and control procedures. (See p. 34.)

The agency's procedures provide for numerous county committees in the several States to determine farm constitutions. GAO believes that to properly implement the agency's procedures, a continual review should be made by higher organizational levels of the Agricultural Stabilization and Conservation Service to provide assurance that county-level reviews are timely and adequate and that the agency's criteria are being consistently applied by the committees. (See p. 34.)

RECOMMENDATIONS OR SUGGESTIONS

The Administrator, Agricultural Stabilization and Conservation Service, should establish procedures at the State and national organizational levels to provide assurance that (1) county offices and committees are making annual reviews to determine the propriety of the sugar farm constitutions and (2) determinations made by county committees are consistent with applicable regulations and instructions. (See p. 34.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Administrator, Agricultural Stabilization and Conservation Service, agreed with GAO's recommendation and proposed certain actions, such as annual reviews, by county committees, of farm constitutions; spot checks by State officials; and annual summary reports to the States and Washington. GAO believes that these actions will, if effectively implemented, significantly improve the administration of the Sugar Program and minimize improper farm constitutions. Agency officials also

informed GAO that any overpayments would be recovered where appropriate. (See pp. 34 and 35.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO is sending this report to the Congress because of its increasing interest in direct payments to farmers and, in particular, the proposed limitation on individual farm payments, which was the subject of considerable debate during the fiscal year 1970 appropriation hearings. Although the proposed payment limitation was not provided for in the fiscal year 1970 Agriculture Appropriation Act, the House and Senate conferees agreed that the matter should be considered by the appropriate legislative committees and the Congress prior to December 31, 1970--the expiration date for existing agricultural legislation.

GAO believes that the Congress may wish to consider the findings in the report regarding the difficulties in determining what constitutes a farm, since such difficulties would be inherent in any program for limiting individual farm payments.

CHAPTER 1

INTRODUCTION

The General Accounting Office has made an evaluation of the manner in which sugar beet and sugarcane farms within the continental United States are constituted, for purposes of subsidy payments under the U.S. Sugar Program. The Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture (USDA), administers the Sugar Program as authorized by the Sugar Act of 1948 (7 U.S.C. 1100) (Sugar Act). The term "farm constitution," as used in this report, refers to the makeup of an individual farm for subsidy payment purposes. The scope of our review is described more fully on page 37.

Subsidy payments of about $92 million were made on the 1968 crop to sugarcane and sugar beet producers within the continental United States and to sugarcane producers in Hawaii and Puerto Rico.

OBJECTIVES AND PRINCIPAL FEATURES OF THE SUGAR PROGRAM

The U.S. Sugar Program has three purposes:

--To protect the welfare of the U.S. sugar industry.

--To provide U.S. consumers with ample sugar supplies at reasonable prices.

--To promote and strengthen the export trade of the United States.

The Sugar Act provides that the Secretary of Agriculture determine annually the amount of sugar needed to meet the requirements of consumers in the continental United States. On the basis of this determination, the marketing of sugar in the United States is regulated by assigning marketing quotas (shares of the U.S. market) to domestic and foreign sugar-producing areas. The larger part of the sugar consumed in the United States comes from domestic areas (about 57 percent during the 1963-68 period). To avoid the production of sugar in excess of a domestic area's marketing

quota and a normal inventory, acreage is allotted in such a way as to enable each sugar-producing farm to get its fair share of the market.

When acreage allotments are in effect, ASCS regulations provide for a set-aside of a certain amount of acreage for allocation to new growers in each State. Reserving acreage for the growth and expansion of the sugar beet industry was also provided for in the 1962 amendments to the Sugar Act (7 U.S.C. 1132b).

The sugar beet acreage reserve was for allocation primarily to new producing localities during 1963 through 1966. The amendments authorized reserving, each year from 1962 through 1966 from the national sugar beet acreage requirement established by the Secretary of Agriculture, the acreage required to yield 65,000 short tons, raw value, of sugar. This acreage was to be allocated to new sugar beet farmers in localities served by new or expanded sugar-processing plants and was to be protected against any reduction for the first 3 years of operation. In the States we visited, allocations were to be limited to 50 to 100 acres per new grower.

A main feature of the Sugar Act is the making of payments to growers to augment farm income and to compensate them for adjusting their production when acreage allotments are in effect.

The Sugar Act establishes a sliding-scale rate of payments to be made, based on the sugar production of a farm. A basic rate of 80 cents per hundredweight is paid on the first 350 tons of sugarcane or sugar beets produced by a farm. This rate is reduced by successive steps to a minimum of 30 cents per hundredweight on production above 30,000 tons. According to House Report 796, July 3, 1947, on the Sugar Act of 1948, the sliding scale "continues the policy of preferring the small-size farm in the making of payments." The Sugar Act states:

> "All payments shall be calculated with respect to a farm which, for the purposes of this chapter, shall be a farming unit as determined in accordance with regulations issued by the Secretary,

and in making such determinations, the Secretary shall take into consideration the use of common work stock, equipment, labor, management, and other pertinent factors." (7 U.S.C. 1134(b).)

The act states also that the Secretary of Agriculture is authorized to use local committees to carry out this and other provisions of the act.

RESPONSIBILITY FOR ADMINISTRATION OF THE SUGAR PROGRAM

The ASCS Administrator is directly responsible to the Secretary of Agriculture for carrying out the provisions of the Sugar Act. Under the Administrator, the Deputy Administrator, State and County Operations, has a staff of six Area Directors who are responsible for the administration of ASCS programs at the ASCS State and county offices. The State offices direct and coordinate the activities of the county offices. At the county offices, Agricultural Stabilization and Conservation (ASC) committees have been given the authority to make determinations concerning the constitutions of the sugar farms along with other determinations coming within the purview of ASCS.

At the ASCS State offices, an ASC State committee is responsible for overall program direction and administration of ASC activities within the State. Day-to-day supervision is carried out by a State Executive Director. ASCS State offices also have a program specialists staff which directs and coordinates the payment provisions of the Sugar Act, a farmer fieldmen staff which conducts program operation reviews and inspects work performance, and an administrative division which reviews operations at county offices to determine whether programs and procedures are properly understood and administered.

