United States General Accounting Office

GAO

Report to the Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate

April 1997

FARM SERVICE AGENCY

Additional Actions Needed to Address Employee Conflict-of-Interest Issues

GAO

United States General Accounting Office
Washington, D.C. 20548

Resources, Community, and Economic Development Division

B-276432

April 25, 1997

The Honorable Richard G. Lugar
Chairman, Committee on Agriculture, Nutrition, and Forestry
United States Senate

Dear Mr. Chairman:

Through its farm credit programs, the U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA) provides loans at less than market interest rates for borrowers of limited resources. Farmers borrow about $2.5 billion annually through these programs.

The potential for conflicts of interest[1] in federal farm loan programs increased with the creation of FSA in 1994. At that time, the farm credit programs of the former Farmers Home Administration (FmHA), most of the functions of the former Agricultural Stabilization and Conservation Service (ASCS), and other USDA activities were merged. Consequently, FSA now has federal employees, former ASCS nonfederal employees,[2] and members of county farmer committees (county committees), as well as the family members and business associates of these groups, participating in the farm credit program. Prior to the creation of FSA, ASCS federal and nonfederal employees were not involved in the administration of the farm loan programs and were eligible to participate in USDA's farm programs. In contrast, FmHA employees were not permitted to receive FmHA farm loans, and their relationships with borrowers had been subject to review to avoid conflicts of interest. FSA has started to phase out the eligibility of all of its employees for farm loans and has been working to identify cases requiring action to avoid conflicts of interest through a nationwide survey of employees and county committee members. FSA's instructions on addressing conflicts of interest are based on FmHA's instructions and the definition of conflict of interest in USDA's regulations.

[1]In this report, the term conflict of interest refers to both actual and apparent conflicts of interest as used in FSA's instructions. A conflict of interest is defined as a situation in which the private interest, usually of an economic nature, of an FSA federal employee, nonfederal employee, or county farmer committees member conflicts with his or her government duties and responsibilities. An apparent conflict of interest is defined as a situation in which it could reasonably be concluded that a private interest of an FSA federal employee, nonfederal employee, or county committee member is in conflict with his or her government duties and responsibilities, even though there may not actually be such a conflict.

[2]Nonfederal employees staffed and administered ASCS' farm programs in county offices nationwide. FSA continues to use this nonfederal employee workforce in addition to its federal employees. FSA's nonfederal employees are paid from Commodity Credit Corporation funds and are hired by the county executive director, who in turn is hired by the each county committee.

Because of concerns about conflicts of interest in FSA's farm loan program, we reviewed the (1) number of FSA's federal and nonfederal employees and county committee members who have FSA farm loans; (2) comparative size and repayment history of farm loans to FSA's federal employees, FSA's nonfederal employees, county committee members, and other FSA borrowers; (3) number of cases FSA has identified requiring action to avoid conflicts of interest; and (4) actions FSA has taken to address these cases.

Starting in 1995, FSA directed its state offices to survey their employees and county committee members to identify (1) those with loans and relationships with borrowers and (2) cases in which action was needed to avoid conflicts of interest. However, FSA's state offices were not required to report to headquarters on the cases they reviewed. Accordingly, we surveyed FSA's state office directors to obtain information that had been reported to FSA's state offices on employees' and county committee members' loans and relationships with other borrowers, as well as the determinations of these state offices on actions to avoid conflicts of interest.

Results in Brief

As of September 30, 1996, FSA's loan portfolio indicated that 414 of about 16,300 FSA federal and nonfederal employees and 1,209 of about 8,150 members of county committees had 4,089 FSA farm loans.

While the outstanding principal of the loans of FSA's federal and nonfederal employees and county committee members was about $265 million of FSA's outstanding loan principal of $16.9 billion, these employees' loans differed in size when compared with the loans of other FSA borrowers. As of September 30, 1996, the loans of FSA's federal employees averaged about $197,700 per borrower; the loans of nonfederal employees averaged about $127,000; the loans of FSA's county committee members averaged about $183,500; and the loans of all other borrowers averaged about $145,200 per borrower. With respect to repayment history, FSA's federal and nonfederal employees and county committee members were delinquent and needed debt relief on their farm loans less often than other borrowers. However, when these employees received debt relief, it was greater than the relief granted other borrowers—53 percent, on average, for FSA's federal employees, and 7 percent and 2 percent, respectively, for nonfederal employees and county committee members.

