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REPORT TO THE CONGRESS

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Payment Limitation Under 1971
Cotton, Wheat, And Feed Grain
Programs Had Limited Effect
On Reducing Expenditures B-142011

Agricultural Stabilization and Conservation Service
Commodity Credit Corporation
Department of Agriculture

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BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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APRIL 12, 1972



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

B-142011

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

This is our report that the payment limitation under 1971 cotton, wheat, and feed grain programs had limited effect on reducing expenditures. The programs are administered by the Agricultural Stabilization and Conservation Service, Department of Agriculture, for the Commodity Credit Corporation. 42 514 250

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

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

James B. Stacks

Comptroller General
of the United States

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ABBREVIATIONS

ASCS	Agricultural Stabilization and Conservation Service
ASC	Agricultural Stabilization and Conservation
GAO	General Accounting Office

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D I G E S T

WHY THE REVIEW WAS MADE

From 1966 to 1970 the Department of Agriculture paid between \$2.5 billion and \$3.3 billion annually to growers of upland cotton, wheat, and feed grain under three commodity price-support programs.

Late in 1970, because of concern about the cost of the farm programs and about the number of large individual payments, the Congress enacted legislation limiting to \$55,000 the total of direct Federal payments a person could receive annually under each of these programs.

Congressional committees considering the legislation reported that a ceiling of \$55,000 would have reduced payments in 1969 by about \$58 million. The General Accounting Office (GAO) estimated that payments for 1970 would have been reduced by about \$68 million had a \$55,000 limitation been in effect.

These calculations were made without consideration of potential program changes or actions that growers might take to change their farming operations or organizations to reduce the financial impact of a limitation.

GAO reviewed the operations of 98 producers in six States who received more than \$55,000 under any of the three commodity programs in 1970 to examine into the effect of the payment limitation in 1971 and to see how the limitation was administered by the Department's Agricultural Stabilization and Conservation Service.

FINDINGS AND CONCLUSIONS

Effect of the payment limitation

The \$55,000 payment limitation caused no significant reduction in the total amount of 1971 cotton, wheat, and feed grain program expenditures. A Department study showed nationwide savings to the Government of only \$2.2 million.

The authorizing legislation and subsequent regulations did not prohibit producers from changing their farming operations and organizations to reduce the financial impact of the limitation. The primary result of the changes

was to increase the number of persons qualifying for payments and therefore to spread program payments among more persons--individuals or entities.

Some of these changes permitted persons to hold interests concurrently in several entities receiving program payments. By these means the persons, in effect, received more than \$55,000. Other changes allowed some producers to receive additional payments indirectly.

The 98 producers whose operations were reviewed by GAO collected nearly \$25 million in program payments in 1970. Individual payments ranged from about \$64,000 to \$3.5 million. In 1971, without the payment limitation, these producers would have been eligible to receive about \$22.5 million.

Had the 98 producers each been considered as a single person, they would have received about \$5.4 million in 1971--a saving of \$17.1 million. Largely because of actions taken to reduce the impact of the limitation, savings in payments to these producers amounted to only about \$356,000.

Actions most frequently taken to reduce the financial impact of the limitation included

- leasing acreage allotments to spread payments to more persons,
- having payments made to individual partners in an existing partnership instead of to the partnership as an entity, and
- forming new partnerships to qualify more persons for payments.

Examples showing the effects of these actions are described beginning on page 14.

The Department made certain changes in its regulations governing payment limitations for the 1972 programs. (See p. 22.) The effect of these changes cannot be determined at this time.

Administration of payment limitation

The Agricultural Stabilization and Conservation Service needs to ensure that payments subject to the limitation are valid, accurate, and in compliance with applicable laws and regulations.

Without complete information on producers' farming interests, the Service cannot determine adequately the total number of farming operations engaged in by each producer and therefore cannot control the amount of farm payments to producers. (See p. 23.)