REGULATIONS GOVERNING FARM CONSTITUTIONS

The regulations issued by the Secretary of Agriculture concerning the making of payments under the Sugar Act are contained in the Code of Federal Regulations (7 CFR 822.1) and are applicable to all farms in the continental United States. The definition of a farm has remained essentially

the same since 1941; basically, the regulations state that "a farm means all land farmed by an operator within a state." Therefore, the determination of what constitutes a farm is directly related to a definition of the term "operator." The definition of and guidelines for determining who is an operator are contained in 3-SU, the County Sugar Cane Handbook (Sugarcane Handbook) and 1-SU, the County Sugar Beet Handbook (Sugar Beet Handbook).

The definition and guidelines in the Sugar Beet Handbook were revised a number of times during the period 1963 to 1968--the period covered by our review. Generally, the revisions appear to be more in the nature of a clarification or to take into consideration certain situations which were not covered in previous guidelines. However, some revisions have resulted in significant changes in the guidelines.

As an example of a revision effecting a significant change in the guidelines, the Sugar Beet Handbook in 1963 stated that, if two individuals had separate sugar farms and also had a farm which they operated together in a partnership, the three farms would be considered separate unless it could be shown that the partnership farm was controlled and directed by one of the individuals who bore all or a major portion of the risk of financial loss or had the opportunity for financial gain resulting from its operations. A revision to the Sugar Beet Handbook in 1966 stated that, in the same situation, the individual's farm and the partnership farm would be considered as one farm unless separability in financing, management, risk of loss or opportunity for gain, and accounting could be proved.

Prior to a revision of the Sugar Beet Handbook in December 1967, an operator was defined as the producer who:

1. Controlled and directed the sugar beet operations on the farm.

2. Bore all or the major portion of the risk of financial loss or had the opportunity for financial gain resulting from such operations.

3. Had the authority to make the final decisions with respect to growing, harvesting, and marketing the sugar beet crop.

A producer was defined as a legal owner of part or all of a sugar crop, at the time of harvest or abandonment.

The December 1967 revision did not change the definition of a producer but stated that an operator is the producer (or producers) who has (have) general control of the sugar beet operations on a farm. This revision omitted the requirement that an operator must bear all or the major portion of the financial risk or have the opportunity for financial gain. The revision also referred to criteria for determining who is the operator. These criteria involve various indicators of control, such as day-to-day management, financing, recordkeeping, and ownership, which must be proved to be separate and distinct between operators, where the farms otherwise appear to be connected.

The Sugarcane Handbook was unchanged from 1963 to January 1968. The January 1968 revision is identical to the December 1967 revision of the Sugar Beet Handbook in its definition of an operator and its criteria for determining who he is.

The principal officials of the Department of Agriculture responsible for administration of the activities discussed in this report are listed in appendix II.

CHAPTER 2

PROCEDURES TO BE IMPROVED FOR DETERMINING WHAT CONSTITUTES A FARM FOR PURPOSES OF SUBSIDY PAYMENTS

On the basis of our review, we believe that there is a need for ASCS to strengthen its administrative review and controls to provide assurance that sugar beet and sugarcane farms are properly constituted. We found that county ASC committees and ASCS offices had not adequately reviewed constitutions of sugar beet and sugarcane farms and that State ASC committees and ASCS offices had not effectively monitored this aspect of the Sugar Program. There was little indication of administrative review and guidance by the ASCS State or national offices of the farm constitution aspects of the Sugar Program, other than in California.

We reviewed constitutions of sugar farms in selected parishes in Louisiana and in selected counties in six other States. In each State, except for California, we found cases where farms were constituted as separate farms, although we believe that the applicable guidelines issued by ASCS required that they should have been combined with other farms for payment purposes. When farms are improperly constituted as separate farms rather than as one, the sliding-scale method of payment results in overpayments to producers and thereby increases program costs.

Another detrimental effect of improper constitutions of farms has been a reduction in the effectiveness of the National Sugar Beet Acreage Reserve program which was designed to encourage new growers to produce sugar beets. In two States, we found that reserve acreage had been allocated to farms that were not eligible for such allocation because they had been improperly constituted.

We brought our findings to the attention of the appropriate State and county officials who, in some cases, reconstituted the farms. We also discussed our findings with ASCS headquarters officials.

The details of our findings in each State, along with our conclusion, recommendation, and agency action, are presented in the following sections of this report.

LOUISIANA

Our review in Louisiana showed that the ASC parish committees and the ASCS State office did not make periodic reviews of constitutions of sugarcane farms. We found that the Deputy Administrator, State and County Operations (DASCO), to whom ASCS State offices are responsible, did not follow up to determine whether there had been compliance with DASCO instructions issued to State offices during a review of farm constitutions by the ASC parish committees, made at DASCO's request. As a result, farms have remained improperly constituted for several years and overpayments have been made to sugarcane producers.

We selected for review the constitutions of sugarcane farms in two of the 20 Louisiana parishes which had received acreage allotments in 1967. The two parishes--Iberia and St. Mary--were the two largest parishes in terms of sugar produced and first and fifth, respectively, in terms of the number of sugarcane farms during that year. The results of the DASCO-directed review of farm constitutions in these parishes indicated that a number of them were improper.

Officials at both Iberia and St. Mary ASCS parish offices stated that reviews of the constitutions of sugarcane farms were made infrequently. The St. Mary ASC committee chairman estimated that the constitutions of farms were reviewed once every 10 years, and then only at the request of higher authority. The office manager at the Iberia parish office told us that he could not recall that any such reviews had been made by other than the parish committee. An ASCS State official told us that neither the program specialists nor the farmer fieldmen had conducted reviews of farm constitutions.

In a letter dated February 7, 1967, DASCO directed the Chairman of the Louisiana ASC State committee to instruct the ASCS parish offices to review their Sugar Program

records for crop year[1] 1966 to determine whether improper farm constitutions existed. DASCO also directed that appropriate reconstitutions be made for farms found to be improperly constituted in any of the years for which records were available.

