

October 2008

# FEDERAL FARM PROGRAMS

## USDA Needs to Strengthen Controls to Prevent Payments to Individuals Who Exceed Income Eligibility Limits





Highlights of [GAO-09-67](#), a report to the Ranking Member, Committee on Finance, U.S. Senate

## FEDERAL FARM PROGRAMS

### USDA Needs to Strengthen Controls to Prevent Payments to Individuals Who Exceed Income Eligibility Limits

#### Why GAO Did This Study

Farmers receive about \$16 billion annually in federal farm program payments. These payments go to about 2 million recipients, both individuals and entities. GAO previously has reported that the U.S. Department of Agriculture (USDA) did not consistently ensure that these payments went only to those who meet eligibility requirements.

GAO was asked to evaluate (1) how effectively USDA implemented 2002 Farm Bill provisions prohibiting payments to individuals or entities whose income exceeded \$2.5 million and who derived less than 75 percent of that income from farming, ranching, or forestry operations, (2) the potential impact of the 2008 Farm Bill's income eligibility provisions on individuals who receive farm payments, and (3) the distribution of income of these individuals compared with all 2006 tax filers. GAO compared USDA data on individuals receiving payments with the latest available Internal Revenue Service (IRS) data on these individuals.

#### What GAO Recommends

GAO recommends that USDA work with IRS to develop a system for verifying the income eligibility for all recipients of farm program payments. If USDA determines that it needs authority to work with IRS, it should seek this authority from Congress, as appropriate. In commenting on a draft of this report, USDA agreed with these recommendations but disputed some of the findings. GAO believes that the report is fair and accurate.

To view the full product, including the scope and methodology, click on [GAO-09-67](#). For more information, contact Lisa Shames at (202) 512-3841 or [shamesl@gao.gov](mailto:shamesl@gao.gov).

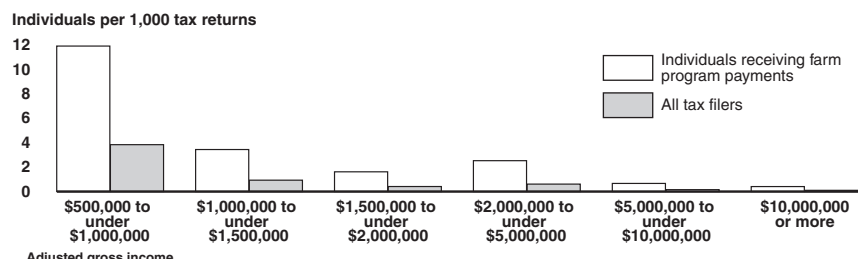
#### What GAO Found

USDA does not have management controls, such as reviewing an appropriate sample of recipients' tax returns, to verify that payments are made only to individuals who do not exceed income eligibility caps and therefore cannot be assured that millions of dollars in farm program payments it made are proper. GAO found that of the 1.8 million individuals receiving farm payments from 2003 through 2006, 2,702 had an average adjusted gross income (AGI) that exceeded \$2.5 million and derived less than 75 percent of their income from farming, ranching, or forestry operations, thereby making them potentially ineligible for farm payments. Nevertheless, USDA paid over \$49 million to these individuals. According to USDA officials, a number of factors—such as resource constraints that hamper its ability to examine complex tax and financial information as well as a lack of authority to obtain and use IRS tax filer data for such purposes—contribute to the department's inability to verify that each individual who receives farm program payments complies with income eligibility provisions. However, USDA does not routinely sample individuals receiving farm payments to test for income eligibility; instead, its annual sample selected for review is based primarily on compliance with eligibility requirements other than income. The 2008 Farm Bill directs USDA to use statistical methods to target those individuals most likely to exceed income eligibility caps.

The 2008 Farm Bill will increase the number of individuals likely to exceed the income eligibility caps. That is, with lower income eligibility caps under the 2008 Farm Bill, the number of individuals whose AGI exceeds the caps will rise, increasing the risk that USDA will make improper payments to more individuals. For example, had the new Farm Bill been in effect in 2006, as many as 23,506 individuals who received farm program payments would likely have been ineligible for crop subsidy and disaster assistance payments totaling as much as \$90 million.

Compared with all tax filers, individuals who participated in farm programs in 2006 are more likely to have higher incomes. For example, as shown in the figure below, 12 of every 1,000 individuals receiving farm program payments reported AGI between \$500,000 and \$1 million compared with about 4 of all tax filers who reported income at this level.

**Distribution of Income of Individuals Receiving Farm Program Payments and All Tax Filers, 2006**



Source: GAO analysis of USDA and IRS data.

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## Abbreviations

2008 Farm Bill	Food, Conservation, and Energy Act of 2008
2002 Farm Bill	Farm Security and Rural Investment Act of 2002
AGI	adjusted gross income
FSA	Farm Service Agency
IPIA	Improper Payments Information Act of 2002
IRS	Internal Revenue Service
USDA	U.S. Department of Agriculture

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United States Government Accountability Office  
Washington, DC 20548

October 24, 2008

The Honorable Charles E. Grassley  
Ranking Member  
Committee on Finance  
United States Senate

Dear Senator Grassley:

Farmers receive about \$16 billion annually in federal farm program payments for crop subsidies, conservation practices, and disasters. These payments go to about 2 million recipients, both individuals and entities, including corporations, partnerships, and trusts. As we reported in November 2006, the U.S. Department of Agriculture (USDA) needed to better oversee farm program payments.<sup>1</sup> Without better oversight to ensure that farm program funds are spent as economically, efficiently, and effectively as possible, we noted, USDA had little assurance that these funds benefit the agricultural sector as intended. We also previously reported that because of weak management controls at USDA, some payments, potentially totaling millions of dollars, have gone to deceased individuals or farming entities organized to receive payments that exceed legislatively established limits.<sup>2</sup> For example, in July 2007 we reported that USDA paid \$1.1 billion in farm payments from 1999 to 2005 in the names of over 170,000 deceased individuals. We recommended that USDA strengthen its controls to prevent improper payments to deceased individuals. In 2004, we recommended that because USDA did not have a measurable standard for ensuring that farm program payments are going to individuals who are actively engaged in farming—as required by statute and USDA’s regulations—it allowed individuals with limited involvement to receive these payments. USDA agreed that it would be beneficial to have a measurable standard. However, to date, USDA has not taken any

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<sup>1</sup>GAO, *Suggested Areas for Oversight for the 110th Congress*, [GAO-07-235R](#) (Washington, D.C.: Nov. 17, 2006).

<sup>2</sup>GAO, *Federal Farm Programs: USDA Needs to Strengthen Controls to Prevent Improper Payments to Estates and Deceased Individuals*, [GAO-07-818](#) (Washington, D.C.: July 9, 2007); and, *Farm Program Payments: USDA Needs to Strengthen Regulations and Oversight to Better Ensure Recipients Do Not Circumvent Payment Limitations*, [GAO-04-407](#) (Washington, D.C.: Apr. 30, 2004).

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action on our recommendation, stating that its regulations are sufficient for determining active engagement in farming.

Under the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill), an individual or entity with an average adjusted gross income (AGI) of over \$2.5 million, over the previous 3 tax years immediately preceding the applicable crop year,<sup>3</sup> was ineligible for farm program payments unless at least 75 percent or more of the average AGI was farm income, defined as income from farming, ranching, or forestry operations. The AGI provision of the 2002 Farm Bill covered crop years 2003 through 2008 and applied to most farm program payments, including those for crop subsidy payments (e.g., fixed payments based on historical production, known as direct payments, and price support payments), conservation practices, and disasters.<sup>4</sup> USDA's Farm Service Agency is responsible for ensuring that only eligible individuals receive farm program payments, either directly or as a member of an entity, and do not receive payments that exceed the established limits. USDA has relied principally on individuals' one-time self-certifications that they do not exceed income eligibility caps, and their commitment that they will notify USDA of any changes that cause them to exceed these caps. To verify the certification, USDA field offices have been able to request these individuals to submit their tax returns for review. Individuals failing to provide accurate information to verify compliance may not be eligible to receive farm program payments for the year or years of the request.<sup>5</sup>

Nevertheless, concerns remained about whether it was appropriate for wealthy individuals to participate in taxpayer-funded farm programs. The Food, Conservation, and Energy Act of 2008 (2008 Farm Bill), enacted on June 18, 2008, revised the income eligibility caps for farm program payments. In general, the 2008 Farm Bill provides that for crop years 2009 through 2012, a person or entity is ineligible for

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<sup>3</sup>AGI is defined as taxable income from all sources including wages, salaries, and farm income or losses, minus specific deductions.

<sup>4</sup>For purposes of this report, programs described as subject to AGI provisions of the 2002 Farm Bill include programs made subject to the AGI limitations in the 2002 Farm Bill, and programs subject to the same AGI limitations through subsequent legislation or USDA regulation.

<sup>5</sup>7 C.F.R. § 1400.602.

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- direct payments if the individual's or entity's 3-year average *farm* income exceeds \$750,000;
  - all crop subsidy and disaster payments if the individual's or entity's 3-year average *non-farm* income exceeds \$500,000; or
  - all conservation program payments if an individual's or entity's 3-year average *non-farm* income exceeds \$1 million, unless at least 66.66 percent of the individual's or entity's 3-year average AGI is attributable to activities related to farming, ranching, or forestry.<sup>6</sup>

In this context, we were asked to evaluate (1) how effectively USDA implemented provisions under the 2002 Farm Bill that prohibited payments to individuals or entities whose income exceeded \$2.5 million and who derived less than 75 percent of that income from farming, ranching, or forestry operations; (2) the potential impact of the 2008 Farm Bill's AGI provisions on individuals who receive farm program payments; and (3) the distribution of income for individuals receiving farm program payments compared with all tax filers in 2006.

To address these issues, we reviewed USDA's regulations, guidelines, and other internal controls for implementing the provisions of the 2002 Farm Bill, and we examined the AGI provisions of the 2008 Farm Bill. We also spoke to USDA officials in headquarters, and the state office and one local field office in Louisiana and Mississippi who were responsible for ensuring that individuals applying for farm payments under the 2002 Farm Bill complied with the AGI provision. We selected these offices to provide an example of how USDA implements the AGI provisions and the information we obtained cannot be generalized to all field offices. In addition, to evaluate how effectively USDA implemented the 2002 Farm Bill provisions that prohibited payments to individuals or entities with incomes from sources other than farming, ranching, or forestry operations that exceeded the specific limits, we matched USDA data on the 1.8 million individuals who received farm program payments with Internal Revenue Service (IRS)

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<sup>6</sup>Under the 2008 Farm Bill, individuals filing a tax return jointly, such as a husband and wife, may each qualify for an income limit based on an allocation of income among the individuals. The farm bill also provides USDA discretion to waive the conservation payment limit for "environmentally sensitive land of special significance."

