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

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COMMUNITY AND ECONOMIC  
DEVELOPMENT DIVISION

JANUARY 4, 1979

R-142011

The Honorable Bob Bergland  
The Secretary of Agriculture



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Dear Mr. Secretary:

Sections 101 and 104 of the Food and Agriculture Act of 1977 (91 Stat. 917-919) limit the total amount of direct payments a person may receive under the wheat, feed grains, and upland cotton programs to \$20,000 for 1977 crops, \$40,000 for 1978 crops, and \$45,000 for 1979 crops. Rice program payments are limited to \$52,250 for 1978 crops and \$50,000 for 1979 crops. For each of the 1980 and 1981 crops, total direct payments under all four programs are not to exceed \$50,000. We reviewed the administration of the payment limitation program to determine if Agricultural Stabilization and Conservation Service (ASCS) procedures and controls were adequate to insure compliance with the limitation. In an earlier report, "Payment Limitation Under 1971 Cotton, Wheat, and Feed Grain Programs Had Limited Effect on Reducing Expenditures" (B-142011, Apr. 12, 1972), we had recommended improvements in these procedures and controls.

We made our review at ASCS headquarters; at ASCS's Management Field Office (MFO) in Kansas City, Missouri; and at the ASCS State office and three county Agricultural Stabilization and Conservation offices in Oklahoma. (In terms of total deficiency payments in crop year 1977, Oklahoma ranked fifth in the Nation.) We interviewed agency officials and reviewed State, county, and headquarters payment limitation records and procedures. Although we obtained some information on other States at ASCS headquarters, we limited our fieldwork to Oklahoma because the Department's Office of Inspector General was reviewing payment limitation administration in Colorado, Kansas, Montana, and Nebraska.

Steps are needed to strengthen county office administration of the payment limitation because the county offices we reviewed were

--not systematically obtaining all the information needed to determine the makeup of entities receiving deficiency payments,

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- not always identifying those farming entities that needed to be combined for payment limitation purposes,
- making payments to the wrong payees,
- not implementing proper controls to prevent overpayments on county-issued drafts, and
- not obtaining the best information available before making determinations for payment limitation purposes.

In addition, county and State offices were not submitting the required number of payment limitation determinations for higher level review. Also, interpretations varied as to which determinations were to be submitted for review. Our recommendations in this regard are shown on page 10.

INFORMATION ON RELATED FARMING ENTITIES  
NOT ALWAYS OBTAINED OR PROPERLY COMBINED

The three county offices we reviewed did not always require producers to submit all the information needed to determine if farming entities should be combined--considered as one person--for payment limitation purposes or if the entities were eligible for payments. As a result, some farming entities had not been properly combined and some payments had been made to ineligible entities. Also, in some cases, entities had not been properly combined even though the necessary information had been submitted.

In our April 1972 report, we had recommended that ASCS establish procedures to obtain information on all farming interests of each program participant so that ASCS can apply the payment limitation fully and fairly. The Administrator of ASCS agreed with the recommendation and stated that county office instructions had been strengthened.

ASCS instructions require county offices to advise all producers for whom the limitation may possibly apply that program payments cannot be made until they have furnished in writing all details on their farming operations which the county offices need to determine how payment limitation rules apply. These rules require that certain related farming entities--such as those of a husband and wife, a corporation and certain of its stockholders, an estate and its heir, and a trust and its grantor and/or beneficiary--are to be considered as one person for payment limitation purposes.

Without adequate documentation on the farming interests of all program participants and proper determinations as to those entities which should be combined for payment limitation purposes, ASCS cannot administer or enforce the payment limitation effectively.

Entities not combined

The three county offices were not properly combining all related entities for payment limitation purposes. As shown in the following table, one county had not made payment limitation determinations for crop year 1977, while a second had basically combined only husband-wife entities.