This DASCO-directed review resulted from the Office of the Inspector General (OIG), Department of Agriculture, reviews of sugar beet farms in other States, which revealed "numerous cases where two or more separately constituted sugar beet farms should have been constituted as one farm." The letter from DASCO enumerated several types of cases which should be selected for special review. This letter also listed several requirements which must be met in order to prove separability of operations between farms having the same owner or owners. These requirements were clarifications of the Sugarcane Handbook provisions under which the Louisiana ASC committees had been operating.

As a result of DASCO's February 7, 1967, request, the ASC parish committees reviewed constitutions of about 1,050 farms and determined that reconstitutions involving 67 farms should be made. Forty-one of these farms (about 61 percent) were in Iberia and St. Mary parishes.

In September 1967, the Louisiana ASCS State Executive Director informed DASCO that the State office had assumed that an announcement by USDA in May 1967, stating that the definition of a sugar farm would not be changed for crop year 1967, superseded the instructions in DASCO's letter of February 7, 1967, and that, as a result, the parish committees had reversed their determinations to effect, for crop year 1966, reconstitutions involving 65 farms. (A determination involving two farms was not reversed.)

In October 1967, the Director of the South Central Area, DASCO, informed the Chairman of the Louisiana ASC

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[1] Generally, "crop year" for sugar beets is the year in which the crop was planted and for sugarcane grown in Florida and Louisiana is the year in which the harvest begins.

State committee that USDA's announcement was unrelated to the DASCO-directed review of sugarcane farm constitutions for crop year 1966. Notwithstanding this, the reversals by the ASC parish committees of their determinations involving the 65 farms were not rescinded because, in their view, a second review, using the criteria contained in the Sugarcane Handbook, did not show a need for reconstituting the farms. The State office files did not indicate any further follow-up by DASCO.

During our review at the two parish offices, we examined all available documentation on the 41 farms, obtained ownership information from the farm operators in instances where records were not available at the parish office, and interviewed some of the farmers. We concluded that the combinations involving the 41 farms should have been made in accordance with the provisions of the Sugarcane Handbook and the instructions contained in DASCO's letter of February 7, 1967. Had the combinations of the 41 farms been made for the 1966 crop year, payments for sugar production would have been decreased by about $10,000 because of the sliding-scale payment provisions of the Sugar Act.

We found that the same conditions had existed for varying periods prior to 1966 and that the farms should have been reconstituted for these prior years. Had all 41 farms been properly constituted for the years 1963 through 1965, sugar payments would have been reduced by about $28,300, according to our calculations.

After we brought our findings to the attention of State officials, reconstitutions involving 16 of the 41 farms were voluntarily effected by the farm operators for the 1967 crop year. Most of the remaining 25 farms were reconstituted later as the result of a review made by the ASC committees. The office manager of Iberia parish told us that the ASC parish committee would not have reversed its decision concerning the farms it had previously ruled upon had it not been advised by an ASCS State employee that the State office wished the rulings reversed. Even though some of the farms were voluntarily reconstituted for the 1967 crop year, overpayments for that year to operators of the remaining 25 farms totaled about $12,300.

On the basis of our review, we believe that, in addition to the 41 farms discussed above, four other farms included on the parish listings of crop year 1967 sugar producers should have been reconstituted as two farms, even though the committee in these cases had determined during the DASCO-directed review that the farms were separate. Of these four farms, two were owned by five partners, one of whom managed the two farms, and the other two, although there was no common ownership, were managed and financed by the same person.

Ownership of the partnership farms was as follows:

Partner	Farm No. 1	Farm No. 2
A	20%	8.2%
B	20	33.2
C	20	8.2
D	20	33.2
E	20	8.2
F	-	9.0
	100%	100.0%

Partner B informed the ASC committee that he was a comanager of both farms. The committee did not combine the farms because the principal owners of one farm did not own a controlling interest in the second farm. This reasoning was not consistent with the instructions for farm constitutions contained in DASCO's February 7, 1967, letter which required that each person or entity alleging separability of operations must show that (1) he exercises management, control, and direction of such farm only and not of any other sugarcane operation in which he has an interest and (2) he bears all or a major portion of the risk of financial loss or has the opportunity for gain from such farm only and does not so participate in any other sugarcane operation. In this case, five individuals control one farm and these same individuals are in a position to control the other farm. ASCS headquarters officials informed us that they would inquire further into this case at the parish office.

For the other two farms, the committee obtained management, ownership, and financing data which indicated separability of operations; however, two of the three persons involved informed us that both farms were financed and managed by one person even though that person had no ownership equity in one of the farms. We were informed also that the two farms were constituted as one farm for the 1968 crop year.

In these two cases, had the farms been combined for the period 1962 through 1967, payments would have been decreased by about $28,000, according to our calculations.

We noted that the Iberia and St. Mary ASCS parish offices generally did not maintain a record of ownership and control of sugarcane farms under their jurisdiction. We believe that such a record is necessary to enable the ASC committees to make proper determinations of farm constitutions.

On October 3, 1968, after we brought our findings to the attention of ASCS State officials, we were informed by the Acting Executive Director of the State office that the Iberia and St. Mary ASC parish committees had been instructed by his office to again review the constitution of the sugarcane farms discussed above. The ASCS State Executive Director informed us by letter of February 7, 1969, that, as a result of our review, all ASC parish committees were being required to review the constitution of all sugar farms and that 17 reconstitutions of farms were made for crop year 1967.

These 17 reconstitutions included 21 of the 45 farms discussed above which we believe should have been reconstituted in 1966 or earlier. Of the other 24 farms, 16 were voluntarily reconstituted for the 1967 crop year, two have changed their farming operations, and six were determined by the parish committees to be separate.

FLORIDA

In Florida we found that neither the ASC county committees nor the ASCS State office had made periodic reviews of the constitutions of sugarcane farms. We believe that this lack of review was primarily responsible for a number of instances in which farms did not appear to be constituted in accordance with the criteria contained in the Sugarcane Handbook.

On the basis of our review, we believe that overpayments amounting to about $117,000 may have been paid to Florida sugarcane producers from crop year 1963 through crop year 1967 because farms were improperly constituted.