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tax filer data for 2000 through 2006.<sup>7</sup> We limited our review to individuals who report their taxes as primary filers—the person who is listed first on an IRS tax form, such as the Form 1040 (U.S. Individual Income Tax Return). Although we did not analyze tax filer data reported by entities, such as corporations, partnerships, or trusts, we did include tax filer data for the individuals who make up the entity. For individuals with a 3-year average AGI above \$2.5 million, we determined whether at least 75 percent of the income was derived from farming, ranching, or forestry operations. We obtained farm income data for these individuals from IRS Form 1040, IRS Schedule F (Profit or Loss From Farming), and IRS Form 4835 (Farm Rental Income and Expenses). Schedule F and Form 4835 capture farm income for individuals who report income from agricultural activities. For all individuals with a 3-year average AGI above \$2.5 million and with less than 75 percent of their AGI derived from farming, ranching, or forestry operations, we identified the amount of farm program payments subject to the income eligibility provision.<sup>8</sup> We also identified the amount of certain program payments not subject to the income provision for these individuals.<sup>9</sup> To determine the potential impact of the 2008 Farm Bill’s AGI provisions on individuals receiving farm program payments in 2006, we categorized these individuals by their AGI amounts. We identified average farm program payments for each of these categories and calculated the

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<sup>7</sup>Section 6103 of the Internal Revenue Code generally prohibits the disclosure of tax return information. An individual’s average AGI is the average of the individual’s AGI from the previous 3 tax years immediately preceding the year the individual applies for farm program payments. For example, to determine an individual’s eligibility for farm program payments for 2003, USDA averages AGI from tax years 2000, 2001, and 2002.

<sup>8</sup>In this report, we refer to these payments as being “potentially improper” and not “improper” because our analysis does not allow us to definitively state that any one individual is ineligible for payments. Specifically, we analyzed individuals’ compliance with the AGI provisions based on IRS Schedule F and Form 4835, but did not use other forms and schedules where individuals might report farm income and losses to IRS. Income on these other forms could increase or decrease the individuals’ AGI above or below the amounts we calculated, potentially making them eligible for farm program payments. In addition, we used data as reported on joint tax returns, but individuals who filed jointly may be eligible to receive farm program payments after income and losses are allocated among the individuals filing jointly. This is possible because USDA regulations permit individuals who file a joint return to certify their income as if they had filed a separate return.

<sup>9</sup>Payments and benefits not subject to the AGI provisions of the 2002 Farm Bill include those made under the 2002 Cattle Feed Program, Conservation Reserve Program (annual rental and incentive payments for contracts signed prior to May 13, 2002), Florida hurricane disaster programs (payments for debris removal), Marketing Assistance Loan Program (commodity certificate exchange gains), Noninsured Assistance Program, Peanut Quota Buyout Program, and Sugar Beet Disaster Program.



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farm payment income as a percentage of AGI. To determine the distribution of income for individuals receiving farm program payments compared with all tax filers, we compared the income distribution for payment recipients with the income distribution for all U.S. tax filers in 2006, the latest year for which tax data were available.

We conducted this performance audit from August 2007 through September 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I contains more detailed information on our scope and methodology.

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## Results in Brief

USDA cannot be assured that millions of dollars in farm program payments it made are proper because it does not have management controls, such as reviewing an appropriate sample of recipients' tax returns, to verify that payments were made only to individuals who did not exceed the income eligibility caps. Of the 1.8 million individuals receiving farm payments from 2003 through 2006, 2,702 had a 3-year average AGI that exceeded \$2.5 million and derived less than 75 percent of their income from farming, ranching, or forestry operations, thereby making them potentially ineligible for farm payments. Nevertheless, USDA paid over \$49 million to these 2,702 individuals. Most notably, of the 2,702 individuals, 427 received potentially improper payments in every year we reviewed, and 1,346 received potentially improper payments through a farming operation consisting of one or more entities, which can increase the risk of improper payments to individuals with high incomes because the local USDA field office may not know all the individuals who are members of the entity. Furthermore, according to addresses on tax returns for the 2,702 individuals, 78 percent resided in or near a metropolitan area, while the remaining 22 percent resided in large towns, small towns, and rural areas. According to USDA officials, a number of factors—such as resource constraints that hamper its ability to examine complex tax and financial information and lack of authority to access and use IRS tax filer data for such purposes—contribute to USDA's inability to verify that each individual who received farm program payments was eligible under the AGI provision. We also found, however, that the sample that USDA draws does not test for income eligibility; instead, USDA reviews compliance with eligibility requirements other than income, such as the amount of farm program payments a farming operation received in the previous year

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and whether it experienced a change in ownership. USDA therefore cannot ensure that only individuals who meet the income eligibility caps are receiving farm payments. The 2008 Farm Bill directs the Secretary of Agriculture to establish statistically valid procedures to conduct targeted audits of persons or legal entities most likely to exceed income eligibility caps.

The 2008 Farm Bill will likely increase the number of individuals who are likely to exceed the income eligibility caps. Specifically, with lower income eligibility caps under the 2008 Farm Bill, the number of individuals whose AGI exceeds the caps will likely rise, increasing the risk that USDA could make improper payments to even more individuals. For example, had the new Farm Bill been in effect in 2006, as many as 23,506 individuals who received farm program payments would likely have been ineligible for crop subsidy and disaster assistance payments totaling as much as \$90 million. Forecasts for high crop prices through 2012 might increase individuals' incomes and, thus, potentially the number of individuals affected by the caps.

Compared with all tax filers, individuals who participated in farm programs in 2006 were three times as likely to have AGI exceeding \$500,000 as individuals who did not participate in farm programs. That is, in 2006, 21 of every 1,000 farm program participants reported an AGI exceeding \$500,000 compared with 7 of every 1,000 of all tax filers. For the 1.1 million individuals who received farm program payments and filed a tax return in 2006, 9,651 reported an AGI exceeding \$1 million and 22,931 reported an AGI exceeding \$500,000.

To ensure greater program integrity, we are recommending that USDA work with the Internal Revenue Service to develop a method for determining whether all recipients of farm program payments meet income eligibility requirements. If USDA finds that it does not have the authority to obtain information from the Internal Revenue Service, it should identify and request the authority it would need from Congress, as appropriate.

We provided USDA with a draft of this report for review and comment. USDA agreed with our recommendations but disputed some of our findings. Specifically, USDA noted that only a small percentage of USDA's total farm program payments were made to individuals who exceeded the 2002 Farm Bill's income eligibility caps. While only a small percentage exceeded the cap under the 2002 Farm Bill, the percentage of individuals exceeding the 2008 Farm Bill's lower income eligibility cap is likely to

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increase. Therefore, USDA will be at greater risk of making improper payments unless it has better management controls in place.

USDA also noted that we should not have discussed the “actively engaged in farming” requirement in this report. We recognize that meeting the actively engaged in farming requirement is separate and distinct from the AGI requirement. However, we believe that awareness of this requirement places the discussion of income eligibility requirements in the context of other key eligibility requirements and provides a more comprehensive understanding.

Finally, USDA sought more information about the individual cases we cite where the AGI apparently exceeded the eligibility requirements. However, Internal Revenue Code Section 6103 prohibits us from disclosing any additional information.

Our detailed responses to USDA’s comments appear at the end of this letter and following USDA’s written comments in appendix II.

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## Background

Individuals can receive farm program payments through various programs linked to both their ownership interests and the amount and types of crops they produce. (App. III lists USDA farm programs and payments made between 2003 and 2006 under the 2002 Farm Bill.) Under the 2002 Farm Bill, a person could receive farm program payments directly or through as many as three entities in which the person held a substantial beneficial interest—defined as a 10 percent or more interest in the operation. For the purposes of the 2002 Farm Bill, a person was defined to include, among other things, an individual, partnership, trust, corporation, charitable organization, or state agency, who could receive payments (1) as an individual and as a member of no more than two entities or (2) through three entities and not as an individual.<sup>10</sup> Under the 2002 Farm Bill, individuals and entities were required to be eligible under the AGI provision to receive certain USDA payments, including direct and counter-cyclical payments; payments under the Marketing Assistance Loan Program; and conservation payments. More specifically:

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<sup>10</sup>The 2008 Farm Bill defines a person as an individual, and eliminates the three-entity rule, requiring that, for the purpose of payment limitations, farm payments be attributed to an individual regardless of whether payments are received directly or through an entity.

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- *Direct and Counter-Cyclical Payments Program* provides two types of payments to producers of covered commodity crops, including corn, cotton, rice, soybeans, and wheat. Direct payments are tied to a fixed payment rate for each commodity crop and do not depend on current production or current market prices. Instead, direct payments are based on the farm's historical acreage and yields. Counter-cyclical payments provide price-dependent benefits for covered commodities whenever the effective price for the commodity is less than a predetermined price (called the target price). Counter-cyclical payments are based on a farm's historical acreage and yields, and are not tied to the current production of the covered commodity.
  - *Marketing Assistance Loan Program* provides benefits to producers of covered commodity crops when market prices are low. Specifically, the federal government accepts harvested crops as collateral for interest-bearing loans (marketing assistance loans) that are due in 9 months. When market prices drop below the loan rate (the loan price per pound or bushel), the government allows producers to repay the loan at a lower rate and retain ownership of their commodity for eventual sale. The difference between the loan rate and the lower repayment rate is called the marketing assistance loan gain. In addition, producers who do not have marketing assistance loans can receive a benefit when prices are low—the loan deficiency payment—that is equal to the marketing assistance loan gain that the producer would have received if the producer had had a loan. Under the 2002 Farm Bill, producers also could purchase commodity certificates that allowed them to redeem their marketing assistance loan at a lower repayment rate and immediately reclaim their commodities under the loan. The difference between the loan rate and the lower repayment rate, called the commodity certificate exchange gain, was not subject to the AGI provision.
  - Conservation payments provide assistance to producers to help them safeguard environmentally sensitive land. For example, the Conservation Reserve Program provides annual rental payments and cost-share assistance to producers who contractually agree to retire their land from agricultural purposes and keep it in approved conserving uses for 10 to 15 years. Other conservation programs include the Conservation Security Program, the Conservation Stewardship Program under the 2008 Farm Bill, Environmental Quality Incentives Program, Grassland Reserve Program, and the Wetlands Reserve Program, which are generally administered by the USDA's Natural Resources Conservation Service.