<u>Type of entities</u>	<u>Number of payment limitation determinations made by county offices</u>		
	<u>Garfield</u>	<u>Grant</u>	<u>Texas</u>
Husband-wife	0	3	95
Parent-minor child	0	4	2
Corporation-individual producer	0	6	<u>a/</u> 0
Trust-grantor/beneficiary	0	3	0
Estate-heir	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>0</u>	<u>16</u>	<u>97</u>

a/The county office was attempting to obtain information about two corporations and individual producers who may need to be combined for payment limitation purposes.

The three counties had made crop year 1977 deficiency payments totaling at least \$450,443 to estates, trusts, and other entities without determining either the respective heirs or beneficiaries or whether the involved entity was a corporation, partnership, or joint venture.

Although we did not identify any overpayments in these counties, the failure to obtain necessary information on and properly combine farming entities represents a breakdown in controls which could lead to overpayments or other irregularities. Overpayments were not identified because total payments received by those entities to be combined did not exceed \$20,000. We understand that the Office of Inspector General has found and will be reporting on overpayments resulting from similar circumstances in other counties.

The following are some examples of farming entities which the county offices we reviewed should have combined.

--ASCS instructions require that when an individual (including spouse and minor children) own more than 50 percent of a corporation's stock, the individual and the corporation are to be considered as one person.

In reviewing data on 11 corporations which had received deficiency payments, we noted 5 cases in which both the corporation and the individual (or producer and spouse) who owned more than 50 percent of the stock had received payments. Payments to these corporations totaled \$36,400.

In one of these cases, an individual and his wife owned 67 percent of a corporation's stock. The individual and the corporation had received payments from one county; the wife had received payments from other counties. The following table summarizes the payments.

<u>Name</u>	<u>1977 payments</u>
X Farms, Inc.	\$19,059
Mr. X	83
Mrs. X	<u>666</u>
Total	<u>\$19,808</u>

--ASCS instructions require that the single heir of an estate and the estate or the single beneficiary of a trust and the trust be considered as one person. As summarized in the following table, we identified entities of these types in all three counties which should have been combined. None of the combinations resulted in overpayments.

<u>County</u>	<u>Number reviewed by GAO</u>		<u>Combinations that should have been made</u>		
	<u>Estates</u>	<u>Trusts</u>	<u>Estates/ heirs</u>	<u>Trusts/ benefi- ciaries</u>	<u>Total payments</u>
Garfield	41	11	4	6	\$13,900
Grant	28	15	12	7	22,500
Texas	<u>33</u>	<u>32</u>	<u>10</u>	<u>12</u>	<u>38,000</u>
Total	<u>102</u>	<u>58</u>	<u>26</u>	<u>25</u>	<u>\$74,400</u>

--ASCS instructions require that a husband and wife be considered as one person regardless of any separate farming interests each may have. In one county we identified 38 instances in which both a husband and wife received 1977 deficiency payments ranging, in total, from \$622 to \$12,811. The county had not combined these entities for 1977.

In one case in a second county, a producer received \$18,260 in deficiency payments under his identification number. His wife had received almost \$700 from two other counties. Neither county had combined this husband and wife entity.

#### Some payments made to wrong payees

Because the county offices had not always obtained all necessary information about farming entities, some payments were made either to general partnerships which are not considered as a person for payment limitation purposes or to estates which were no longer in existence rather than to the heirs.

ASCS instructions state that a general partnership shall not be considered as a person for payment limitation purposes; payments are to be made to the individual partners. However, two of the counties had made 1977 deficiency payments totaling \$12,600 to four partnerships instead of to the individual partners.

Also, two offices had paid a total of \$28,450 in 1977 deficiency payments to 18 estates which had been settled before the beginning of crop year 1977. Five of the estates had been settled before January 1970. The payments should have been made directly to the heirs. Although we did not identify any overpayments in these cases, the failure to obtain all necessary information could cause the payment limitation to be exceeded.

#### County office officials' comments

County office officials generally were noncommittal about why their offices had not obtained necessary payment limitation information on all farming entities. One county executive director said that he had not been fully aware of his office's responsibilities until our review.