As of March 1997, FSA had identified 1,767 cases in which its federal and nonfederal employees or county committee members had loans or relationships with other borrowers that required action to avoid conflicts of interest. These cases were identified through FSA's review of 3,622 cases in which FSA's federal and nonfederal employees and county committee members reported that they or their relatives or business associates had FSA farm loans. The total number of cases is likely to increase as FSA proceeds with its efforts to identify cases requiring action to avoid conflicts of interest.

Although FSA has made progress in dealing with conflicts of interest, it has not provided its state offices with clear and consistent guidance on how to identify and address conflict-of-interest cases. Furthermore, FSA headquarters has not reviewed the state offices' efforts to address conflicts of interest. As a result, FSA's state offices vary in the extent to which they have identified and taken action on cases to avoid conflicts of interest.

Background

FSA provides credit assistance through direct loans funded by the federal government and through guaranteed loans, which are made by commercial lenders to farmers and generally guaranteed by the government for up to 90 percent of the face value of the loan. FSA offers several types of loans, such as farm operating loans, farm ownership loans, and emergency disaster loans. Farm operating loans are authorized for buying feed, seeds, fertilizer, livestock, and farm equipment; paying family living expenses; and refinancing existing debt. Farm ownership loans are authorized for buying and improving farmland; constructing, repairing, and improving farm buildings; and refinancing existing debt. Emergency disaster loans are for farmers whose operations have been substantially damaged by adverse weather or by other natural disasters.

FSA's full-time permanent workforce included about 5,940 federal and 10,365 nonfederal employees at the time of our review. FSA's federal employees consist of headquarters staff, former FmHA county loan specialists, former ASCS state executive directors, state committee members, district directors, and state office employees. FSA's nonfederal employees consist of former ASCS county executive directors and county office staff. Prior to FSA's creation, FmHA's policy precluded the agency's employees from obtaining farm loans to avoid conflicts of interest. Unlike former FmHA employees, former ASCS employees were not involved in the administration of the farm loan programs and were eligible to receive the benefits of USDA's farm programs and FmHA's farm loans.

FSA uses county committees, consisting of about 8,150 locally elected farmers, to assist in implementing agricultural programs, including the farm loan program. USDA pays county committee members for their services. Among other tasks, county committees review loan applications to determine if the applicants have sufficient farming experience to qualify for an FSA farm loan. In addition, each FSA state office has a committee of farmers who provide advice on farm program operations.

Within FSA, the operations and offices of the former FmHA and ASCS offices have been consolidated. Former ASCS employees who have FSA farm loans may be physically located at the same office as the FSA employees who approve and service these loans. In addition, FSA anticipates that some former ASCS employees will be assigned to assist in administering farm loans.

FSA has adopted procedures to avoid conflicts of interest in loan-making and servicing decisions. These rules are similar to those used by the former FmHA. For example, loan-processing, approval, servicing, and review activities can be conducted only by FSA employees who are not immediate family members or relatives of loan applicants and who have not had a business or a close personal association with these applicants.

To avoid conflicts of interest, FSA is phasing out the eligibility of former ASCS employees for FSA farm loans. In December 1995, FSA announced that its employees, including former ASCS nonfederal employees, would no longer be eligible for direct farm ownership loans. However, it stated that FSA employees would still be eligible for direct emergency loans and guaranteed loans. Those in an employee's household with existing direct loans may be considered for annual operating loans through September 30, 1998. Employees were also authorized to co-sign (and are therefore considered borrowers) for direct annual operating loans until December 1998 if they were already a cosigner on such a loan.