In 1967, 153 farms in Hendry, Palm Beach, and Glades counties received all the subsidy payments of about $6.6 million that were made to Florida sugarcane producers. In each of the three counties, an ASC committee makes determinations relative to the Sugar Program. The Hendry County ASCS office is responsible for maintaining all records related to the sugarcane farms and for making the sugar subsidy payments to all farms in the three-county area.

Our review showed that DASCO did not request a review of sugar farm constitutions in Florida. The only record of such reviews in recent years by the ASCS State office, county committees, or county offices was of a general review of Florida sugarcane farms made by the Hendry County office manager in 1964 and a special review of certain farms that had been requested by the ASCS State Executive Director in 1965.

Because only two reviews of farm constitutions had been made, we examined the Hendry County ASCS office records pertaining to the 153 Florida sugarcane farms for crop year 1967 to determine whether any of the farms were related through common ownership or management. We found 44 farms where it appeared that such a relationship existed.

For these 44 farms, we examined ownership and management information available at the county office or obtained such information from the farms in those cases where either

the county office did not have the information or its information was not current. In addition, we examined such information for 13 farms which represented combinations of farms made voluntarily in 1966 or 1967, to ascertain whether the combinations had been made timely.

On the basis of our examination of the ownership information for the 57 farms, interviews with the individuals who appeared to be in control of the farms, and criteria in the Sugarcane Handbook, we concluded that, of the 57 farms, 30 (including some of the farms combined voluntarily) should have been reconstituted as 12 farms and that there was a possibility that four other farms should have been reconstituted as two farms. Had combinations for these 34 farms been required and had they been in effect during crop years 1963 through 1967, we estimate that payments to sugar producers could have been reduced by about $117,000.

We brought our findings regarding the 34 farms to the attention of the cognizant county committees. As of February 1969, they had reviewed each of the cases. They agreed generally with our findings on 11 farms involving overpayments of about $5,100 but disagreed generally with our findings on 23 farms involving overpayments of about $112,000.

We discussed the 34 cases with ASCS headquarters officials who stated that, from the information available, 14 of the farms, involving overpayments of about $17,000, should probably have been combined. They stated also that, on the basis of information we furnished them, the constitutions of 17 farms involving overpayments of about $66,000 were questionable and needed to be considered further. The officials told us that further inquiries would be made into these 31 cases.

The remaining three of the 34 farms are corporate farms, which we believe should have been constituted as one farm for subsidy payment purposes for the crop years 1963 through 1966. The circumstances related to these farms are discussed in the following paragraphs.

In 1962, the ASCS State Executive Director requested legal advice from ASCS headquarters officials concerning

the status of the three farms and, on the basis of the information then on hand, was informed that they should be constituted as one farm for payment purposes because certain individuals owned the majority of stock in each of the three farms and controlled the farms' operations. The ASC county committees constituted the three farms as one, and the corporate farms appealed the decision. When acting on the appeal, the county committees ruled that the three farms should be constituted as separate farms. However, before notifying the corporate farms of their decision, the committees requested DASCO's opinion.

DASCO, in responding, stated that additional pertinent facts should be developed if the committees desired to reconsider their decision that the farms were separate. The committees informed DASCO that it should make the final decision if it disagreed with the one that they had made.

DASCO, in referring the case back to the county committees, stated that, if it was determined that the same person or persons controlled the farming operations on the three farms and realized the profits or assumed the losses, such person or persons would be considered to be the operator (operators) of the three farms and a combination of the farms would be proper. DASCO also pointed out that, if the evidence already available to the committees and the interpretations furnished did not justify, in the opinion of the committees, the combination of the three farms into one, then the committees should determine whether the farms should be constituted as two or three farms.

The county committees again determined that the three corporate farms were separate, even though there was no showing that the individuals owning the majority stock in them did not control the farms and did not realize the profits or assume the losses. DASCO allowed this decision to stand. The Administrator, ASCS, in commenting on this case by letter dated September 23, 1969, stated that the decision could properly be reached in light of the regulations then in effect.

In our opinion, the three farms should have been constituted as one farm because the same three individuals (1) owned a controlling interest in all three corporations,

(2) constituted a majority of each farm's board of directors, who controlled farm operations, and (3) realized the majority of the profits or assumed the majority of the losses.

Control of the three corporate farms remained essentially the same until after the 1966 crop harvest, at which time the majority stockholders sold their interests in two of the corporations. Subsidy payments for sugar production to the three corporations totaled $259,486 during the period 1963 through 1966; however, had the farms been constituted as one during this period, we estimate that the payments would have been reduced by $33,600.

Of the 23 cases where the county committees disagreed with our findings, the reason for their disagreement, in our opinion, was due to decisions based on (1) facts which were irrelevant to the criteria, (2) some but not all of the facts which related to the criteria, and/or (3) statements obtained by the county committees from certain individuals which conflicted with statements obtained by us concerning the control and operation of some of the farms. Presented below are the details of two cases, each being an example of one or more of the committees' reasons for disagreement, and our comments concerning their decisions. We believe that these examples demonstrate the problems which can be involved in determining what constitutes a farm. ASCS headquarters officials agreed with our conclusion regarding Case 1, subject to their verification of the facts presented in this report, and considered Case 2 to be questionable.

Case 1--Individual G had operated a farm since 1959. In February 1968, he purchased 51 percent of the stock of a corporation which owned and operated another farm. G advised us that, since his purchase of stock in the corporation, he had controlled the operations of both farms. In March 1968, the corporate farm began the harvest of its 1967 crop. For purposes of subsidy payments, ASCS regulations provide that the owner of a crop is determined at the time of harvest.

The Sugarcane Handbook criteria in effect in 1967 required combination of common majority interests and control,

and in 1968 required combination if control was vested in the same person, regardless of ownership percentages.

We believe that the two farms should have been constituted as one farm effective with the 1967 crop year, because G was the operator of both farms by virtue of his majority ownership of both farms at the time of harvest of the 1967 crop. We believe that the farms should have been combined for the 1968 crop year because G controlled the operations of both farms. Had the farms been combined effective in the 1967 crop year, the subsidy payment would have been $4,729 less than the actual subsidy payments of $103,845 for the two farms.