The 2008 Farm Bill, which is in effect for crop years 2009 through 2012, continues many of the 2002 Farm Bill's provisions, including the programs

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already subject to the AGI caps and programs that the 2008 Farm Bill added. However, the 2008 Farm Bill changes, among other things, the AGI cap by dividing it into two parts: *non-farm* income and *farm* income; both are averages over a 3-year period. The 2008 Farm Bill sets a cap of \$500,000 for *non-farm* income for a person to receive crop subsidy benefits, noninsured crop assistance (financial assistance to producers for uninsurable specialty crops when low yields, loss of inventory, or prevented planting occurs due to natural disasters), or disaster payments, and sets a cap of \$750,000 for *farm* income to receive direct payments. For conservation programs, the farm bill sets a cap of \$1 million *non-farm* income, unless at least 66.66 percent of AGI is from *farm* income. The farm bill also provides USDA discretion to waive the conservation cap for “environmentally sensitive land of special significance.”

The 2008 Farm Bill also specifies types of income or benefits that must be included in determining farm income. These include the production of farm-based renewable energy; the sale of easements and development rights of farm, ranch, or forestry land, water or hunting rights, or environmental benefits; and the processing, storing, and transporting of farming, ranching, or forestry commodities, including renewable energy. The 2008 Farm Bill also requires the Secretary of Agriculture to conduct audits of persons and legal entities most likely to exceed the AGI caps. Furthermore, the new law requires persons and entities to provide the Secretary of Agriculture, at least once every 3 years, with either (1) information and documentation regarding AGI through procedures established by the Secretary, or (2) a certification by a certified public accountant or similar third party that the person or entity does not exceed applicable limitations. It also allows individuals filing joint tax returns to allocate their income and losses for purposes of applying for farm program payments, which may help them individually meet the AGI eligibility requirements even if applying jointly they could not. The 2008 Farm Bill creates the Average Crop Revenue Election Program, which provides producers with the option to participate in a state-level revenue protection system if they are willing to forgo counter-cyclical payments and receive a reduction in direct payments and the marketing assistance loan rate. Payments under this new program are subject to the AGI provisions.

To receive farm program payments under the 2002 and 2008 farm bills, an individual or entity must be “actively engaged in farming.” To be considered actively engaged in farming, an individual must make significant contributions to a farming operation in two areas: (1) capital, land, or equipment and (2) personal labor or active personal management. An entity is considered actively engaged in farming if the entity separately

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makes a significant contribution of capital, land, or equipment and its members collectively make a significant contribution of personal labor or active personal management.

The Improper Payments Information Act of 2002 (IPIA) requires the heads of executive branch agencies to annually review all programs and activities they administer, identify those that may be susceptible to significant improper payments, and estimate and report on the annual amount of improper payments in those programs and activities. IPIA defines an improper payment as any payment that should not have been made or was made in an incorrect amount, including any payment to an ineligible recipient.

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## Millions of Dollars in Farm Program Payments Went to Potentially Ineligible Individuals Because USDA Does Not Have Adequate Management Controls

USDA paid millions of dollars in farm program payments to individuals who were potentially ineligible for these benefits on the basis of their AGI, for 2003 through 2006. These payments occurred primarily because USDA does not have management controls, such as reviewing an appropriate sample of recipients' tax returns, to verify that payments are going only to individuals who do not exceed the income eligibility caps.

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## USDA Made Millions of Dollars in Farm Payments to Potentially Ineligible Individuals from 2003 through 2006

We identified 2,702 individuals—out of the 1.8 million individuals receiving farm payments from 2003 through 2006—who were potentially ineligible for farm payments because they had a 3-year average AGI that exceeded \$2.5 million and derived less than 75 percent of their income from farming, ranching, or forestry operations. Nevertheless, USDA paid over \$49 million to these individuals. Table 1 shows the number of individuals who were potentially ineligible to receive farm program payments under the 2002 Farm Bill's AGI provisions and the amount of farm program payments they received from 2003 through 2006. Furthermore, 427 of these individuals, or 16 percent, received potentially improper payments in each of the 4 years we reviewed.

**Table 1: Number of Individuals Potentially Ineligible for Farm Payments under the 2002 Farm Bill’s AGI Provisions and Amount of Farm Program Payments They Received, Fiscal Years 2003 through 2006**

Dollars in millions

Fiscal year	Number of individuals who received payments	Amount of farm program payments
2003	1,379	\$10.9
2004	1,154	8.2
2005	1,328	13.3
2006	1,617	16.9
<b>Total</b>	<b>2,702<sup>a</sup></b>	<b>\$49.4<sup>b</sup></b>

Source: GAO analysis of USDA data.

<sup>a</sup>Some individuals received farm program payments in more than one year. The total represents the number of unique individuals who received payments rather than the aggregate of all 4 years.

<sup>b</sup>Total does not add due to rounding.

Moreover, USDA should have known that 87 of these 2,702 individuals were ineligible for payments because it had noted in its own databases that these 87 individuals exceeded the income caps and therefore were ineligible to receive payments. These notations were based, in part, on individuals’ certifications that they did not meet the AGI provisions. USDA officials state that they relied on this information and could not explain why these 87 individuals received a payment in a year in which they had been properly identified as ineligible. As a result, we consider the payments to these individuals as improper.

Of the approximately \$49 million in federal farm program payments to potentially ineligible individuals from 2003 to 2006, about \$21 million went to individuals as members of entities. As we have previously reported, payments through entities have carried a higher risk of improper payments.<sup>11</sup> Of the 2,702 individuals we identified as receiving potentially improper farm payments, about half—1,346—received these payments through entities, according to our analysis of USDA’s and IRS’s data. The remaining 1,356 individuals received payments directly from USDA. Table 2 shows the number of potentially ineligible individuals receiving farm program payments through entities, and the amount of the payments, from 2003 through 2006.

<sup>11</sup>[GAO-07-818](#).

**Table 2: Farm Program Payments Made to Potentially Ineligible Individuals through Entities, Fiscal Years 2003 through 2006**

Dollars in millions

Entity type	Number of potentially ineligible individuals who received payments	Farm program payments
Corporations <sup>a</sup>	800	\$7.5
General partnerships	278	8.3
Limited partnerships	255	2.2
Joint ventures	53	2.1
Irrevocable trusts	55	0.6
Revocable trusts	27	0.3
Other <sup>b</sup>	22	0.1
<b>Total</b>	<b>1,346<sup>c</sup></b>	<b>\$21.1</b>

Source: GAO analysis of USDA and IRS data.

<sup>a</sup>Includes limited liability companies and S corporations. An S corporation is a corporation that is generally not subject to federal income taxes under the Internal Revenue Code. Instead, shareholders in S corporations generally include their share of the corporation's income or losses on their individual returns.

<sup>b</sup>Includes estates and individuals operating as a small business.

<sup>c</sup>Some individuals received farm program payments through one or more entities. The total represents the number of unique individuals who received payments.

The following provides examples of potentially improper payments to the 2,702 individuals who received farm program payments but reported a 3-year average AGI that exceeded \$2.5 million and derived less than 75 percent of their income from farming, ranching, or forestry operations and thus would generally not be eligible to receive the farm payments:

- A founder and former executive of an insurance company received a total of more than \$300,000 in farm program payments in 2003, 2004, 2005, and 2006 that were subject to the AGI provisions.
- An individual with ownership interest in a professional sports franchise received a total of more than \$200,000 in farm program payments for 2003, 2004, 2005, and 2006 that were subject to the AGI provisions.
- An individual residing in a country outside of the United States received farm payments totaling more than \$80,000 for years 2003, 2005, and 2006 on the basis of the individual's ownership interest in two farming entities.



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- A top executive of a major financial services firm received more than \$60,000 in farm program payments in 2003. The individual received these payments directly, not through an entity.
  - A former executive of a technology company received about \$20,000 in total farm program payments in years 2003, 2004, 2005, and 2006 that were subject to the AGI provisions. This individual also received more than \$900,000 in farm program payments that were not subject to the AGI provisions.

In 2004, we reported that because USDA's regulations ensuring that individuals are actively engaged in farming do not specify measurable standards for what constitutes a significant contribution of active personal management, they allow individuals with limited involvement in farming to qualify for farm program payments.<sup>12</sup> For example, we found individuals who were members of a farming operation that received approximately \$700,000 in farm program payments in 2001 who asserted to USDA that they provided personal management to the operation "on-site" and on a "daily" basis even though these individuals lived several hundred miles from the farming operation. We recommended that USDA develop and enforce a measurable standard that defines a significant contribution of active personal management. USDA agreed that it would be beneficial to have a measurable standard. However, to date, USDA has not taken any action on our recommendation, stating that its regulations are sufficient for determining active engagement in farming.

According to our analysis of addresses reported to the IRS by the 2,702 individuals, 9 reside outside of the United States—in Hong Kong, Saudi Arabia, and the United Kingdom, for example. The remainder resided in 49 of the 50 states, the District of Columbia, and the Virgin Islands.<sup>13</sup> Five states—Arizona, California, Florida, Illinois, and Texas—account for 36 percent of the individuals and 43 percent of the \$49.4 million in farm program payments. Furthermore, most of the 2,702 potentially ineligible individuals resided in or near a metropolitan area while the remaining individuals resided in small towns and rural areas.<sup>14</sup> For example,

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<sup>12</sup>GAO-04-407.

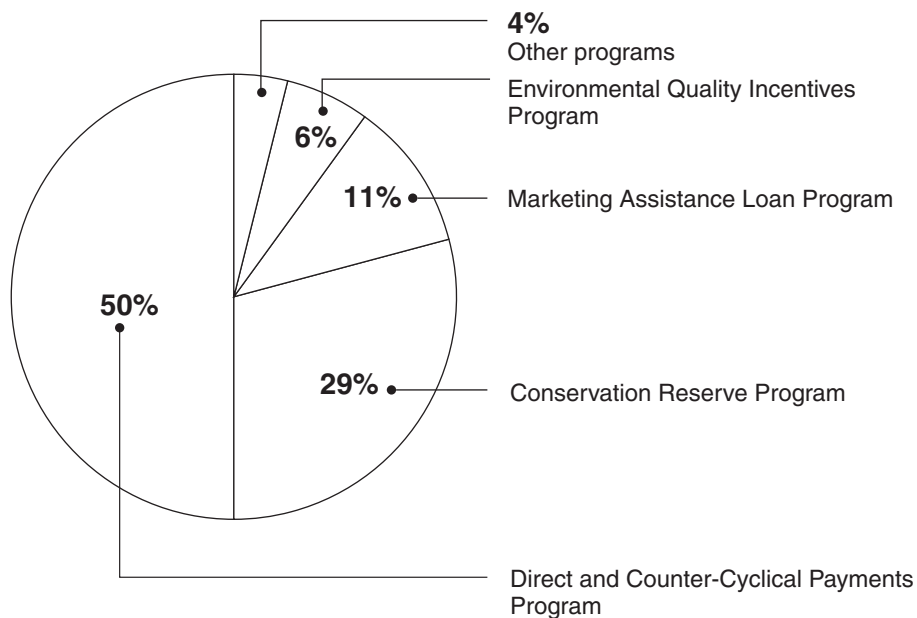
<sup>13</sup>The one state not included is Maine.