Number of Employees and Committee Members With FSA Farm Loans

Our analysis of FSA's loan portfolio database showed that 414 employees and 1,209 county committee members had FSA farm loans as of September 30, 1996. FSA's federal employees and county committee members had slightly more loans per borrower than other FSA borrowers, while FSA's nonfederal employees had slightly fewer loans per borrower than other borrowers. Table 1 provides information on the number of direct and guaranteed loans obtained by FSA's federal employees, nonfederal employees, and county committee members, as well as other borrowers.

Table 1: Number of FSA Farm Loans Per Borrower for FSA Employees, County Committee Members, and Other Borrowers, as of September 30, 1996

Type of borrower	Number of borrowers	Number of direct loans	Number of guaranteed loans	Number of loans per borrower
Federal employee	77	65	138	2.6
Nonfederal employee	337	578	158	2.2
County committee member	1,209	2,525	625	2.6
All other borrowers	138,469	260,217	60,381	2.3

Source: GAO's analysis of FSA's loan file database.

Differences in the Size and Repayment History of Loans to FSA Employees, County Committee Members, and Other Borrowers

While the outstanding principal of the direct and guaranteed loans of FSA employees and county committee members was about $265 million of the $16.9 billion in FSA's outstanding loan principal as of September 30, 1996, we found some differences in the average amount of loans, loan delinquencies, and debt relief received by FSA employees and county committee members in comparison with other FSA borrowers.

FSA has not developed information about the comparative loan sizes for these groups nor examined why these groups would differ in their loans, repayment history, and debt relief. Consequently, FSA officials do not have specific information that would explain the sources of these differences. However, an FSA official said that these differences may be influenced by, among other things, (1) a comparison of groups of borrowers that vary in number; (2) the incomes of FSA employees, which would enable them to have larger farm operations than some other borrowers; and (3) the inclusion of several hundred cases in which borrowers have debt of $1 million or more. In addition, according to USDA officials, committee members are likely to have larger farm operations than many other producers, which could lead to differences in loan amounts and debt-relief decisions.[3]

More specifically, our analysis shows that FSA's federal employees and county committee members had obtained loans that were somewhat

[3]USDA's Payments Through County Offices (GAO/RCED-96-102R, Apr. 8, 1996).

larger, while nonfederal employees' loans were somewhat smaller than the loans of other FSA borrowers. Table 2 shows the status of outstanding FSA farm loans, as of September 30, 1996.

Table 2: Loan Amounts and Loan Debt of FSA Employees, County Committee Members, and Other Borrowers, as of September 30, 1996

Type of borrower	Average direct Loan	Percent difference from others	Average guaranteed loan	Percent difference from others	Average debt per borrower	Percent difference from others
Federal employee	$65,800	37.7	$79,300	(37.6)	$197,700	36.2
Nonfederal employee	$46,700	(2.3)	$100,100	(21.2)	$127,000	(12.5)
County committee member	$52,400	9.6	$143,500	13.0	$183,500	26.4
All other borrowers	$47,800		$127,000		$145,200	

Source: GAO's analysis of FSA's loan file database.

With respect to delinquencies, FSA's federal employees were delinquent on their direct farm loans slightly less often than other borrowers. FSA's nonfederal employees and county committee members were delinquent on their direct farm loans about half as often as other borrowers.[4] However, the average amounts of the delinquencies for FSA's federal employees and county committee members were somewhat larger than the delinquencies of other borrowers, as shown in table 3.

Table 3: Delinquencies on Direct Loans for FSA Employees, County Committee Members, and Other Borrowers, as of September 30, 1996

Type of borrower	Number of borrowers with direct loans	Number of delinquent borrowers	Percent of delinquent borrowers	Average amount delinquent per borrower
Federal employee	31	6	19.4	$169,344
Nonfederal employee	301	37	12.3	$136,961
County committee member	969	110	11.4	$162,906
All other borrowers	114,473	24,179	21.1	$147,032

Source: GAO's analysis of FSA's loan file database.

[4]We did not include guaranteed loans in our analysis of delinquencies and debt relief because about only about 4 percent of FSA borrowers had been delinquent on guaranteed loans as of Sept. 30, 1996. This compares with a delinquency rate of over 21.1 percent for borrowers with direct loans.