GAO noted several instances in which decisions made by the Service's county committees as to the number of persons for payment limitation purposes were questionable, but there was no evidence that the decisions had been reviewed by the Service's State or national offices. (See p. 27.)

The difficulties in determining the number of persons in complex farming organizations indicate the need for review, at a higher (State or national) level, of the determinations made by the numerous county committees in the States.

In some cases in which two or more individuals or entities were to be considered as one person for purposes of the payment limitation or in which a producer had farming operations or interests in more than one county or State, enough information was not submitted to the Service's data processing center to consolidate the individual identification numbers. The report describes two cases in which failure to report such numbers for consolidation resulted in overpayments of about \$30,500. (See p. 30.)

In August 1971 the Department's Office of the Inspector General made recommendations to improve documentation of changes in farming operations and to provide for State reviews of county committee determinations and for follow-up reviews of producers' proposals.

The Service agreed with the Inspector General's findings and took or promised actions to implement the recommendations. GAO believes that these actions, if effectively implemented, will improve significantly the administration of the payment limitation. Additional actions are necessary, however, to ensure adequate documentation of farming interests and control over payments. (See p. 32.)

RECOMMENDATIONS OR SUGGESTIONS

The Agricultural Stabilization and Conservation Service should:

- Establish procedures to obtain information on all farming interests of each program participant so that the payment limitation can be applied fully and fairly.
- Provide for periodic reviews by the Service's headquarters, as well as by its State offices, of the propriety and consistency of determinations made by county and State committees.
- Clarify and expand instructions to county committees to ensure that all producer identification numbers are furnished properly to the data processing center and, if information obtained indicates multicounty or multi-State operations, require that it be submitted to the State or national offices for coordination of individual identification numbers. (See p. 33.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department substantially agreed with GAO's conclusions and recommendations and said that it would examine more thoroughly into the cases described and would take appropriate corrective actions. (See app. I.)

The Department described actions that had been taken or were being initiated to improve the administration of the payment limitation. GAO believes that these actions--if effectively implemented--will significantly strengthen the administration of the payment limitation.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The matters discussed in this report may assist the Congress in its further consideration of the effectiveness and administration of the \$55,000 payment limitation or of a change in the amount of the limitation.

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CHAPTER 1

INTRODUCTION

For the 5-year period 1966 through 1970, the Department of Agriculture paid between \$2.5 billion and \$3.3 billion annually in direct payments to producers--farm owners or operators--participating in the upland cotton, wheat, and feed grain¹ programs. The producers included individuals, partnerships, corporations, and other entities. Prior to 1971 there was no limit on the amount that a producer could receive under these programs. The Department reported that, in 1970, 17 producers received between \$500,000 and \$3.5 million each and that over 300 producers received more than \$100,000 each.

Late in 1970 congressional concern about the cost of Federal farm programs and the number of large individual payments led to the enactment of title I of the Agricultural Act of 1970 (7 U.S.C. 1307) which limited to \$55,000 the amount of direct Federal payments a person could receive annually under each of the 1971-73 upland cotton, wheat, and feed grain programs.

Our review was directed primarily toward examining into the effect of the payment limitation on 1971 program expenditures and into how the limitation was administered. We did not review the overall administration of the upland cotton, wheat, and feed grain programs. (See p. 36.)

DESCRIPTION AND PURPOSE OF DIRECT PAYMENTS

Direct payments to producers are one of several methods used by the Department of Agriculture to strengthen the farm economy and to promote the orderly marketing of agricultural commodities. Under the 1971-73 upland cotton, wheat, and feed grain programs, the primary objectives of direct payments and the other methods are to

¹The grains eligible for direct payments under the feed grain program are corn; grain sorghum (milo); and, if designated by the Secretary of Agriculture, barley.

- give farmers more opportunity for decisionmaking on their farms,
- protect and improve farmers' incomes,
- keep agricultural production in line with anticipated needs, and
- put a greater reliance on the marketplace as the principal source of farmer income.