<sup>14</sup>We classified tax address zip codes into "Rural Urban Commuting Area Codes" that group U.S. Census Bureau tracts into four population/commuting groups: Urban Core, Suburban, Large Town, and Small Town/Isolated Rural Areas. Percentages are based upon the combined Urban Core and Suburban areas and the combined Large Town and Small Town/Isolated Rural Areas.

according to addresses on tax returns for the potentially ineligible individuals from 2003 to 2006, 78 percent resided in or near a metropolitan area, including urban and suburban areas, while the remaining 22 percent resided in large towns, small towns, and rural areas. In contrast, for the 1.1 million individuals who received farm payments and filed a tax return in 2006, 36 percent resided in or near a metropolitan area and 64 percent resided in large towns, small towns, and rural areas.

Two programs accounted for 79 percent of the \$49.4 million in potentially improper payments. Of the \$49.4 million in farm payments, \$39 million was paid under the Direct and Counter-Cyclical Payments Program and the Conservation Reserve Program. Figure 1 shows the percentage of the \$49.4 million in potentially improper payments, by program, subject to the AGI caps for 2003 through 2006.

**Figure 1: Percentage of \$49.4 Million Paid to Potentially Ineligible Individuals, by Program, Fiscal Years 2003 through 2006**



Source: GAO analysis of USDA data.

Note: Other programs include the Conservation Security Program, Grassland Reserve Program, Wetlands Reserve Program, and Wildlife Habitat Incentives Program.

Of the 2,702 individuals who received potentially improper payments, 1,202 individuals also received about \$16 million in payments that were not subject to the AGI provision, including commodity certificate exchange gains under the Marketing Assistance Loan Program, and certain

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crop disaster assistance payments and Livestock Compensation Program payments.

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### USDA Does Not Have Adequate Management Controls to Identify Potentially Ineligible High-Income Individuals

Payments to potentially ineligible high-income individuals have occurred because USDA does not have management controls, such as reviewing an appropriate sample of recipients' tax returns, to verify that payments are going only to individuals who do not exceed the income eligibility caps. To determine compliance with farm program payment requirements, USDA has annually reviewed a sample of individuals receiving farm payments, but this review has assessed compliance with farm program eligibility requirements other than income—including the amount of payments a farming operation received in the prior year and whether it experienced a change in ownership. An individual's income has not been a criterion in selecting the sample. Furthermore, as we reported in 2004, USDA staff conducts few reviews per office each year.<sup>15</sup> For example, in one USDA field office we visited for this review, an official told us that of the 13 farming operations selected for a review in 2005—the most recent year completed at the time of our visit—USDA reviewed only 4. Reviews for the remaining 9 farming operations were waived because they had been reviewed in a previous year. Because USDA has drawn a sample of individuals receiving farm payments that has not routinely tested for income eligibility, it could not ensure that only individuals who have not exceeded the income eligibility caps were receiving farm payments. However, in the 2008 Farm Bill, Congress directed the Secretary of Agriculture to establish statistically valid procedures to conduct targeted audits of persons or legal entities most likely to exceed the legislation's income eligibility caps.

Our analysis of USDA and IRS data suggests that USDA's primary method for ensuring compliance—its annual review of a sample of individuals—has not always identified or prevented payments to individuals who were not eligible under the AGI requirement. According to USDA officials, the agency has relied principally on individuals' one-time self-certifications that they have not exceeded income eligibility caps and that they would notify the agency of any changes that caused them to exceed these caps. Officials in USDA's Mississippi state office noted that producers who believe their average income may exceed the AGI provision generally contact their local USDA field office to discuss options. However, the

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<sup>15</sup> [GAO-04-407](#).

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Mississippi officials also noted that it is rare for a producer to exceed the 2002 Farm Bill's \$2.5 million AGI threshold. According to these and other USDA officials, resource constraints that hamper USDA's ability to examine complex tax and financial information contribute to USDA's inability to verify that each individual who receives farm program payments were eligible under the AGI provision. Furthermore, USDA headquarters officials noted that the need to collect and safeguard individuals' tax information, as well as field staffs' competing responsibilities, places constraints on USDA's ability to verify compliance with the AGI provision.

USDA headquarters officials also told us that computer matching of its farm payment data with IRS tax filer data, as we did in our analysis, would help USDA identify individuals who may not be in compliance with the AGI provisions. We realize that under Internal Revenue Code Section 6103, IRS is generally not authorized to provide USDA with tax filer information for such purposes without a waiver from the individual tax filer. Individual tax filers may authorize IRS, in writing, to disclose their return information to a third party. USDA told us that it had not yet explored the possibility of requiring farm program payment recipients to provide such waivers authorizing IRS to share tax information with USDA.

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## 2008 Farm Bill Increases the Number of Individuals Likely Affected by the AGI Cap

Because of lower income eligibility caps under the 2008 Farm Bill, the number of individuals whose AGI exceeds the caps will likely rise, increasing the risk that USDA could make improper payments to more individuals. As many as 23,506 individuals are likely to have incomes above the new AGI cap of \$500,000 for average *non-farm* income, according to our analysis of the AGI provisions in the 2008 Farm Bill and 2006 tax returns for individuals receiving farm program payments. Table 3 shows the range of individuals receiving farm program payments in 2006 who potentially would have been ineligible for these payments if the 2008 Farm Bill's AGI provisions had been in effect as well as the range of the potentially ineligible farm payments, according to our analysis of data from USDA and the individuals' tax returns, including their Form 1040, Schedule F, and Form 4835. See appendix I for details on the methodology used to determine these ranges.

**Table 3: Estimated Effect of 2008 Farm Bill’s Income Eligibility Caps on Individuals Who Received Farm Program Payments in 2006**

Income eligibility cap	Range of potentially ineligible individuals	Range of potentially ineligible payments (Dollars in millions)		
		Direct <sup>a</sup>	Crop subsidy and disaster assistance <sup>b</sup>	Conservation <sup>c</sup>
Average <i>farm</i> income exceeding \$750,000	41–4,688	\$0.7–\$23.0	<sup>d</sup>	<sup>e</sup>
Average <i>non-farm</i> income exceeding \$500,000	3,594–23,506	\$12.9–\$81.6	\$14.0–\$90.4	<sup>e</sup>
Average <i>non-farm</i> income exceeding \$1 million and less than 66.66 percent of AGI is derived from <i>farm</i> income	1,552–9,814	<sup>f</sup>	<sup>f</sup>	\$3.3–\$19.1

Source: GAO analysis of USDA and IRS data.

Note: Analysis is based on the 1.1 million individuals who received farm program payments and filed single or joint tax returns as the primary filer in 2006.

<sup>a</sup>Direct payments under the Direct and Counter-Cyclical Payments Program.

<sup>b</sup>Includes counter-cyclical payments under the Direct and Counter-Cyclical Payments Program as well as payments under the Marketing Assistance Loan Program and crop disaster programs. Excludes direct payments.

<sup>c</sup>Includes payments under the Conservation Reserve Program, Environmental Quality Incentives Program, and Conservation Security Program.

<sup>d</sup>Individuals are eligible for these payments unless their *non-farm* income exceeds \$500,000.

<sup>e</sup>Individuals are eligible for these payments unless their *non-farm* income exceeds \$1 million and less than 66.66 percent of their AGI is derived from *farm* income.

<sup>f</sup>Some individuals in this income category would have already exceeded the income eligibility caps for both *farm* and *non-farm* income.

Several factors may influence the actual number of individuals affected by the new AGI provisions. According to an official with USDA’s Economic Research Service, some individuals with high income might make business decisions that, while legal, would help them avoid the new AGI caps. These decisions include leasing all or part of their land to individuals not affected by the caps, and then indirectly receiving farm program payments by charging a rental rate that includes the lost payments; dividing income with a spouse for individuals who are married and file a joint tax return; investing in equipment to increase tax deductions for depreciation and immediate expensing; and delaying or accelerating income from corporations in which the individual has controlling interest. Furthermore, while forecasts for high crop prices through 2012 might increase individuals’ farm income and AGI, an increase in the tax deduction for “domestic production activities” beginning in 2010 might reduce the

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impact of the AGI provisions on some individuals.<sup>16</sup> The 2008 Farm Bill's directive to include the production of farm-based renewable energy, production of livestock products, and the sale of farm equipment in the definition of farm income might increase the number of individuals ineligible for direct payments under the Direct and Counter-Cyclical Payments Program.

In discussing the 2008 Farm Bill with USDA officials, they agreed that the lower income eligibility thresholds will increase and complicate their responsibilities. In particular, with the expanded definition of farm income, field office staff no longer will be able to rely primarily on an individual's IRS Schedule F to determine farm income. Rather, other IRS forms and schedules not used previously may now be included in USDA's eligibility determination. The USDA officials also stated that the split of AGI into two types of income—*farm* and *non-farm*—together with separate income caps for direct payments, crop subsidy and disaster assistance payments, and conservation payments, adds to the complexity for field office staff who must make eligibility determinations. In July 2008, USDA published a notice in the *Federal Register* to provide additional implementation information.<sup>17</sup>

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## Individuals Who Receive Farm Program Payments Generally Report Higher Incomes Than All Tax Filers

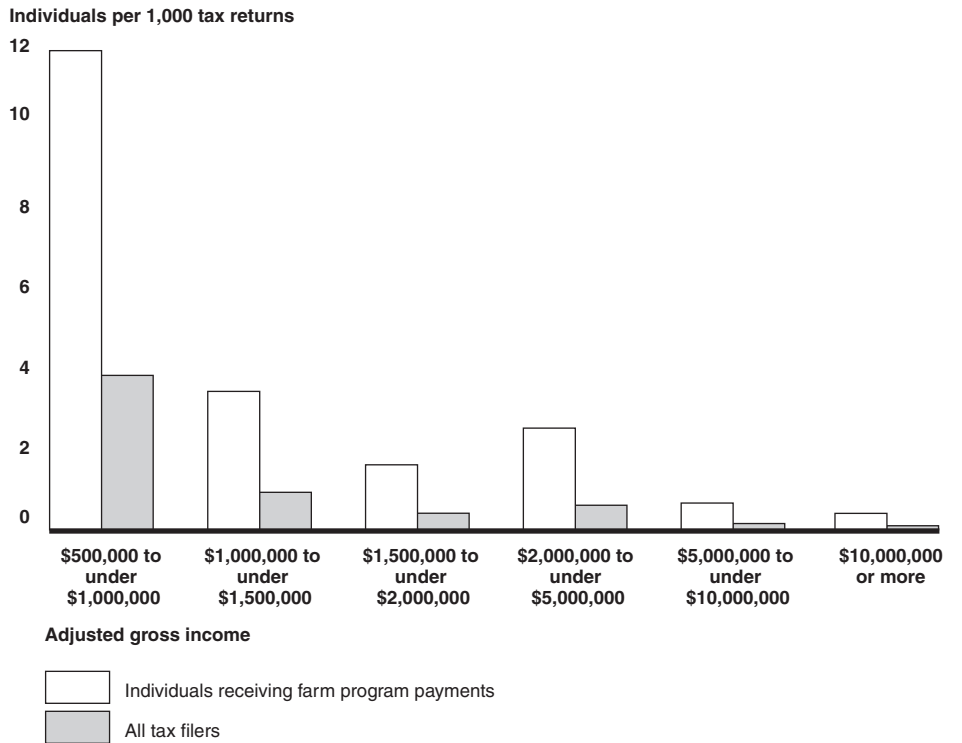
Individuals participating in farm programs are three times more likely to have an AGI exceeding \$500,000 than all individuals who file taxes. We found that 21 of every 1,000 individuals receiving farm payments reported an AGI exceeding \$500,000 in 2006 while only 7 of every 1,000 of all individual tax filers reported income at this level or higher. Furthermore, as figure 2 shows, 12 of every 1,000 individuals receiving farm program payments reported AGI between \$500,000 and \$1 million compared with about 4 of all tax filers who reported income at this level.