Finally, with respect to debt relief, all of FSA's employee groups received more debt relief per borrower than others who received debt relief, as shown in table 4.

Table 4: Debt Relief on Direct Loans for FSA Employees, County Committee Members, and Other Borrowers, as of September 30, 1996

Type of borrower	Number of borrowers receiving debt relief	Average amount of debt relief per borrower	Percent difference from other borrowers
Federal employee	32	$278,300	52.8
Nonfederal employee	168	195,300	7.2
County committee member	231	185,032	1.6
All other borrowers	78,572	182,165	

Source: GAO's analysis of FSA's loan file database.

Additional information about the debt relief FSA has provided to federal employees and other borrowers is included in appendix I.

Number of Cases Requiring Action to Avoid Conflicts of Interest

Starting in 1995, FSA's state offices began to survey FSA employees and committee members to identify those with loans and relationships with borrowers so that the offices could take action to avoid conflicts of interest in FSA's farm loan program. However, FSA's state offices were not required to report to headquarters on the cases they reviewed. Accordingly, we surveyed FSA's 50 state office directors to obtain information that they had developed on employees' and county committee members' loans and relationships with borrowers, as well as state offices' determinations on cases requiring action to avoid conflicts of interest.

As of March 1997, according to the data we obtained from the 50 FSA state offices, 1,767 employees and county committee members (about 7 percent) had loans or loan-related relationships that required action to avoid conflicts of interest. FSA identified these cases through its state offices' (1) surveys of employees and committee members and (2) reviews of individual cases to identify those whose loans and relationships with borrowers required action to avoid conflicts of interest. However, the information we obtained from state offices shows that not all employees and committee members had responded to the state office surveys and that some state offices had not reviewed all cases in which employees reported that they or their relatives had farm loans. Consequently, the number of cases requiring action by FSA's state offices to avoid conflicts of interest can be expected to increase as these offices complete their case reviews. Table 5 summarizes the results of the state offices' surveys. (See app. II for state-by-state information on these surveys.)

Table 5: FSA Employees and Committee Members With Loans or With Close Relatives or Business Associates Who Had Loans, as of March 1997

Type of employee	Number of employees	Number with loans or with relatives and/or business associates with loans	Cases reviewed	Cases requiring action to avoid conflicts of interest
Federal employee	4,010	583	394	182
Nonfederal employee	12,055	2,000	1,532	776
County committee member	8,539	1,896	1,696	809
Total	**24,604**	**4,479**	**3,622**	**1,767**

Note: Not all state offices responded to each of our questions.

Source: GAO's analysis of survey responses from 50 FSA state offices.

As table 5 indicates, as of March 1997, FSA's state offices had reviewed 3,622 of 4,479 cases, leaving 857 cases that needed review.

In addition to these cases, as table 6 shows, 11 states had not received responses to their survey questions from every employee and county committee member.

Table 6: Response Rates of FSA Employees and County Committee Members to FSA's Conflict-Of-Interest Survey in 11 States Without Complete Responses, as of March 1997

State	Percentage of federal employees responding	Percentage of nonfederal employees responding	Percentage of county committee members responding
Arizona	100	98	7
Colorado	18	25	32
Florida	100	100	39
Idaho	90	90	90
Louisiana	28	23	63
New Jersey	100	100	50
New Mexico	50	80	50
Oklahoma	90	84	82
Rhode Island	10	0	10
Texas	96	95	84
Wisconsin	100	100	99

Source: GAO's analysis of survey responses from 50 FSA state offices.

Furthermore, the responses of FSA's state offices to our survey shows that the information gathered from members of county committees varied widely among these offices. For example, only 126 of 8,539 county committee members reported to their FSA state office that they had business relationships with FSA borrowers, and 77 of these cases occurred in just three states, according to responses we received from FSA's state offices. Committee members in 27 states did not report to their FSA state office any business relationships with other borrowers. In other cases, some members indicated that they were reluctant to reveal this information. In one state we visited, three county committee members, including the county committee chairman, had submitted statements to FSA saying that it was "none of [FSA's] business" if they had farm credit loans themselves or had relationships with other borrowers. During our review, we found that one of these individuals, the county committee chairman, had two FSA loans.