After considering this case at our request, the county committee determined that G's individually owned farm and the corporate farm should not be considered as one farm for the 1967 crop year because (1) the minority stockholders, who had nothing to do with G's purchase of the stock, would have been penalized if the farms had been considered as one and (2) G purchased the stock in the corporate farm during the middle of the harvest season. The committee added that, if G had acquired additional stock in the corporate farm during the 1968 crop year, then the committee would have considered the corporate farm and G's farm as one.

The committee's statements concerning minority stockholders and the time of G's purchase of the 51 percent of the corporate farm's stock are factual but, in our opinion, are not factors which can be considered under the Sugarcane Handbook guidelines. What is relevant--in terms of the guidelines of the Sugarcane Handbook--is that G owned the majority interest in the corporate farm and controlled the operations of both farms at the time of harvest of the 1967 crop.

After we discussed this case with the ASCS State Executive Director, he and the ASC State committee met with the cognizant county committee and requested its reconsideration of the case. The county committee decided that the crop year 1967 constitution of the farms would not be changed but that the farms should be reconstituted for the 1968 crop year. The committee's decision not to reconstitute the farms for 1967 was based on G's statement that he

made no management decisions pertaining to the 1967 crop, and on the fact that the minority stockholders would be penalized.

Although G may not have made any management decisions, he was the manager of the corporate farm at the time of harvest. Therefore, G was in a position to make management decisions prior to the harvest of the crop, whether or not he did make such decisions.

Case 2--Individual H reported in April 1968 the following percentages of stock ownership in three corporate farms--X, Y, and Z:

Stockholders	Farm X	Farm Y	Farm Z (note a)
H	50	33-1/3	10
I	50	-	-
J	-	66-2/3	-
K	-	-	60
L	-	-	10
M	-	-	20

[a]The stockholder of record is a corporation which owns 100 percent of the stock of farm Z. The stockholders of this corporation are H, K, L, and M in the percentages shown.

Our review of county office files disclosed no evidence of a common majority ownership of the farms for prior years. H is the president of corporate farms X and Z and is vice-president of farm Y. The following table shows the membership of the boards of directors for the three corporate farms.

Directors	Farm X	Farm Y	Farm Z
H	x	x	x
I	x	-	-
J	-	x	-
K	-	-	x
L	-	-	x
M	-	-	x
N (Owns no stock)	x	x	-

As shown above, H is a principal officer and director of each corporate farm. Each of the other directors owns an interest in only one of the three corporate farms.

The following information, concerning each of six indicators of control of sugarcane operations prescribed in the Sugarcane Handbook effective for the 1968 crop year, was obtained from H or from records provided by him.

Who controls the land?--Corporate farm X consisted of some land leased by H and I as individuals and some land leased by farm X from Z; corporate farm Y consisted of some land which the corporation owned and leased, and other land which it leased jointly with individuals H, J, K, and L; and corporate farm Z consisted of land owned by the corporation.

Who arranges for financing?--Each of the three corporate farms arranged for financing in the corporation's name and one or two of the directors signed the notes for their corporation.

Who arranges for labor?--On H's recommendation, the board of directors of each corporate farm hired the same foreman to be in charge of the sugarcane operations of all three farms. The sugarcane foreman reported to H and hired and fired the labor. The same labor force was used on all three farms. Each farm paid for its share of the labor cost.

Who directs operations and makes decisions?--On H's recommendation, the board of directors for each corporation established farm policies and made the major decisions concerning such matters as plowing out

acreage, spraying, fertilizing, and determining procurement sources. After each board decided what should be done, H had the authority to use his judgment as to when and how it should be done. H managed the day-to-day operations of the three farms.

Who has majority financial interest in the crop?--Although H was not a majority stockholder in any of the three corporate farms, he was the only stockholder who received a salary or commission from the three farms, in addition to profit distributions.

Who keeps a record of accounts?--H arranged for keeping the basic labor and equipment records for the three corporate farms. These records were combined. H maintained a check register for each corporate farm, arranged for preparation of operating statements at the end of the year for farm X, and arranged for keeping a record of accounts for farm Y. A record of accounts for farm Z was maintained at its headquarters.

The Sugarcane Handbook guidelines prior to the 1968 crop year stated that, in the case of corporations, combinations should be effected if there was a common majority ownership. Therefore, farms X, Y, and Z were properly constituted as separate farms through the 1967 crop year because there was no common majority ownership.

However, the January 1968 amendment to the Sugarcane Handbook eliminated the majority ownership requirement and made control over operations the principal criterion for crop year 1968 farm constitutions. We believe that farms X, Y, and Z should have been constituted as one farm for the 1968 crop year, because H was the operator by virtue of his part ownership in all three farms and his general control of their operations.

We requested the county committee to examine into the status of corporate farms X and Y and provided the committee with current data regarding the ownership, officers, and directors of the two corporate farms. At the time of this request, we had not obtained the data regarding the operations of the farms. After considering farms X and Y, the county committee determined that the two farms were

properly constituted as separate farms for the 1967 and 1968 crop years because (1) neither H nor I--the two stockholders of corporate farm X--held a majority of the stock and (2) J controlled corporate farm Y because he owned two thirds of the stock while H owned only one third of the stock of the corporation. The records did not indicate that the committee considered factors other than stock ownership.

We discussed this case with the ASCS State Executive Director, at which time we informed him of our findings concerning corporation Z. After the discussion, the ASC State committee suggested that H be requested to appear before the county committee in an attempt to determine his actual relationship to the other entities. Such a meeting was held in October 1968 and the county committee determined that the three farms should remain separate, based on the following recorded statements of H.

1. The majority stock owner of Z did not have any interest in X or Y.

2. H was not a majority stockholder in X.

3. H was a minority stockholder in Y.

4. The majority stockholder in Y did not have any interest by stock ownership in X or Z.

5. Since H was not a majority stockholder in X or Y, he did not have controlling interest in the two farms by stock ownership.

6. Each farm kept its own records, provided for its own labor and equipment, arranged for its own financing, paid its own expenses, and maintained separate bank accounts in different banks and different towns.