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<sup>16</sup>Section 199 of the Internal Revenue Code allows certain taxpayers to claim a deduction for a percentage of their net income from qualified domestic production activities. In 2005 and 2006 that percentage was 3 percent. The deduction percentage increases to 6 percent for 2007 through 2009 and to 9 percent beginning in 2010.

<sup>17</sup>73 Fed. Reg. 40,283 (July 14, 2008).

**Figure 2: Distribution of Income of Individuals Receiving Farm Program Payments and All Tax Filers, 2006**



Source: GAO analysis of USDA and IRS data.

Of the individuals who received farm program payments and filed a tax return in 2006, 9,651 reported an AGI exceeding \$1 million and 22,931 reported an AGI exceeding \$500,000. Individuals who participate in farm programs also are over three times more likely to report a loss, that is, negative AGI, than individuals who do not participate in farm programs. Nearly 7 percent of individuals receiving farm payments reported no AGI (that is, income of \$0 or less), compared with only 1.9 percent of all tax filers who reported no AGI. Individuals with no AGI received farm program payments averaging \$17,200, the highest average farm payment among AGI ranges we analyzed. Conversely, average farm program payments range from about \$9,000 to \$14,000 for individuals in the six groups with an AGI exceeding \$500,000. (App. IV provides a detailed distribution of income of individuals receiving farm program payments for all AGI ranges and the amount of farm payments, as well as the income distribution for all tax filers.)

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## Conclusions

Thousands of individuals who may not have met the income eligibility requirements under the 2002 Farm Bill nevertheless received payments, making the payments potentially improper. The likelihood that even more individuals will exceed income eligibility requirements and still receive payments is expected to grow under the 2008 Farm Bill given the bill's new, more complex eligibility criteria.

In the past, USDA has relied on individuals' one-time self-certifications that they meet income eligibility requirements and their promise to notify USDA if they no longer meet these requirements. As our analysis showed, however, these self-certifications have not always proven reliable for all recipients of farm program payments because USDA has not always withheld payments from these individuals. Moreover, USDA's principal management control to ensure compliance with farm program requirements—a review of a sample of individuals receiving high payments or a change in operations—has not targeted high-income individuals. The need for management controls to ensure individuals meet income eligibility requirements will be even more critical under the 2008 Farm Bill, which has provided reduced income eligibility caps for farm program payments.

The 2008 Farm Bill directs USDA to establish statistically valid procedures to conduct targeted audits of persons and legal entities that are most likely to exceed the income eligibility caps. We realize that under Internal Revenue Code Section 6103, IRS is generally not authorized to provide USDA with tax filer information for such purposes without a waiver from the individual tax filer. Individual tax filers may authorize IRS, in writing, to disclose their return information to a third party. USDA told us that it had not yet explored the possibility of requiring farm program payment recipients to provide such waivers authorizing IRS to share tax information with USDA. Such efforts could help better ensure that program funds benefit those engaged in farming as intended.

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## Recommendations for Executive Action

To provide greater assurance of program integrity, we recommend that the Secretary of Agriculture direct the Administrator of the Farm Service Agency to work with the Internal Revenue Service to develop a system for verifying the income eligibility for all recipients of farm program payments. If the Secretary determines that it does not have the authority to develop such a system with the Commissioner of the Internal Revenue Service, we recommend that the Secretary request this authority from Congress, as appropriate.



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## Agency Comments and Our Evaluation

We provided USDA with a draft of this report for review and comment. USDA agreed with our recommendations. Nevertheless, USDA did not agree with several of our findings. First, USDA noted that only a small percentage of USDA's total farm program payments were made to individuals who exceeded the 2002 Farm Bill's income eligibility caps. However, our finding is consistent with the general distribution of income among all tax filers: only a very small percentage of all individuals who file a tax return report an AGI in excess of \$2.5 million to the IRS. Furthermore, the number of individuals who exceed income eligibility caps is likely to increase because the 2008 Farm Bill lowers these eligibility caps. Therefore, USDA could be at greater risk of making improper payments unless it has better management controls in place.

Second, USDA stated that we should not have discussed the requirement of actively engaged in farming in this report. We disagree. We believe that it is important to place our discussion of income eligibility requirements in the context of other key eligibility requirements to provide a more comprehensive understanding of the conditions under which individuals may qualify for farm program payments.

Finally, USDA sought more information about the individual cases we cite in this report of individuals whose AGI apparently exceeds the eligibility requirements. However, Internal Revenue Code Section 6103 prohibits us from disclosing any additional information.

USDA also provided technical corrections, which we have incorporated into this report as appropriate. USDA's written comments and our responses are presented in appendix II.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time we will send copies of this report to appropriate congressional committees, the Secretary of Agriculture; the Director, Office of Management and Budget; and other interested parties. In addition, this report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

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If you or your staff have any questions about this report, please contact me at (202) 512-3841 or [shamesl@gao.gov](mailto:shamesl@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.

Sincerely yours,

A handwritten signature in black ink that reads "Lisa Shames". The signature is written in a cursive style with a long horizontal flourish at the end.

Lisa Shames  
Director, Natural Resources  
and Environment

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# Appendix I: Objectives, Scope, and Methodology

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At the request of the Ranking Member of the Senate Committee on Finance, we reviewed the Farm Service Agency's (FSA) implementation of adjusted gross income (AGI) provisions under the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) to identify potentially improper payments to individuals with high incomes. In this context, we were asked to evaluate (1) how effectively the U.S. Department of Agriculture (USDA) implemented provisions under the 2002 Farm Bill that prohibited payments to individuals whose 3-year average AGI exceeded \$2.5 million and who derived less than 75 percent of that income from farming, ranching, or forestry operations; (2) the potential impact of the Food, Conservation, and Energy Act of 2008's (2008 Farm Bill) AGI provisions on individuals who receive farm program payments; and (3) the distribution of income for individuals receiving farm program payments compared with all tax filers.

To evaluate how effectively USDA implemented the 2002 Farm Bill provisions that prohibit payments to individuals who do not meet the AGI provisions, we reviewed guidance that USDA field offices use to determine farm program payment eligibility, including relevant statutes and regulations and agency policy, such as the *FSA Handbook on Payment Limitations, 1-PL (Revision 1)*, as well as relevant studies prepared by USDA's Office of Inspector General and the Congressional Research Service and our own past reports. In addition, we spoke with USDA officials in headquarters and state and local field offices in Louisiana and Mississippi who are responsible for ensuring that individuals who receive farm program payments were eligible under the 2002 Farm Bill's AGI provisions that cap 3-year average AGI at \$2.5 million, unless at least 75 percent is derived from farming, ranching, or forestry operations. We selected these offices to provide an example of how USDA implements the AGI provisions and the information we obtained cannot be generalized to all field offices. We also spoke with officials from USDA's Economic Research Service on the implications of AGI provisions in the 2008 Farm Bill for individuals who receive farm program payments. We also reviewed USDA's *FY 2007 Performance and Accountability Report* to understand its assessment of internal controls for its farm programs, and Internal Revenue Service (IRS) publications and guidance on reporting income.

We obtained and analyzed USDA's computer databases for information on individuals receiving farm program payments either directly or through an entity, such as a corporation, general partnership, or trust, from 2003 through 2006. These databases included FSA's Producer Payment Reporting System, Permitted Entity file, and Subsidiary Eligibility file, as well as payment files from USDA's Natural Resources Conservation

Service. These databases contained detailed information on payment recipients, such as social security numbers, payment amounts, the status of recipients as individuals or members of entities, their ownership interest in entities, types of entities, and additional organizational details. These databases also contained information on payments made under USDA's farm programs, including the Direct and Counter-Cyclical Payments Program, Marketing Assistance Loan Program, Conservation Reserve Program, and Environmental Quality Incentives Program. Appendix III provides a listing of USDA farm programs and payments made between 2003 and 2006 under the 2002 Farm Bill.

Using the USDA data described above, we identified approximately 2.6 million individuals who received farm payments between 2003 and 2006. We forwarded the list to IRS and requested that IRS provide selected data from Form 1040 (U.S. Individual Income Tax Return), Schedule F (Profit or Loss from Farming), and Form 4835 (Farm Rental Income and Expenses)—the principal IRS forms for reporting income from farming, ranching, or forestry. IRS returned data for about 10.9 million returns for tax years 2000 to 2006. We verified the accuracy of the matched records through an automated name check to compare the individual's name as contained in the USDA data with the name of the tax payer in the IRS data. In addition to the automated name comparison, we reviewed every name that failed the check to confirm that the two names did not match. We did not analyze tax filer data reported by entities, such as corporations, partnerships, or trusts, but we did review tax filer data for the individuals identified by USDA as members of an entity. At the conclusion of our verification efforts, tax returns from about 1.9 million of the original 2.6 million individuals were validated.

To determine the number of individuals who received potentially improper farm program payments, we calculated 3-year moving averages of AGI and farm income, and identified individuals whose average AGI was at least \$2.5 million for the 3 years immediately preceding the year in which they received a farm program payment. This analysis identified 3,893 individuals whose tax returns indicated they did not meet the AGI provisions for receiving farm program payments in one or more of years 2003 to 2006. We matched these 3,893 individuals with the data provided by USDA to determine the types and amounts of farm program payments these individuals received in each year. Our analyses showed that 2,702 individuals had AGI that exceeded the income eligibility cap and had

received potentially improper farm program payments.<sup>1</sup> For payments made to an entity, we attributed the payments to each member based on the payment share of the member as recorded in FSA's Permitted Entity file.