FSA Has Taken Action to Avoid Conflicts of Interest, but Additional Actions Are Needed

FSA's state offices have made progress by taking action on a significant number of cases to avoid conflicts of interest. Nevertheless, the guidance to state offices from FSA headquarters on dealing with conflicts of interest has been inconsistent, particularly regarding how state offices should address the loans of county committee members and their relatives, as well as their business relations with other borrowers. Because of differences in how FSA's state offices interpreted the guidance in these and other areas, state offices have varied in the extent to which they have taken actions to avoid conflicts of interest. Furthermore, FSA has not thus far followed up on the completeness or consistency of state offices' actions.

FSA's Actions to Avoid Conflicts of Interest

Of the 1,767 cases that had been identified, FSA's state offices reported that they had taken action on 1,441 cases, as shown in table 7. Typical actions were to transfer borrowers' loan files from (1) one county to another for servicing or (2) one employee to another within the same office. These actions serve to ensure that those administering loan files do not have a personal interest in loan decisions.

Table 7: Actions Taken by FSA's State Offices to Avoid Conflicts of Interest, as of March 1997

Type of employee	Number of cases requiring action	Number of cases with action taken
Federal employee	182	133
Nonfederal employee	776	595
County committee member	809	713
Total	**1,767**	**1,441**

Source: GAO's analysis of survey responses from 50 FSA state offices.

Action had not yet been taken on 326 cases involving 14 states, as of March 1997.

Inconsistent Instructions by FSA

Between October 1995 and May 1996, FSA issued several notices instructing its state offices on how to identify and deal with conflict-of-interest issues. An FSA headquarters official said that these notices were developed to respond to such issues as they were being raised. However, officials in FSA's state offices said that these notices were difficult to implement because the (1) scope of conflicts they were to address changed from one notice to another and (2) instructions for resolving conflicts were difficult to interpret. FSA headquarters officials said that they recognized there was inconsistency in their notices and that the notices have been difficult for state offices to implement. As of March 1997, FSA had not yet developed a specific plan of action to address these inconsistencies.

FSA twice notified its state offices to survey employees and committee members and take action on conflict-of-interest issues—in October 1995 and in December 1995. Four states—California, Connecticut, Iowa, and Tennessee—based their surveys on the October notice only. This notice instructed FSA's state offices to (1) survey employees and county committee members to identify those with loans, (2) identify those whose loan files were in the county in which they work, and (3) move those loan files to another county or state for servicing to avoid conflicts of interest. The December notice called for an expanded survey that was to identify loans to employees and committee members, loans to close relatives of employees, loans co-signed by employees, business relationships between borrowers and employees, and the investment or managerial roles of employees or their close relatives in firms doing farm credit business with FSA. However, this expanded survey did not call for county committee members to disclose loans that had been received by their family members and business associates. As a result, some states did not collect this information.

FSA's October 1995 notice concerning employees' and committee members' loans was consistent with the former FmHA's policy. FmHA's policy had stated that while county committee members were not employees, they had a special relationship with the agency and therefore were subject to conflict-of-interest restrictions. These restrictions included avoiding certain situations, such as participating in decisions on loans for themselves, family members, or business associates.

However, FSA's March 1996 notice appears inconsistent with its October 1995 position. This notice stated that the loan files of county committee members did not need to be moved from the county in which these members were serving unless there were unusual circumstances or the files had already been moved and the state executive director determined that they should remain in the new location. The notice did not define unusual circumstances or provide other guidance on how to determine when county committee members' files should be moved. We found that some states had returned these files to the original county office, while others had not.