We believe that, in making a determination for the 1968 crop year, the committee should have considered the other indicators of control of operations, since the January 1968 amendment to the Sugarcane Handbook did not require majority ownership as a condition precedent to

combining corporations. The amendment states that "Such interest in the crop does not always mean that he controls the operation." We believe that, even though H did not own the majority interest in the three corporate farms, our conclusion that he was the operator of the three farms is supported by the fact that he was the president or general manager of all of the farms, recommended operating policies, performed day-to-day management, and was involved in some degree with the financial records of the three farms.

CALIFORNIA

Our review in California showed that the ASCS county offices were performing reviews of the constitutions of sugar farms and that since 1967 the State office had established procedures for periodic reviews at county offices by State office personnel.

California grows more sugar beets and receives more Sugar Act payments than does any other beet-growing State. For this reason and because the OIG had conducted a review in California and found numerous instances of improper farm constitutions, we included California in our review.

OIG, in its July 1966 report on the Sugar Program in California, stated that a number of producers participating in the program may have received excessive payments because their farms were improperly constituted. OIG recommended that the California ASCS State office conduct reviews in counties not covered by OIG's review.

OIG stated also that it had noted a number of cases in two counties where, because of improper farm constitutions, farms' eligibility for allotments of the national sugar beet reserve acreage appeared questionable. OIG recommended that the ASCS State office determine whether, in the questionable cases, the farms were actually eligible for the allotments of the reserve acreage.

As a result of OIG's review and recommendations, ASCS State and county offices and ASC committees determined that significant overpayments had occurred in California from 1956 through 1966 because of improperly constituted farms. About $70,000 was recovered from the overpaid producers by the ASCS county offices, in accordance with ASCS procedures. ASCS officials informed us that such overpayments are generally recovered by setoff or refund but that producers are occasionally granted relief pursuant to the authority contained in section 326 of the Food and Agriculture Act of 1962 (7 U.S.C. 1339a). Section 326 of the act, in effect, authorizes ASCS to grant relief to producers for overpayments in those cases where the producers have performed in good faith and have relied upon action or advice of an authorized representative of the Secretary of Agriculture.

The county offices also reviewed the questionable cases of eligibility for allotments of national reserve acreage and determined that a number of farms were not eligible to receive such allotments.

California ASCS State office officials informed us that, prior to the 1966 OIG review of the constitutions of sugar beet farms in California, the State office had virtually ignored the farm constitution aspect of the Sugar Program. The State office official responsible for the administration of the Sugar Program in California said that he had assumed that the ASCS guidelines for determining what constitutes a sugar beet farm were adequate and that the county committees were aware of their responsibility to see that sugar beet farms were properly constituted.

We noted that procedures had been implemented in the California counties where we conducted our reviews, to provide for more adequate reviews of sugar beet farm constitution determinations. The procedures require growers to certify whether or not they have any other sugar beet farm interests and, if so, to specify them. We verified that this procedure was being followed in the three counties where sugar beets were harvested for crop year 1967.

We were also advised that ASCS county office clerks review the constitution of sugar beet farms and refer questionable cases to the office manager. Cases which cannot be resolved by county office personnel are referred to the ASC county committee.

California ASCS State office officials informed us that since June 1967 they had tightened their control over checklists submitted by farmer fieldmen. These checklists are a series of questions pertaining to various programs which serve as guidelines for reviews conducted by farmer fieldmen at ASCS county offices. The California ASCS State office also has instituted a program of periodic program reviews at county offices, to be conducted by operation specialists. As part of their overall reviews at county offices, the operation specialists are charged with reviewing sugar beet farm constitution determinations to ensure that they are proper.

Our review of the constitutions of sugar beet farms in California for crop years 1966 and 1967 showed that, in general, farm constitutions were proper. We believe that the emphasis placed on the farm constitution aspect of the Sugar Program in California in recent years has served to minimize the problem of improperly constituted sugar beet farms in that State.

NORTH DAKOTA

In North Dakota we found that the ASC county committee in the one county we visited had not made a review of farm constitutions and that a review of farm constitutions by the ASCS State office was ineffective in disclosing farms which should have been combined. As a result, farms which were not properly constituted were allotted national reserve acreage to which they were not entitled. Also, at least one farm received a subsidy overpayment because it was not properly constituted for payment purposes.

Our review in North Dakota was limited to determining the adequacy of constitutions of sugar beet farms in Pembina County, which were allotted national reserve acreage reserved for a new (in 1965) processing facility--the Drayton Processing Company--at Drayton, North Dakota. The allotments to the sugar beet farms totaled about 11,500 acres or about 37 percent of the 31,000 acres reserved for the new facility.

Of the 173 farms in Pembina County which were allotted acreage reserved for the new facility, 35 were combined with one or more other sugar beet farms in 1967 or 1968. In some cases, the farms were combined with other farms that had been allotted reserve acreage; in other cases, they were combined with farms that had not been allotted reserve acreage. These combinations, which numbered 22 and involved 50 farms, were made voluntarily and not as a result of ASC county committee determinations.

We interviewed the operators of 10 of these farm combinations which involved 23 farms and, from their statements, concluded that the combinations should have been effected beginning in crop year 1965. Had the 23 farms been properly constituted in crop year 1965, they would not have been eligible for allotments of 747 acres of the acreage reserved for the new processing facility. In other words, because the farms were improperly constituted as separate operations, they were collectively allotted more reserve acreage than they would have been entitled to as combined operations because of the limitations placed on the number of acres that could be allotted to each new farm.

According to the statements of the operators, the farms, in each instance, had been operated as combined units prior to 1965. The Drayton Processing Company, in accordance with ASCS regulations, distributed allotments of its reserve acreage in crop years 1965 and 1966 under contracts with each individual who was involved in farming a combined unit; that is, father and son, brothers, or other related individuals. Then, in 1967 or 1968, the processing facility distributed allotments of its reserve acreage to the combined farms rather than to the individuals involved in the farming operations.

The ASC county committees were responsible for determining whether the processing facility had allotted its reserve acreage to growers who were eligible for such allotments. The chairman of the Pembina County ASC committee told us that he did not recall making any such determinations for crop year 1965.