We also identified the amount of certain program payments and benefits not subject to the income provision for the 2,702 individuals. Payments and benefits not subject to the AGI provisions of the 2002 Farm Bill include those provided under the 2002 Cattle Feed Program, Conservation Reserve Program (annual rental and incentive payments for contracts signed prior to May 13, 2002), Florida hurricane disaster programs (payments for debris removal), Marketing Assistance Loan Program (commodity certificate exchange gains), Noninsured Assistance Program, Peanut Quota Buyout Program, and Sugar Beet Disaster Program. We identified programs not subject to the AGI provisions with the assistance of FSA officials.

To evaluate the potential impact of the 2008 Farm Bill's AGI provisions on individuals who receive farm program payments, we identified 1.7 million individuals who received farm payments in 2006 and matched these individuals with 2006 data provided by IRS. After completing our name validation tests, we identified 1.1 million tax returns for individuals receiving farm payments in 2006. We categorized tax returns for these 1.1 million individuals by the 2008 Farm Bill's *farm* and *non-farm* income caps for direct payments, crop subsidy and disaster payments, and conservation program payments—\$750,000, \$500,000, and \$1 million, respectively. For individuals who received conservation program payments, we also compared their *farm* income with their AGI to determine if at least 66.66 percent of their average AGI was derived from *farm* income. To estimate *non-farm* income, we calculated the difference between reported AGI and farm income for each tax return.

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<sup>1</sup>We refer to these payments as being “potentially improper” and not “improper” because our analysis does not allow us to definitively state that any one individual is ineligible for payments. Specifically, we analyzed individuals' compliance with the AGI provisions based on IRS Schedule F and Form 4835, but did not use other forms and schedules where individuals might report farm income and losses to IRS. Income on these other forms could increase or decrease the individuals' AGI above or below the amounts we calculated, potentially making them eligible for farm program payments. In addition, we used data as reported on joint tax returns, but individuals who filed tax returns jointly may be eligible to receive farm program payments after income and losses are allocated among the individuals filing jointly. This is possible because USDA regulations permit individuals who file a joint return to certify their income as if they had filed a separate return.

For joint tax returns, we assumed that the difference between the AGI and farm income (Schedule F and Form 4835) represented non-farm income. However, because individuals filing joint tax returns represented 70.5 percent of the 1.1 million returns for all individuals, we performed additional steps for joint tax returns to account for the possibility that a secondary filer on a joint tax return could have income that may be categorized as either farm income, non-farm income, or both. Using the 2006 data, we developed 11 different scenarios to estimate the potential impact of the 2008 Farm Bill's AGI provisions on tax returns from individuals who receive farm program payments. These scenarios included non-farm income as values from 0 percent to 100 percent of the difference between AGI and farm income, using 10 percent increments. Table 4 provides the results of our calculations for individuals whose tax filing status was single or married filing jointly. For example, the table shows that 3,594 individuals filing single tax returns and as many as 19,912 individuals filing joint tax returns, or a total of 23,506, are likely to have incomes above the new AGI cap of \$500,000 for non-farm income.

**Table 4: Estimated Effect of 2008 Farm Bill's Income Eligibility Caps on Individuals Who Received Farm Program Payments in 2006**

Dollars in millions

Percent of income		Direct <sup>a</sup> (non-farm income)		Direct <sup>b</sup> (farm income)		Crop subsidy and disaster assistance <sup>c</sup>		Conservation <sup>d</sup>	
Non-farm	Farm	Ineligible individuals	Ineligible payments	Ineligible individuals	Ineligible payments	Ineligible individuals	Ineligible payments	Ineligible individuals	Ineligible payments
<b>Joint tax returns</b>									
0	100	0	0.0	4,680	22.9	0	0.0	0	0.0
10	90	1,011	2.9	3,722	18.4	1,011	3.8	244	0.5
20	80	2,573	8.0	2,639	13.2	2,573	9.8	633	1.1
30	70	4,356	14.7	1,273	6.7	4,356	17.3	1,134	1.8
40	60	6,327	21.4	130	1.8	6,327	24.6	2,566	5.2
50	50	8,279	28.7	68	1.1	8,279	32.7	3,428	6.6
60	40	10,419	36.3	46	0.8	10,419	41.6	4,346	8.4
70	30	12,694	43.8	38	0.6	12,694	49.9	5,334	10.3
80	20	14,996	52.1	35	0.6	14,996	58.5	6,311	12.3
90	10	17,418	60.4	33	0.6	17,418	67.4	7,274	13.9
100	0	19,912	68.7	38	0.6	19,912	76.5	8,262	15.8
<b>Single tax returns</b>		3,594	\$12.9	8	\$0.2	3,594	\$14.0	1,552	\$3.3

Source: GAO analysis of USDA and IRS data.

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Notes: Analysis is based on the 1.1 million individuals who received farm program payments and filed single and joint tax returns as the primary filer in 2006.

<sup>a</sup>Individuals are ineligible for direct payments under the Direct and Counter-Cyclical Payments Program if their *non-farm* income exceeds \$500,000.

<sup>b</sup>Individuals are ineligible for direct payments under the Direct and Counter-Cyclical Payments Program if their *farm* income exceeds \$750,000.

<sup>c</sup>Individuals are ineligible for these payments if their *non-farm* income exceeds \$500,000. These payments include counter-cyclical payments under the Direct and Counter-Cyclical Payments Program as well as payments under the Marketing Assistance Loan Program and crop disaster programs. Excludes direct payments.

<sup>d</sup>Individuals are ineligible for these payments if their *non-farm* income exceeds \$1 million and less than 66.66 percent of their AGI is derived from *farm* income. Includes payments under the Conservation Reserve Program, Environmental Quality Incentives Program, and Conservation Security Program.

To evaluate the distribution of income of the 1.1 million individuals who received farm program payments and filed a tax return in 2006, we stratified these individuals by the amount of their AGI. We then identified average farm program payments for each of these categories and calculated the farm payment income as a percent of AGI. We compared the income distribution for farm program payment recipients with the income distribution for all individual tax filers in 2006, the latest year for which data were available. Information for all tax filers is based on IRS's Statistics of Income data.

For our analyses of IRS's and USDA's data, we performed consistency checks to confirm that the data contained the information required for our comparisons. We eliminated duplicate records from both the USDA and IRS data and ensured the internal consistency of the data by deleting any cases with missing values critical for the analysis. When we matched USDA records with IRS records, we confirmed that the USDA and IRS records represented an accurate match through our automated name verification check followed by the visual inspection for each failed match. Only those individuals with farm income reported to the IRS who also received farm payments were included in the analysis. Accordingly, we believe the data we used in the analyses were sufficiently reliable for our purposes. We did not independently verify the data from USDA's and IRS's computer databases, but we discussed with agency officials, as appropriate, the measures they take to ensure the accuracy of these data. For the purposes for which the data were used in this report, these measures seemed reasonable.

We conducted this performance audit from August 2007 through September 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the

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audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



# Appendix II: Comments from the U.S. Department of Agriculture

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States  
Department of  
Agriculture

Farm and Foreign  
Agricultural  
Services

Farm Service  
Agency

Operations Review  
and Analysis Staff

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**TO:** Lisa Shames, Director  
Natural Resources and Environment  
Government Accountability Office

**FROM:** Teresa C. Lasseter  
Administrator

OCT 9 2008

**SUBJECT:** Responding to U.S. Government Accountability Office (GAO) Draft Report: GAO-08-1083, "FEDERAL FARM PROGRAMS: USDA Needs to Strengthen Controls to Prevent Payments to Individuals Who Exceed Income Eligibility Limits."

See comment 1.

The following are general comments in response to the draft report.

The Farm Security and Rural Investment Act of 2002 required the implementation of the \$2.5 million average Adjusted Gross Income (AGI) limitation. This was the first instance of an actual income means test applied as eligibility criteria for the receipt of benefits under the majority of programs administered by FSA. Under this provision, an individual or entity with an average AGI in excess of \$2.5 million for the three years prior to the year for which benefits were requested was ineligible for payments, unless 75 percent or more of the AGI was derived from farming, ranching and forestry operations as defined by regulation.

Participants were required to certify compliance with the AGI provision by either submitting a certification statement as provided by FSA, or a statement from either a CPA or an attorney that certified the individual or entity complied with the AGI limitation. FSA was granted the authority to request tax information filed by the individual or entity in the event the certification was questioned. Requiring three years of tax returns initially from over 2 million program participants was not a viable option or cost effective alternative, nor was it the intent of Congress as a means of certification.

A GAO study was recently conducted of FSA's implementation of the \$2.5 million AGI limitation. The GAO auditors had a distinct advantage over FSA to determine producer compliance and potential payments to producers that were non-compliant in that GAO had access to IRS tax payer data. FSA does not have that privilege, clearance or resource capability to conduct that type of scrutiny of AGI certifications for every participant. While GAO faults FSA by stating that it lacked adequate management controls to prevent payments to individuals that may have exceeded the AGI limitation, FSA noted a number of times during this study the Agency made the best use of the resources available.

See comment 2.

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**Lisa Shames, Director**  
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See comment 3.

Out of \$16B that FSA issues to farmers annually, GAO found that payments issued directly or indirectly to individuals that, according to IRS data exceeded the AGI limitation in any of the years reviewed, amounted to only 0.08 percent of that annual total. Furthermore, not all of the more than 80 programs listed in Table II which comprised this \$16B total in payments were subject to the AGI limitation.

See comment 4.

GAO also faulted FSA by not having implemented a measurable standard for the contribution of active personal management by a participant for meeting the requirements of actively engaged in farming. The requirements for actively engaged in farming are not part of AGI, nor is AGI compliance dependent upon meeting such requirements. We do not believe it is appropriate to make reference to an audit that was completed and finalized over 4 years ago. It was made clear during the exit conference that any discussions of actively engaged in farming are misplaced in this study. Also, actively engaged in farming is not a requirement for the receipt of payments and benefits under the majority of the programs listed by GAO in Table II.

See comment 5.

GAO revisited another finding from a 2004 audit in which FSA's procedure for the selection of farming operations for annual payment limitation compliance reviews was faulted for not being a statistically sound sample. It was explained that this sample was not represented to be a statistical sample. Rather, it is a judgmental sampling process originally fashioned by the Office of the Inspector General (OIG) and based on criteria to identify the operations most likely to have potential compliance errors. Nonetheless, as it was again noted in a recent response to GAO, the 2006 selection process was modified to eliminate repeat selections, and a statistical sampling process currently in use by FSA for other compliance purposes is under consideration for the 2008 selection process.

See comment 6.

During the four years of this study, GAO found a total of 2,702 individuals that received program benefits and that had an average AGI that exceeded \$2.5 million. Of this four-year total, almost half of these individuals received the payments indirectly as a member of an entity. The entity was the program participant and payment recipient, not the individual directly. What GAO fails to mention is that when the entity is AGI compliant, and an interest holder is not AGI compliant, the entity is eligible to receive a payment, but the payment reduced by the share held by that interest holder. However, through attributing a share of recorded payments to that non-AGI compliant interest holder, it appears that a payment was issued to that interest holder.