In May 1996, FSA issued a notice providing instructions for dealing with conflict-of-interest situations that it had not mentioned previously. This notice stated that county committee members were not to act in an official capacity in any decision or meeting involving an FSA borrower or potential borrower when a business or family relationship was involved. However, this notice also stated that county committee members were not specifically prohibited from leasing real estate to FSA borrowers or loan applicants (as are employees or state committee members), although FSA stated that such leases were to be discouraged. As a result of this inconsistency, the state office officials we interviewed expressed frustration and confusion about the proper actions to take in such circumstances.

Furthermore, the May 1996 notice emphasized that employees needed to recognize an even broader range of relationships that could be identified as posing conflict-of-interest concerns. This notice stated that employees must examine the employment, activity, and financial interests of their family members because these are considered the same as if done by the employees and are crucial to determining if a conflict of interest exists. These additional relationships had not been specifically mentioned in FSA's October and December 1995 notices. According to the responses of FSA's state offices to our questionnaire, 23 of these offices had completed their reviews of cases to identify potential conflicts of interest before this notice was issued and therefore did not obtain this information from their employees.

Variations in the Actions of FSA's State Offices

Our review disclosed wide variations in the extent to which state offices decided on whether action was needed to avoid a conflict of interest and in the frequency of actions taken to address those cases. FSA state office officials from Arkansas, California, Iowa, Mississippi, North Dakota, and Texas said that their efforts to identify and address cases were hampered by the unclear guidance from FSA headquarters. To illustrate, some states, such as Iowa and Wisconsin, decided as a matter of procedure that every case they reviewed in which an employee or committee member reported a relationship with a borrower required action to ensure that conflicts of interest would be avoided. However, other state offices decided action was warranted less often. For example, North Carolina, Kansas, and Missouri officials took action to avoid actual or apparent conflicts for only 42, 12, and 4 percent of the cases, respectively, that state office officials had reviewed as of March 1997.

In addition, as of March 1997, many state offices had not yet taken action to address all of the cases in which action appeared to be needed to avoid conflicts of interest. For example, according to the FSA director of state agriculture credit in Missouri, his primary concern in deciding whether to take action was to avoid inconveniencing borrowers by moving loan files to distant county offices. Other FSA officials in state and county offices agreed that the convenience of the borrower was one of the important considerations in deciding where loan files should be maintained. On the other hand, FSA officials in Mississippi made arrangements for borrowers to continue to visit the same county offices for day-to-day loan transactions, such as making payments on a loan, while their loan files were moved to other counties for servicing decisions.

Lack of Follow-Up by the National and State Offices

While FSA headquarters instructed state offices to address conflicts of interest, it has had a limited role in following up on state offices' efforts. FSA headquarters addressed conflicts involving FSA state executive directors and state committee members and responded to specific inquiries from FSA state office officials. However, FSA headquarters has not reviewed the actions of its state offices on county employee groups. FSA headquarters officials said that while they have been very much concerned about conflicts of interest, they have relied on FSA state offices to take appropriate action because of staffing limitations and the need to focus attention on FSA's urgent program and organizational priorities.

We also found a lack of follow-up by state offices on actions that county offices had taken to address conflict-of-interest cases. While some FSA state offices are developing their own case-tracking systems for monitoring these actions, others have no such systems. Officials in 13 of 50 state offices indicated they had no system for following up on actions taken to address conflict-of-interest cases. Officials in the other 37 state offices indicated that they have some method, generally informal, for tracking such cases. These methods include having FSA district directors follow up on conflict-of-interest cases or using manual tracking systems. A few FSA state offices, such as Kansas and Wisconsin, have developed computer-based information systems.

FSA headquarters officials recognized that additional follow-up efforts are needed to address both state and county offices' activities. In particular, they specifically agreed that it is important for FSA to follow up on the inconsistencies in the state offices' surveys and actions. A tool that could enhance FSA's overall monitoring effort is a feature in its computer system that allows computer records to be marked to identify loans received by employees, their relatives, and their business associates. However, FSA would need to update the database to make its information current and useful. Finally, FSA officials said that they plan to rewrite their policy manual on how to address conflicts of interest.