The payments are made under programs of the Commodity Credit Corporation, which are administered by the Agricultural Stabilization and Conservation Service (ASCS). The Corporation has no operating personnel of its own.

To receive direct Federal payments, a producer must own or must have an interest in, a farm with a payment base--an allotment or a feed grain base--for an eligible commodity and must comply with certain production adjustment provisions set out in farm legislation and implementing regulations. The direct payments which a producer may receive and which are subject to the payment limitation are:

1. Cotton and feed grain "set aside" payments and wheat marketing certificate payments (also referred to as price-support payments) made to producers who voluntarily set aside or keep a specified acreage of cropland out of production and meet other program requirements. These payments, except those for barley which may be included in the feed grain program at the discretion of the Secretary, are directed by law. The Secretary sets the payment rates for each program annually.
2. Acreage diversion payments made to producers who voluntarily keep out of production acreage in addition to that required to qualify for set-aside or marketing certificate payments. These payments are made at the discretion of the Secretary, who sets the rates.

3. Public access payments made to producers who agree to permit free public access for hunting, trapping, fishing, and hiking to certain acreage on farms participating in any of the three programs. These payments are made at the discretion of the Secretary, who sets the rates.

Payments under items 1 and 2 above are determined by multiplying the number of eligible acres in a producer's allotment or base by the farm's historic yield per acre and multiplying the result by the payment rate established by the Secretary. Public access payment rates are determined by the Secretary on the basis of the resource value of the land to the general public.

ALLOTMENTS AND BASES

Under authority granted by farm legislation in 1938, 1954, and 1961, farms with cotton, wheat, and feed grain production histories, respectively, were assigned, or granted, cotton or wheat allotments or feed grain bases related to the acreage previously devoted to cultivation of those crops. This and subsequent legislation permitted these allotments and bases, under certain conditions, to be combined or divided and to be sold, traded, or leased. Generally the total amount of cropland on a farm exceeds the size of the allotment or base.

Wheat allotments and feed grain bases stay with the land when the land is sold or leased. Cotton allotments, however, are separable from the land, and owners of these allotments can lease or sell all or part of their allotments to other producers who have cotton allotments and can continue to plant cotton or some other crop on their own acreage.

Over the years a number of farms with allotments and bases have been acquired by nonfarming absentee owners. Local producers often operate these farms for the absentee owners. Cotton allotments which are not transferred with land have gained a separate market value. ASCS officials told us that, when an owner leased any of his cotton allotment, he typically received annual lease payments ranging from 6 to 10 cents a pound on the basis of an established

yield. The lessee pays these rates to transfer the allotment to his farm and to collect the direct payments.

PROGRAM ADMINISTRATION

The Administrator, ASCS, is responsible for general supervision of the upland cotton, wheat, and feed grain programs which are carried out at the local level by Agricultural Stabilization and Conservation (ASC) State and county committees operating in 50 ASCS State offices and in about 2,900 ASCS county offices. Each ASC State committee is composed of from three to five members appointed by the Secretary of Agriculture; each ASC county committee is composed of three farmer members elected by the farmers of the county. An ASC county committee is responsible for local program administration under the direction of the ASCS national and State offices.

ASCS' central office is located in Washington, D.C., and its three commodity offices are located in Kansas City, Missouri; Minneapolis, Minnesota; and New Orleans, Louisiana. ASCS also has data processing centers in Kansas City and in New Orleans.

PAYMENT LIMITATION LEGISLATION AND IMPLEMENTING REGULATIONS

The 1970 act, which placed the \$55,000 limitation on the total amount of direct Federal farm payments that a person could receive annually under each of the programs, did not define the term "person" or place any restrictions on the actions that could be taken by producers. A proposed amendment to the act, which would have placed restrictions on certain producer actions, was not enacted.

The act directed the Secretary to issue regulations defining person and prescribing such rules as he deemed necessary to ensure a fair and reasonable application of the limitation. Also the act (1) authorized the Secretary to reduce the required set-aside acreage of any person affected by the payment limitation, (2) guaranteed producers the right to transfer and lease cotton allotments, and (3) removed a restriction which, in previous years, had limited the additional cotton allotment that a farm could acquire through leasing allotments.