See comment 7.

GAO also found that 78 percent of the AGI non-compliant individuals that received program payments lived in or near a metropolitan area and the remaining 22 percent resided in rural areas, small towns, and elsewhere. We fail to see the relevance of this finding as it most likely mirrors the demographics of the general population regardless of income, occupation, or status as a farm program participant. We trust that it is not an inference about truthfulness in AGI self-certification, and where the participants reside.

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**Page 3**

See comment 8.

The GAO report included examples found of payments issued to prominent and perceived wealthy individuals even though the individuals may or may not have certified to be AGI compliant. The first two examples were of a former insurance company executive and a part-owner of a professional sports franchise that each received substantial payments in the years 2003 through 2006 under programs subject to AGI provisions. GAO failed to mention whether the payments were issued directly or indirectly through entities, and, if through entities, whether the payments to the entities were subject to a commensurate reduction for the interests held by the individuals.

See comment 8.

The third example was that of a foreign individual who received a total of \$80,000 indirectly through two entities during the years 2003, 2005, and 2006. GAO failed to mention whether these payments were under programs subject to AGI or the foreign person rules, or if commensurate reductions were applied to the payments issued to the entities. The hurricane disaster relief and other disaster programs that compensated for losses and property rehabilitation for those years were not subject to the foreign person rules and certain payments were not subject to the AGI provisions either.

See comment 8.

The fourth example was that of an executive of a major financial services firm who received \$60,000 directly in 2003 program payments. GAO failed to mention if this was under a long-term conservation practice agreement or contract, which, if approved prior to the enactment of the AGI limitation in 2003, would not be subject to AGI. The amount could also have been received for disaster assistance for that year which also, was not subject to the \$2.5 million AGI limitation.

See comment 8.

For the fifth and last example, the same reasons apply as in the fourth example. GAO inappropriately categorized and termed the \$900,000 as a farm program payment. This appears to be commodity certificate exchange gains which are not program payments issued by FSA. Certification exchange gains are simply a monetary value realized by the individual as the result of the transaction.

See comment 9.

GAO explains in detail occurrences where program payments were issued directly and indirectly to individuals that appeared to be noncompliant with the AGI limitation, as well as the amounts of program benefits issued to them during the 4 year period of the study. GAO refers to these payments as "potentially improper payments". FSA recommends that the discussion contained in Footnote 7 (Page 4) be more visibly included in the general text of the report. GAO notes the reason these payments are termed as "potentially improper" is that their analysis does not show that any one individual is ineligible for payment. Furthermore, if other available forms and information had been evaluated, the income may have decreased the individuals' AGI below the amounts calculated by GAO and thus, make the individuals eligible for program payments. USDA regulations allows for the consideration of such information and the subsequent adjustments in the determination of the average AGI.

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**Page 4**

Of particular importance to FSA is the finding that over 2,700 individuals were noncompliant with the AGI limitation during the 4 years reviewed and were recipients of over \$49 million in program payments during that period of time. Over 2,600 of these individuals had certified to FSA to be compliant with AGI. Furthermore, there were 87 payment recipients that received program payments subject to AGI during that time even though they had certified to be noncompliant with AGI and the subsidiary files were set to preclude the issuance of payments subject to AGI to these individuals. GAO maintains that details cannot be disclosed to the FSA due to Section 6103 of the Internal Revenue Code which prohibits the disclosure of tax return information. It is imperative to maintain program integrity that details of not only the 87 individuals be disclosed, but also for the remainder of the 2,700 individuals. GAO has knowledge of over 2,600 individuals that may have misrepresented their eligibility status to FSA, and as a result, received "potentially improper" program payments. GAO has knowledge of 87 individuals that received program payments even though GAO contends they were clearly not eligible for such payments. FSA hereby requests the authority by whatever means necessary, including Congressional authority, to gain access to this specific data to enable FSA to initiate any actions deemed appropriate upon further evaluation. Otherwise, the real value and true purpose of this report is at best questionable.

Overall, the GAO study focused only on the perceived results of the implementation of the AGI limitation rather than the stated intent of the audit: FSA's implementation of the AGI limitation. It is assumed that GAO extensively reviewed the 2002 Act that gave rise to the AGI limitation; the regulations promulgated by CCC for the AGI limitation; the definition developed for the determination of AGI for individuals, corporations, non-profits and charitable organizations which may or may not be required to file tax returns; trusts, estates, and all FSA field offices; and the information provided to the general public. However, no mention or statements are made in the report if the implementation and subsequent actions of FSA in regard to AGI met the intent of Congress.

**Recommendation for Executive Action**

GAO recommends that the Secretary and the FSA Administrator actively pursue in coordination with the Internal Revenue Service the development of a system to be used in the verification of income eligibility for all recipients of farm program payments. Additionally, if the Secretary determines there is no current authority for the development of such a system, it is recommended that authority for such a system be requested from Congress.

We agree with this recommendation as this appears to be the best manner in which to ensure positive compliance with any AGI limitation or income means test that may be imposed by Congress for the receipt of farm program benefits.

See comment 8.

See comment 10.

**Lisa Shames, Director  
Page 5**

USDA requests that GAO, in its final report of this audit, formally request from the United States Senate, Committee on Finance, that authority be given to FSA for access to tax data held by the Internal Revenue Service (IRS) to be used for AGI compliance determination purposes.

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The following is GAO's response to the U.S. Department of Agriculture's letter dated October 9, 2008.

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## GAO's Comments

1. The report number has changed to GAO-09-67.
2. We recognized in the report that resource constraints limit USDA's ability to effectively enforce the adjusted gross income (AGI) requirements. As we stated, according to USDA officials, these resource constraints hamper the department's ability to examine complex tax and financial information, and field staff have other competing responsibilities that limit the time available for enforcing the AGI requirements.
3. We acknowledge that a small percentage of USDA's total farm program payments were made to individuals who exceeded the 2002 Farm Bill's income eligibility caps. The small percentage is to be expected: only a very small percentage of all individuals who file a tax return report an AGI exceeding \$2.5 million to the IRS. Furthermore, the fact that only a small percentage of recipients are potentially ineligible does not relieve USDA of its responsibility to enforce the AGI requirements. This percentage is also likely to increase because the 2008 Farm Bill lowers the income eligibility caps. Therefore, USDA will be at greater risk of making improper payments to more than the 2,702 individuals we found unless it has better management controls in place.

USDA is correct in stating that not all of the farm programs and payments listed in appendix III of this report were subject to the AGI limitation under the 2002 Farm Bill. That table was not intended to list only programs subject to the AGI limitation. To provide clarity, we have included a note below the table in appendix III explaining this fact.

4. We believe that it is important to place our discussion of income eligibility requirements in the context of other key eligibility requirements to provide a more comprehensive understanding of the conditions under which individuals may receive farm program payments. Although USDA is correct that the requirements for actively engaged in farming are not part of the AGI provision, we mention the issue of actively engaged in farming in this report to provide more

information regarding concerns we have previously raised about USDA's oversight of farm program payments.<sup>1</sup>

5. As noted in the report, the 2008 Farm Bill directed the Secretary of Agriculture to establish statistically valid procedures to conduct targeted audits of persons or entities most likely to exceed the legislation's income eligibility caps. Therefore, to provide context for our discussion on how USDA ensured recipients met eligibility requirements, we provided information regarding concerns we had previously raised in our 2004 report about how USDA selected farm operations for compliance review.<sup>2</sup>
6. USDA is correct in stating that when the entity is AGI compliant and an interest holder is not AGI compliant, the entity is still eligible to receive a payment. However, the payment to the entity must be reduced by the share held by that interest holder. In our analysis of entities, we attributed payments to each interest holder based on the payment share of the interest holder as recorded in the Farm Service Agency's Permitted Entity database. For the 1,346 potentially ineligible individuals who we identify as receiving a payment through an entity, USDA did not reduce the payment to the entity based on the share held by the individual. (For further discussion of the methodology we used, see app. I.)
7. We have identified potentially ineligible recipients on the basis of their reported AGI. While we cannot name these recipients, we believe that providing as much demographic information as we can about these recipients, such as whether they reside near the farming operation, is helpful to users of this report.
8. USDA believes we should provide more information about the examples we cite in this report. Providing this information would allow USDA, which does not have authority to access tax information, to identify individual filers. Internal Revenue Code Section 6103 prohibits us from disclosing any additional information. We note here that some of the payments were issued directly to individuals while others were issued indirectly through entities. Regarding USDA's comment on

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<sup>1</sup>GAO, *Farm Program Payments: USDA Needs to Strengthen Regulations and Oversight to Better Ensure Recipients Do Not Circumvent Payment Limitations*, [GAO-04-407](#) (Washington, D.C.: Apr. 30, 2004).

<sup>2</sup>[GAO-04-407](#).

whether we made a commensurate reduction in the payment when the payment was made to an entity, we attributed payments to each interest holder based on the payment share of the interest holder as recorded in the Farm Service Agency's Permitted Entity database. With respect to USDA's comment on requesting authority to gain access to information on potentially improper payments, we recommended that the Secretary of Agriculture direct the Administrator of the Farm Service Agency to work with the Internal Revenue Service to develop a system for verifying the income eligibility for all recipients of farm program payments. We further stated that if the Secretary determines that it does not have the authority to develop such a system with the Commissioner of the Internal Revenue Service, we recommended that the Secretary request this authority from Congress, as appropriate.

9. We believe that explaining our use of the term "potentially improper payments" in the footnotes on pages 4 and 25 is sufficient.
10. Appendix I of this report specifies the documents we reviewed. As we noted, we reviewed guidance that USDA field offices use to determine compliance with the AGI requirements, including relevant statutes and regulations and agency policy and guidance. We believe that the intent of the AGI eligibility requirement is clear in the 2002 Farm Bill.