LACK OF CONTROLS RESULTED IN OVERPAYMENTS

ASCS's MFO had identified some cases in which producers had received deficiency payments in excess of the \$20,000 payment limitation on county-issued drafts because county offices did not (1) coordinate with each other when producers were receiving payments from more than one county and (2) adequately keep track of the total payments producers received for multiple farms in a county. The county offices were taking steps to collect the overpayments.

For the 1977 crop year, wheat and feed grain deficiency payment drafts were issued by both MFO and county offices. MFO issued most drafts, but under certain conditions, such as when a producer requested immediate payment or when payment by the MFO would have been delayed because of circumstances beyond the producer's control, the county office could issue drafts. A centralized data processing system controls MFO payments to prevent producers from exceeding the payment limitations. However, the county offices had not implemented proper controls before making their payments. As a result, when overpayments had occurred, administrative costs were being incurred to collect the overpayments.

ASCS instructions state that when a producer has farming interests in more than one county, payments may be controlled by using the following method or any other method adopted by the State committee.

Divide the payment limitation amount by the number of counties in which the producer has a farming interest. If the producer has earned less than this amount, the payment may be made; if more than this amount, the county is to write the other counties in which the producer has an interest, notifying them of the amount earned and requesting information on the amount of payment already made. The county which initiates the inquiry becomes the control county. The other counties are to obtain from the control county the amount which may be paid to that producer.

Two of the county offices we reviewed had not applied a manual control even though they were aware that producers had farming interests in other counties and that the size of the deficiency payments being paid in their counties made them the control county. In one county, a \$1,200 overpayment occurred because the county office had neither

applied the manual control when it was the control county nor reviewed all farm files before making additional payments.

In the other county, four overpayments totaling about \$4,700 could have been prevented had the county office coordinated its payments with other counties. Also, three overpayments totaling about \$2,000 occurred when the county office failed to implement control procedures before making payments to producers who had multiple farms in the county. The overpayments could have been prevented if the county office had reviewed all the farm files pertaining to these producers and manually computed the total amount of deficiency payments each had received before making additional payments.

For crop year 1978, ASCS revised its instructions to eliminate a producer's request for immediate payment as a condition under which county offices could issue drafts. An ASCS headquarters official told us in November 1978 that because of the revision, overpayments similar to those above should not occur for crop year 1978.

REQUIRED NUMBER OF PAYMENT LIMITATION  
DETERMINATIONS NOT SUBMITTED FOR REVIEW

Although required by ASCS instructions, Oklahoma counties were not always submitting at least 10 percent of their payment limitation determinations for State office review and the Oklahoma State office was not submitting the required number of determinations to ASCS headquarters for review. In addition, there was confusion as to what types of determinations were to be submitted.

In our April 1972 report, we had recommended that ASCS provide for periodic reviews by ASCS headquarters, as well as by the ASCS State offices, of the propriety and consistency of determinations county and State offices make. We said that without such reviews, there was no assurance that the determinations were proper or that ASCS regulations and instructions were being applied consistently. The Administrator of ASCS agreed with the recommendation and stated that actions were being initiated to implement it.

ASCS instructions now require county offices to submit a minimum of 10 percent of all payment limitation determinations to State offices for review. The State offices are required to submit a minimum of 10 percent of these determinations to headquarters for review.

MFO records showed that 12 of the 15 Oklahoma counties having the largest total deficiency payments for crop year 1977 had submitted lists of 279 cases of persons and/or entities which needed to be combined for crop year 1977 payment limitation purposes. Of these cases, 71 involved combining individuals and entities with other entities such as corporations, trusts, and estates. The other 208 cases involved combining husbands and wives or parents and minor children. Ten of the 12 counties had not submitted any cases to the State office for review. A State official said the State office had no way to determine if county offices were complying with the 10-percent requirement.

Further, the Oklahoma State office did not submit crop year 1977 payment limitation determinations to headquarters for review. Headquarters officials said they had no way to determine if county and State offices were complying with the 10-percent requirement.