In addition to the agency's nationwide effort to identify existing conflict-of-interest cases, FSA county offices make daily efforts to identify and address future conflicts of interest whenever an individual applies for an FSA farm loan. In this regard, FSA state office officials said that they were following instructions that call for loan applicants and employees to disclose relationships and associations so that conflicts of interest can be avoided from the outset. Although this activity has not been reviewed regularly, FSA headquarters officials said that they are considering the development of a procedure for periodically reviewing state and county offices' activities.

Conclusions

FSA has made a concerted effort to address conflict-of-interest concerns in its state and county offices. It has delegated most of the responsibility for dealing with conflicts of interest to its state offices. However, FSA has not provided state offices with clear and consistent guidance on identifying situations that constitute conflicts of interest and carrying out their responsibilities, nor has it periodically reviewed how well the state offices are fulfilling their roles. As a result, FSA has little assurance that state offices have consistently identified and acted upon all conflict-of-interest cases.

Recommendations

We recommend that the Secretary of Agriculture direct the Administrator of FSA to (1) clarify FSA's policy and guidance that define situations constituting potential conflicts of interest and the actions that are needed for addressing such cases, (2) require all state offices to address conflict-of-interest cases using the revised policy and guidance, and (3) monitor and review state and county offices' actions to ensure that the efforts to address conflicts of interest are adequate and thorough.

Agency Comments

We provided copies of a draft of this report to FSA for review and comment. Subsequently, we met with FSA's Deputy Administrator and Assistant Deputy Administrator for Program Delivery and Field Operations and seven other FSA officials to discuss the information in this report.

These officials agreed with the presentation of issues in the report and our finding that FSA's instructions for addressing conflict-of-interest issues require clarification. They stated that our recommendations were reasonable steps that would address the issues.

Scope and Methodology

We analyzed USDA's databases to identify FSA employees and county committee members who have received direct and guaranteed farm loans. We determined the extent of loans to these groups, compared their loans with loans to other FSA borrowers, and determined the extent to which the loans of borrowers were delinquent, restructured, or written off. We did not include the family members and business associates of FSA employees and county committee members in this analysis because FSA's database identifies only a portion of these individuals, and we did not verify the accuracy of FSA's loan database.

We surveyed FSA's 50 state executive directors to obtain information on conflicts of interest. The information we obtained includes data on the number of FSA employees with loans and relationships with borrowers and FSA's state offices' determinations on whether actions were needed to avoid conflicts of interest. We did not review the appropriateness of state offices' decisions on individual cases. We visited and interviewed officials at FSA headquarters and selected FSA offices in California, Iowa, Kansas, Missouri, Mississippi, and Texas. Our work was performed from June 1996 through March 1997 in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from the date of this letter. At that time we will make copies available to appropriate Senate and House committees; the Secretary of Agriculture, the Administrator of FSA; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others on request.

Please call me at (202) 512-5138 if you or your staff have any questions. Major contributors to this report are listed in appendix III.

Sincerely yours,

Robert A. Robinson
Director, Food and
Agriculture Issues

Contents

Abbreviations

ASCS	Agricultural Stabilization and Conservation Service
FmHA	Farmers Home Administration
FSA	Farm Service Agency
GAO	General Accounting Office
USDA	U.S. Department of Agriculture

Additional Information on Debt Relief

The Farm Service Agency's (FSA) direct loan policies provide various types of relief assistance to help borrowers who are delinquent and having trouble repaying their loans. Two such options are (1) "writing down" (reducing) portions of restructured debt so that borrowers can continue farming and remain FSA clients and (2) allowing borrowers to satisfy the debt in its entirety by paying an adjusted amount based on the value of the loan collateral and "writing off" the remaining debt—referred to as "net recovery value buy-out with write-off." A third direct loan-servicing option—the debt settlement process—also results in writing off debt.

Table I.1: Debt Relief Provided to FSA Employees and Other Borrowers

Type of borrower	Average loan write-off	Average loan write-down	Average loan buyout
FSA employees	$190,600	$135,000	$220,400
Other borrowers	204,700	153,200	182,900
Percent difference	**(6.9)**	**(11.9)**	**20.5**

Source: GAO's analysis of FSA loan file database.