# Appendix III: U.S. Department of Agriculture Farm Program Payments by Program or Payment Type, Fiscal Years 2003-2006

Program or payment name	2003	2004	2005	2006	Total
Agricultural Management Assistance Program	\$3,549,373	\$8,783,305	\$7,279,695	\$2,333,998	\$21,946,371
American Indian Livestock Feed Program	0	0	473,247	7,376,094	7,849,341
Bioenergy Program	148,137,098	150,436,473	99,076,283	57,400,527	455,050,381
Commodity certificate exchange gains <sup>a</sup>	185,219,153	337,296,134	330,138,042	210,263,930	1,062,917,259
Conservation Reserve Program	1,770,210,297	1,808,271,945	1,973,549,573	1,686,117,516	7,238,149,331
Conservation Security Program	0	179,485,573	593,563,202	142,088,837	915,137,612
Cottonseed Payment Program	49,834,565	14,588	0	1,645	49,850,798
Counter-cyclical payments	1,746,682,529	805,809,924	3,008,760,716	3,954,423,534	9,515,676,703
Crop disaster programs <sup>b</sup>	2,035,849,601	748,959,493	2,881,168,505	147,655,261	5,813,632,860
Dairy Market Loss Assistance Program <sup>c</sup>	1,204,615	600,054	337,566	7,094,864	9,237,099
Direct payments	4,149,832,019	5,289,336,282	5,686,444,172	4,558,939,310	19,684,551,783
Emergency Conservation Program	44,760,627	22,177,233	57,934,232	86,618,801	211,490,893
Emergency Livestock Feed Assistance Program	(41,485)	100,326,373	(148,398)	4,123,078	104,259,568
Environmental Quality Incentives Program <sup>d</sup>	545,495,052	790,482,178	465,584,695	415,334,213	2,216,896,138
Grassland Reserve Program	0	1,348,981	2,835,751	5,913,591	10,098,323
Grassroots Source Water Protection Program	0	0	3,191,760	0	3,191,760
Hard white wheat incentive payments	0	9,023,427	3,166,216	5,094,077	17,283,720
Karnal bunt fungus compensation payments	3,022,159	0	0	0	3,022,159
Lamb Meat Adjustment Assistance Program	17,586,607	5,395,203	14,773,899	36,054	37,791,763
Livestock Compensation Program <sup>e</sup>	1,203,319,891	(463,156)	70,440,660	213,533,953	1,486,831,348
Loan deficiency payments <sup>f</sup>	666,181,783	457,310,464	4,258,016,314	3,896,456,928	9,277,965,489
Market Access Program	95,485,882	124,004,633	33,542,876	0	253,033,391
Marketing loan gains	189,552,996	114,572,970	384,974,403	246,292,577	935,392,946
Milk Income Loss Contract payments	1,220,761,113	220,703,830	7,308,438	345,843,432	1,794,616,813
Milk Income Loss Transition Program	559,861,054	6,843,823	1,850,455	412,035	568,967,367
Noninsured Assistance Program <sup>g</sup>	237,573,500	122,717,376	107,896,616	64,781,316	532,968,808

**Appendix III: U.S. Department of Agriculture  
Farm Program Payments by Program or  
Payment Type, Fiscal Years 2003-2006**

<b>Program or payment name</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>Total</b>
Peanut Quota Buyout Program	1,220,317,818	24,989,195	22,302,136	21,201,291	<b>1,288,810,440</b>
Soil and Water Agricultural Assistance Program	2,694,734	1,859,399	1,138,084	719,832	<b>6,412,049</b>
Sugarcane Payment Program	0	55,800,000	(1,569)	0	<b>55,798,431</b>
Tobacco Transition Payment Program <sup>h</sup>	51,120,568	4,501	(341)	0	<b>51,124,728</b>
Trade Adjustment Assistance for Farmers	0	9,739,427	14,669,796	2,578,164	<b>26,987,387</b>
Tree Assistance Program	0	1,764,917	3,549,270	4,981,844	<b>10,296,031</b>
Wetlands Reserve Program	21,572,999	18,094,066	9,438,694	7,610,100	<b>56,715,859</b>
Wildlife Habitat Incentives Program	2,265,957	13,994,413	14,154,645	9,124,686	<b>39,539,701</b>
Refunds of farm program payments made before 2003 <sup>i</sup>	(292,867,811)	(8,828,137)	(2,663,318)	(248,116)	<b>(304,607,382)</b>
Other programs <sup>j</sup>	34,813,627	45,874,190	182,899,792	91,320,530	<b>354,908,139</b>
<b>Total</b>	<b>\$15,913,996,321</b>	<b>\$11,466,729,077</b>	<b>\$20,237,646,107</b>	<b>\$16,195,423,902</b>	<b>\$63,813,795,407</b>

Source: GAO analysis of Farm Service Agency data.

Notes: (1) Table includes programs and payments subject to the AGI provisions as well as those not subject to the AGI provisions. (2) For commodity certificate exchange gains and payments made under the Marketing Assistance Loan Program through cooperative marketing associations, we used program year data. (3) Totals may not add due to rounding. (4) Negative payments represent receivables due to overdisbursements and other payment anomalies in a prior year.

<sup>a</sup>Includes cotton user marketing certificate gains.

<sup>b</sup>Includes the Apple and Potato Quality Loss Program, Apple Market Loss Assistance Program, Sugar Beet Disaster Program, Quality Loss Program, Crop Loss Disaster Assistance Program, Florida Hurricane Citrus Disaster Program, Crop Hurricane Damage Program, Hurricane Indemnity Program, Florida Hurricane Nursery Disaster Program, Florida Hurricane Vegetable Disaster Program, Multi-Year Crop Loss Disaster Assistance Program, and Single Year Crop Loss Disaster Assistance Program, as well as Crop Disaster North Carolina payments, Crop Disaster Virginia payments, and Florida Nursery Loss payments.

<sup>c</sup>Includes the Dairy Indemnity Program, Dairy Options Pilot Program, and Dairy Market Loss Assistance Program.

<sup>d</sup>Includes the Environmental Quality Incentives Program and the Automated Conservation Program Environmental Long Term payments.

<sup>e</sup>Includes the Livestock Assistance Program, Livestock Indemnity Program, Avian Influenza Indemnity Program, 2002 Cattle Feed Program, Pasture Flood Compensation Program, and Pasture Recovery Program.

<sup>f</sup>Includes the Acreage Grazing Payments Program.

<sup>g</sup>Includes supplemental appropriations for the Noninsured Assistance Program.

<sup>h</sup>Includes the Tobacco Loss Assistance Program and Supplement Tobacco Loss Assistance Program.

<sup>i</sup>Includes market loss assistance payments and production flexibility contract payments.

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**Appendix III: U.S. Department of Agriculture  
Farm Program Payments by Program or  
Payment Type, Fiscal Years 2003-2006**

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<sup>1</sup>Includes the Agricultural Conservation Program, Oilseed Payment Program including supplemental appropriations for the Oilseed Payment Program, Wool and Mohair Market Loss Assistance Program, Yakima Basin Water Program, Idaho Oust Program, Livestock Compensation Program—Grants For Catfish Producers, Annual Agreement for Agricultural Conservation Program payments, Extra-long Staple Cotton Special Provision Program, Farm Storage Facility Loans, Finality Rule and Equitable Relief, New Mexico Tebuthiuron Application Losses Program, Aquaculture Block Grant, Tree Indemnity Program, Loan Deficiency Payments for Non-Contract Production Flexibility Contract Growers, Milk Marketing Fee, Tri-Valley Growers Program, New York Onion Producers Program, Market Loss Onion Producer Program, and Interest payments.

# Appendix IV: Distribution of Income for Individuals Receiving Farm Program Payments Compared with All Tax Filers, 2006

Adjusted gross income	Tax returns for individuals receiving farm program payments				Tax returns for all individuals		
	Number of returns	Percent	Average adjusted gross income per return (Dollars in thousands)	Average farm payment per return <sup>a</sup> (Dollars in thousands)	Number of returns	Percent	Average adjusted gross income per return (Dollars in thousands)
Under \$0 (loss) to \$0	73,492	6.6	\$(90.1)	\$17.2	2,675,594	1.9	\$(34.1)
\$1 to under \$5,000	35,639	3.2	2.6	6.9	11,633,370	8.4	2.7
\$5,000 to under \$10,000	50,661	4.5	7.6	6.6	11,786,747	8.5	7.5
\$10,000 to under \$15,000	58,298	5.2	12.5	7.0	11,711,680	8.5	12.5
\$15,000 to under \$20,000	62,797	5.6	17.5	7.9	10,937,694	7.9	17.5
\$20,000 to under \$25,000	56,323	5.0	22.5	8.9	9,912,261	7.2	22.5
\$25,000 to under \$30,000	53,858	4.8	27.5	9.5	8,749,761	6.3	27.5
\$30,000 to under \$40,000	99,846	9.0	34.9	10.0	14,151,824	10.2	34.8
\$40,000 to under \$50,000	94,041	8.4	45.0	10.4	10,687,193	7.7	44.8
\$50,000 to under \$75,000	193,446	17.3	61.9	10.3	18,854,917	13.6	61.4
\$75,000 to under \$100,000	125,646	11.3	86.2	11.4	11,140,408	8.0	86.2
\$100,000 to under \$200,000	137,058	12.3	134.4	12.0	12,088,423	8.7	132.9
\$200,000 to under \$500,000	51,424	4.6	295.7	13.1	3,121,485	2.3	286.8
\$500,000 to under \$1,000,000	13,280	1.2	686.0	13.0	589,306	0.4	678.1
\$1,000,000 to under \$1,500,000	3,836	0.3	1,216.6	13.3	150,431	0.1	1,210.1
\$1,500,000 to under \$2,000,000	1,801	0.2	1,723.7	14.1	64,007	0.0 <sup>b</sup>	1,721.9
\$2,000,000 to under \$5,000,000	2,818	0.3	2,988.8	12.6	98,724	0.1	2,989.4

**Appendix IV: Distribution of Income for  
Individuals Receiving Farm Program  
Payments Compared with All Tax Filers, 2006**

Adjusted gross income	Tax returns for individuals receiving farm program payments				Tax returns for all individuals		
	Number of returns	Percent	Average adjusted gross income per return (Dollars in thousands)	Average farm payment per return <sup>a</sup> (Dollars in thousands)	Number of returns	Percent	Average adjusted gross income per return (Dollars in thousands)
\$5,000,000 to under \$10,000,000	741	0.1	6,793.4	14.1	24,975	0.0 <sup>b</sup>	6,863.2
\$10,000,000 or more	455	0.0 <sup>b</sup>	21,962.0	9.1	15,956	0.0 <sup>b</sup>	28,357.7
<b>Total/Average</b>	<b>1,115,460</b>	<b>100.0</b>	<b>\$92.3</b>	<b>\$10.6</b>	<b>138,394,754</b>	<b>100.0</b>	<b>\$58.0</b>

Source: GAO analysis of USDA and IRS data, and IRS Statistics of Income.

Note: Totals may not add due to rounding.

<sup>a</sup>Farm program payments are based on fiscal year 2006 data.

<sup>b</sup>Rounds to zero.

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# Appendix V: GAO Contact and Staff Acknowledgments

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## GAO Contact

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## Staff Acknowledgments

In addition to the individual named above, Thomas M. Cook, Assistant Director; Kevin S. Bray; Arthur L. James, Jr.; James R. Jones, Jr.; Leslie V. Mahagan; Grant M. Mallie; Carol Herrnsstadt Shulman; Tyra J. Thompson; and James J. Ungvarsky made key contributions to this report.

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# Related GAO Products

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