A North Dakota ASCS State office representative told us that he had made a spot-check review of the eligibility of 25 percent of the sugar beet growers who had received allotments of the reserve acreage for the Drayton processing facility. He said that no separately constituted farms had been combined as a result of his review, although three of the growers he interviewed had told him that they operated as a combined farm. These three growers combined their sugar beet farms in crop year 1967. Our review confirmed that the farms should have been combined beginning in crop year 1965. ASCS State office officials informed us that they did not know why they had not required the farms to be combined in 1965.

According to the information available at the North Dakota ASCS State office, the allotments of national reserve acreage to all farms in North Dakota were less than the maximum 80 acres permitted by the ASCS regulations since the total acreage allocated to the State was not sufficient for granting allotments of the maximum acreage to all farms which requested an allotment. Therefore, those sugar beet growers who were eligible for an allotment of the maximum acreage were allotted less acreage because of the allotments to ineligible growers. Since our review was

limited to only one county, and to only 23 of the 173 national reserve acreage farms, it is possible that additional ineligible farms may have been involved.

COLORADO, WYOMING, AND IDAHO

We found that a number of counties in Colorado, Wyoming, and Idaho were not making reviews of the constitutions of sugar beet farms and in some instances were, in our opinion, making determinations which were not in accordance with the criteria contained in the Sugar Beet Handbook. We found also that periodic reviews of the program were not being made by at least two of the ASCS State offices.

On the basis of our review, we concluded that some farms were not properly constituted in the three States. We reviewed the constitutions of 785 farms and found 89 which appeared to be improperly constituted. We brought these 89 farms to the attention of the ASC county committees which effected 11 combinations involving 24 of the farms. Overpayments to these farms were negligible.

At each of the three counties included in our review in Colorado, county officials told us that they had made a review of the constitutions of farms in 1966, as directed by the ASCS State office at DASCO's request. They told us also that, as a result of their review, combinations involving eight farms in two of the counties were effected.

We made a review of the constitutions of selected farms in the three counties and in two counties found 13 farms where the constitutions appeared questionable. We brought these to the attention of the ASC county committees and one combination of two farms resulted. In one other case the committee interviewed the parties and decided that the two farms involved should remain separate. The cognizant ASC county committee chairman stated that he would not reconstitute the other nine farms because he was not sure that this was required by ASCS criteria; however, if it was a requirement, he did not believe that the committee was bound by it.

We found evidence of a review of 1967 farm constitutions by the county committees in only one of the three counties we visited in Colorado. State office records disclosed only one review of the Sugar Program by State

officials in the past 3 years (of but one county) and only two reviews by farmer fieldmen during 1966 and 1967.

In Wyoming we reviewed farm constitutions in two counties. Both county offices had participated in the 1966 review of farm constitutions requested by DASCO; however, the reviews did not result in reconstitutions and there were no records available to indicate the extent of the reviews. There was no evidence in either ASCS county office that crop year 1967 farms had been reviewed by the ASC county committees or by the ASCS county office staff.

We reviewed constitutions of farms for crop year 1967 in both Wyoming counties, to determine whether there were any questionable farm constitutions, and found 15 possible combinations involving 33 farms in one county. We asked the ASC county committee to review and consider the cases. The committee reviewed these 33 farms and reconstituted nine of them as four farms. The committee informed us that overpayments to these farms were negligible.

In Idaho we reviewed constitutions of farms in four counties. In one of the counties, our review was only of farms which received national reserve acreage. In each of the three counties where we reviewed other than national reserve acreage farms, we found that the ASC county committees had reviewed crop year 1966 farm constitutions as requested by DASCO. Members of one county ASC committee informed us that they could not recall completing the review. These reviews resulted in 10 reconstitutions. In the remaining county, no review of farm constitutions for crop year 1967 farms had been made by the county committee. The ASCS State office program specialist stated that the office did not get involved with determinations except when questionable cases were referred to it.

We reviewed a number of the constitutions of farms for the 1966 and 1967 crop years in the Idaho counties visited and found that 43 were questionable and might require reconstitution into 19 farms, according to the criteria in the Sugar Beet Handbook and information available at the county offices. We presented these cases to the ASC county committees which considered 33 of them and reconstituted

13 farms as six. All the committees stated that their determinations were based on the criteria in the Sugar Beet Handbook.

At one county we met with the ASC county committee to discuss the cases we had questioned. The committee members did not appear to be familiar with the requirements of the criteria in the Sugar Beet Handbook. The county office manager stated that, if all requirements for separability as stated in the Sugar Beet Handbook had to be met, none of the farms we questioned (15 in this particular county) could be determined to be separate. He stated that the committee used as a criterion the persons having day-to-day management of the farms. He stated also that, if different persons managed the farms in question, the committee would hold the farms to be separate.

At one Idaho county we reviewed only those farms receiving allocations for national reserve acreage. As in North Dakota and California, allotments were to be made only to new growers and were not to exceed a certain acreage. In Idaho the limit was 50 acres in 1964 and 1965 and 60 acres in 1966. We questioned the eligibility of 13 farms which had each received a national reserve allotment but which we believed were not eligible for the allotment according to the criteria in the Sugar Beet Handbook. We discussed these cases with the chairman of the ASC county committee who agreed with us on eight of the farms.

Inasmuch as Idaho's allowable national reserve of 8,140 acres was never fully allotted during the 3 years the program was in effect, the 672 acres of ineligible national reserve allotments in these cases were not enough to adversely affect the program's purpose in Idaho.

CHAPTER 3

CONCLUSION, RECOMMENDATION, AND AGENCY ACTION

CONCLUSION

We recognize the difficulties involved in administering the subsidy payment provisions of the Sugar Program, especially in view of the need for individual judgments in making decisions on the constitution of farms. In our opinion, however, these difficulties underscore the need for strong review and control procedures over the constitution of sugar farms. On the basis of our review, we believe that, to properly implement the ASCS procedures which provide for numerous ASC county committees in the several States to determine proper constitution of farms, a continuous review by higher organizational levels of ASCS should be made. Such review is necessary to provide assurance that county reviews are timely and adequate and that ASCS criteria are being consistently applied by the ASC committees in making their determinations.

RECOMMENDATION

We recommend to the Administrator of ASCS that review procedures be established at the State and national organizational levels to provide assurance that (1) county offices and committees are making annual reviews to determine the propriety of the sugar farm constitutions and (2) determinations made by ASC county committees are consistent with applicable regulations and instructions.