In addition, interpretations varied as to which determinations were to be submitted for review. Some ASCS officials believed that all determinations, including simple combinations, such as husband and wife, should be submitted for review. Others believed that only those cases involving entities such as trusts, estates, partnerships, and corporations should be submitted. In November 1978 headquarters officials agreed that ASCS needed to clarify its instructions so that only the more complex determinations would be submitted for review.

LEGAL DOCUMENTS SHOULD BE OBTAINED  
FOR PAYMENT LIMITATION DETERMINATIONS

Decisions to combine farming entities for payment limitation purposes were often made without obtaining available legal documents--such as partnership and trust agreements, corporate charters, and wills. These documents often contain the best available information about farming entities, such as who owns the entities, percentage of ownership, contribution to the entity in relation to return, and whether the same individuals have a majority interest in different entities. Because county office decisions on combining farming entities often involve thousands of dollars and complex farming operations, those decisions should be based on the best available information to protect the producer's interest and at the same time insure compliance with the payment limitation.



ASCS instructions require county offices to document each case submitted for higher level review with legal documents but do not specify the type of documentation that producers are to supply to county offices for use in making payment limitation determinations. Most payment limitation determinations we reviewed that involved legal entities (corporations, partnerships, trusts, and estates) were not based on legal documents but rather on other written or verbal information supplied by some member of the entity or other interested party.

One of the three counties we reviewed had made payment limitation determinations on corporations and trusts for crop year 1977. (See p. 3.) Of the nine cases (six corporations and three trusts), the county obtained supporting legal documents in only two cases.

We also reviewed 42 cases involving crop year 1977 payment limitation determinations submitted to ASCS headquarters by Colorado, Kansas, and Montana State ASCS offices. Of the 42 cases, 37 were submitted for headquarters review and 5 for determinations. Although 41 of the cases involved such legal entities as corporations and trusts, only 17 of the case files contained supporting legal documents.

#### CONCLUSIONS

Action is needed to insure that county offices fully implement ASCS instructions for administering the payment limitation. Unless farming entities are identified and properly combined at the county level, producers could circumvent the payment limitation without ever being identified.

Steps also need to be taken to insure that county and State offices submit the required number of payment limitation determinations to the next higher level for review. In addition, ASCS instructions need to be revised to clearly define the types of determination cases that should be submitted. Without higher level reviews, no assurance is made that determinations are proper or that ASCS instructions are being carried out and applied consistently. Reviews of the more complex cases would seem to be of greatest benefit for management purposes.

Further, ASCS needs to revise its instructions to require county offices to obtain legal documents before making determinations involving entities such as corporations, partnerships, trusts, and estates. By obtaining these documents, county offices would be assured that their determinations are based on the best information available.

RECOMMENDATIONS TO THE SECRETARY  
OF AGRICULTURE

To insure that payments subject to the payment limitation are in compliance with applicable laws and instructions, we recommend that ASCS:

- Take steps to insure that county offices obtain the necessary information on all program participants and properly combine farming entities for payment limitation purposes.
- Insure that ASCS headquarters and State offices review the required number of county office determinations.
- Revise its instructions to (1) clearly define the types of payment limitation determinations to be submitted for review and (2) require county offices to obtain legal documents before making determinations involving legal entities.

AGENCY COMMENTS

We discussed the matters covered in this report with ASCS officials on November 14, 1978. They agreed with our conclusions and recommendations and said that they would take corrective action after the Department's Office of Inspector General has issued its report on administration of the payment limitation program.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We shall appreciate receiving a copy of your statement to the committees.

We are sending copies of this report to the above committees; the Senate Committee on Agriculture, Nutrition, and Forestry; the House Committee on Agriculture; other interested committees and Members of Congress; the Director, Office of Management and Budget; the Administrator, ASCS; and the Inspector General.

Sincerely yours,

A handwritten signature in black ink that reads "Henry Eschwege". The signature is written in a cursive style with a large, prominent "H" and "E".

Henry Eschwege  
Director