Cases Reviewed by FSA to Avoid Conflicts of Interest, According to FSA's State Offices' Responses Received From January Through March, 1997

State	Number of federal employees	Number of nonfederal employees	Number of county committee members	Number with loans or with relationships with FSA borrowers[a]	Number of cases reviewed	Cases with action needed to avoid conflicts of interest	Number of cases with action taken
Alabama	66	238	189	52	52	52	52
Alaska	8	5	12	3	1	1	0
Arkansas	119	290	325	166	153	16	16
Arizona	22	48	42	5	5	0	0
California	71	145	147	19	19	4	4
Colorado	49	147	150	37	37	14	5
Connecticut	12	20	24	1	1	1	1
Delaware	13	10	9	8	8	7	7
Florida	71	149	131	13	13	13	13
Georgia	102	411	335	92	81	49	49
Hawaii	15	17	16	5	5	0	0
Idaho	67	125	123	33	33	29	4
Illinois	144	578	282	197	196	166	6
Indiana	92	419	263	109	109	4	4
Iowa	219	790	300	151	151	151	151
Kansas	123	516	312	242	242	30	30
Kentucky	129	409	414	281	281	113	113
Louisiana	147	204	156	134	134	[b]	[b]
Maine	37	45	43	24	24	21	21
Maryland	22	60	69	9	9	8	8
Massachusetts	24	24	34	9	7	7	7
Michigan	87	268	194	23	23	16	16
Minnesota	142	461	246	261	239	48	48
Mississippi	141	265	246	148	122	122	122
Missouri	153	448	286	347	347	13	8
Montana	68	217	168	116	112	107	107
Nebraska	132	518	279	205	203	82	35
Nevada	15	20	54	9	8	2	2
New Hampshire	11	16	30	10	8	8	8
New Jersey	23	31	124	37	6	3	3
New Mexico	36	77	96	38	38	18	18
New York	88	162	153	49	49	31	31
North Carolina	112	457	291	50	50	21	21
North Dakota	157	347	159	242	12	12	0

(continued)

State	Number of federal employees	Number of nonfederal employees	Number of county committee members	Number with loans or with relationships with FSA borrowers[a]	Number of cases reviewed	Cases with action needed to avoid conflicts of interest	Number of cases with action taken
Ohio	71	528	405	87	85	36	3
Oklahoma	114	300	230	163	98	97	97
Oregon	43	97	88	23	23	16	16
Pennsylvania	80	201	197	64	64	63	63
Rhode Island	9	4	25	6	2	1	1
South Carolina	67	177	121	31	31	31	31
South Dakota	153	330	[c]	240	34	22	12
Tennessee	103	333	285	41	41	40	40
Texas	269	1066	613	395	162	13	13
Utah	33	73	86	42	42	42	42
Vermont	24	29	36	7	7	0	0
Virginia	76	210	237	67	67	66	42
Washington	53	110	106	14	14	4	4
West Virginia	41	96	138	36	36	29	29
Wisconsin	128	505	208	124	124	124	124
Wyoming	29	59	62	14	14	14	14
Total	**4,010**	**12,055**	**8,539**	**4,479**	**3,622**	**1,767**	**1,441**

[a]The figures in this column include employees with loans, employees' with close relatives with loans, and employees having business relationships with other borrowers.

[b]According to Louisiana FSA officials, FSA district directors in Louisiana identified cases requiring action to avoid conflicts of interest and took the required actions. However, the district directors did not report on these cases to the FSA state office.

[c]South Dakota FSA officials did not obtain information on the total number of county committee members.

Source: GAO's analysis of survey responses from 50 state offices.

Major Contributors to This Report

Charles M. Adams, Assistant Director
Larry D. Van Sickle, Evaluator-in-Charge
Daniel F. Alspaugh
W. Carl Christian, Jr.
Kelly S. Ervin
Alice G. Feldesman
Jerry D. Hall
Judy K. Hoovler
Carol Herrnstadt Shulman
Robert C. Sommer

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

http://www.gao.gov

PRINTED ON RECYCLED PAPER