AGENCY ACTION

In commenting on a draft of this report, the Administrator, ASCS, advised us by letter dated September 23, 1969 (see app. I), that ASCS agreed with our recommendation. He stated that ASCS instructions to field offices would be amended to provide that:

1. State ASCS office personnel make certain that each county office reviews farm constitutions for each crop.

2. ASCS State offices spot-check, to the extent that the limitation of personnel will permit, to determine whether proper farm constitutions are made.

3. Each county ASCS office submit a report to the State office each year, showing the number of constitutions reviewed and the number of reconstitutions effected.

4. A summary report be submitted annually to the Washington office by each State office.

The Administrator also stated that, in view of staff limitations at the national level, continued dependence upon OIG would be necessary for audits of the Sugar Program, including the review of farm constitutions. He pointed out, however, that, when indicated by OIG reports, a determination would be made as to whether an audit should be extended in any State or area and that, if a serious situation existed, Washington personnel and other available State office personnel would participate in a review of the State or area office. He stated further that, to the extent possible, Washington office personnel, in their periodic visits to ASCS State and county offices, would examine records as to the action taken by these offices in reviewing farm constitutions.

The Administrator informed us that each case questioned by us in the various States included in our review, would be followed up at the State and/or county level to ascertain whether appropriate action was taken. ASCS officials subsequently advised us that, where overpayments had been made, each case would be considered individually to determine whether the overpayment should be recovered or relief should be granted in accordance with the authority contained in section 326 of the Food and Agriculture Act of 1962 (7 U.S.C. 1339a). (See p. 25.)

The ASCS officials also provided us with an official notice, effective September 30, 1969, sent to all ASCS State offices of sugar-producing States by the Acting Deputy Administrator, State and County Operations. The notice required State offices to instruct the ASC county committees to withhold crop year 1969 payments to sugar farms until

the constitution of such farms had been reviewed and determined to be proper in accordance with criteria set forth in the Sugar Beet and Sugarcane Handbooks.

In our opinion, the actions proposed by the Administrator, ASCS, will, if effectively implemented, significantly improve the administration of the Sugar Program and minimize improper farm constitutions.

CHAPTER 4

SCOPE OF REVIEW

We reviewed (1) legislative history of the act authorizing subsidy payments to sugar growers as currently being administered by ASCS, (2) pertinent ASCS regulations, procedures, and practices in determining these payments authorized by the Sugar Act, and (3) determinations of constitutions of farms made by ASC county committees for crop years 1963 through 1968, which were the basis for making subsidy payments to growers of sugarcane and sugar beets.

Our review was performed principally at selected ASCS county offices in the States of California, Colorado, Florida, Idaho, Louisiana, North Dakota, and Wyoming and at the State offices of ASCS in these States; it also included visits to a number of growers in several of these States.

APPENDIXES

UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE • WASHINGTON,D.C. 20250

Mr. Victor L. Lowe
Associate Director
U.S. General Accounting Office
Washington, D. C. 20548

SEP 23 1969

Dear Mr. Lowe:

This is in further reference to your draft report on "Need to Establish Procedures for Insuring that Farms are Properly Constituted under the U.S. Sugar Program".

We agree with the recommendations set forth in your proposed report and will take the following actions to implement those recommendations:

1. Our instructions to field offices will be amended to provide that —

   a. State ASCS office personnel check to see that each sugar county reviews farm constitutions for each crop.

   b. To the extent that the limitation of personnel will permit, spot checks be made by State office employees to determine that proper farm constitutions are made.

   c. Each county ASCS office submit a report to the State office each year showing the number of constitutions reviewed and the number of reconstitutions effected.

   d. A summary report be submitted annually to the Washington Office by each State office.

2. In view of staff limitations at the national level, we will have to continue to depend upon the OIG for audits of the sugar program, including the review of farm constitutions. When indicated by OIG reports, a determination will be made as to whether there is a need for extension of the audit in any State or area. If a serious situation is indicated, Washington and available State personnel will participate in a review. Also, to the extent possible, national office personnel on visits to State and county offices will examine records as to the action taken by them in reviewing farm constitutions.

With respect to three of the corporate farms in Florida discussed in detail in your report, the county committees reversed their original decision upon appeal by the affected parties and after a careful review of the evidence available to them. In their judgment of the facts in these cases and in light of the guidelines in the instructions, they were of the opinion that three farms should be constituted rather than one as originally determined. It is believed that this decision could properly be reached in light of the regulations then in effect.

Your report points out the differences in the information obtained from producers by your interviewers and that furnished to the county committees by the producers. We believe that in some cases the results of your interviews raise questions that require the development of additional information to permit proper determinations. This will be done.

A representative of the Direct Payments Programs Division of the Office of the Deputy Administrator, State and County Operations, will review each of the questionable cases in Florida and Louisiana with the appropriate county committees in such States.

With respect to the Beet Sugar Area, we will correspond with each of our State offices wherein questionable cases came to light to make certain that they have been or are reviewed and that appropriate action is taken.

We appreciate the opportunity of discussing the proposed report with members of your staff and the objective manner in which the review was conducted.

Sincerely yours,

Administrator

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF AGRICULTURE RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DEPARTMENT OF AGRICULTURE		
SECRETARY OF AGRICULTURE:		
Orville L. Freeman	Jan. 1961	Jan. 1969
Clifford M. Hardin	Jan. 1969	Present
UNDER SECRETARY OF AGRICULTURE:		
Charles S. Murphy	Mar. 1961	June 1965
John A. Schnittker	June 1965	Jan. 1969
J. P. Campbell	Jan. 1969	Present
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE		
ADMINISTRATOR:		
Horace D. Godfrey	Jan. 1961	Jan. 1969
Kenneth E. Frick	Mar. 1969	Present
DEPUTY ADMINISTRATOR, STATE AND COUNTY OPERATIONS:		
R. V. Fitzgerald	June 1962	Feb. 1969
William E. Galbraith	Feb. 1969	May 1969
George V. Hansen	May 1969	Present

U. S. GAO Wash., D. C.