The Secretary issued implementing regulations in December 1970. Generally he defined person as an individual, a joint stock company, a corporation, an association, a trust, an estate, or another legal entity. Individual members of a partnership were to be considered as separate persons, and adult members of the same family, other than husband and wife, were to be considered as separate persons. When an individual (including spouse and minor children) owned more than 50 percent of a corporation, both the individual and the corporation were to be considered as one person.

Neither the law nor the regulations prohibited bona fide or substantive changes in farming operations. Therefore a producer potentially affected by the limitation was not prohibited from forming new partnerships or corporations; selling or leasing a part of his farm; making changes in the terms of leasing agreements, such as shifting from a crop-share to a cash rental agreement or vice versa; transferring cotton allotments, an action which the 1970 act guaranteed; or taking similar actions previously available to him under applicable laws and regulations. Producers who carried out substantial farming operations by leasing land from other owners were not prohibited from terminating those leases.

In January and February 1971, ASCS issued instructions to assist its State and county employees in determining the number of persons in a farming operation. The instructions stated that operational and organizational changes made by producers in their farming operations were to be bona fide and substantive.

ASCS officials told us that producers were invited to attend community, county, and regional meetings where ASCS officials explained the payment limitation regulations. Producers also were furnished with copies of the ASCS instructions and were advised to submit a written request to their county committees if they had questions as to how the limitation would apply to their farming operations. When the county committees were unable to make determinations, the cases were to be referred to the State committees. Cases that the State committees could not resolve were to be referred to the Deputy Administrator of ASCS for State and County Operations for final determinations.

SAVINGS ANTICIPATED FROM PAYMENT LIMITATION

The Senate Committee on Agriculture and Forestry and the House Committee on Agriculture included in their reports¹ on the bill which was to become the Agricultural Act of 1970 data supplied by the Department showing that, if the \$55,000 limitation had been in effect during calendar year 1969, payments to 1,100 payees under the upland cotton, wheat, and feed grain programs would have been reduced by about \$58 million. For purposes of our review, we developed comparable data for the 1970 programs. The 1970 data showed that payments to 1,374 payees would have been reduced by about \$68 million.

The reductions represented the differences between the amounts each of the producers received in 1969 and 1970 and the maximum payment of \$55,000 each. The data did not take into consideration potential program changes or the actions, such as operational or organizational changes, that the producers might take to reduce the impact of such a limitation.

The following table shows the data which we developed for the 1970 programs, together with data on the total number of producers participating in the programs and the total amount of program payments for 1970. The table shows that only a small percentage of the participants in the programs in 1970 received direct payments in excess of \$55,000 and that most of the payments in excess of \$55,000 were made to cotton producers.

¹Senate Report 19-1154, 91st Cong., 2d sess., Sept. 4, 1970, and House of Representatives Report 91-1329, 91st Cong., 2d sess., July 23, 1970.

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<u>Program</u>	<u>Total number of payees</u>	<u>Total 1970 payments</u> (millions)	<u>Number of payees receiving \$55,000 or more</u> (note a)	<u>Total 1970 payments to recipients of \$55,000 or more</u>	<u>Payments assuming a \$55,000 limit</u> (note b)	<u>Reduction in payments</u> (note b)
					(millions)	
Cotton	437,754 ^c	\$ 919.3 ^c	1,215	\$128.6	\$66.8	\$61.8
Wheat	953,996	871.6	62	5.5	3.4	2.1
Feed grain	<u>1,564,354</u>	<u>1,504.8</u>	<u>97</u>	<u>9.6</u>	<u>5.3</u>	<u>4.3</u>
Total	<u>2,956,104</u>	<u>\$3,295.7</u>	<u>1,374</u>	<u>\$143.7</u>	<u>\$75.5</u>	<u>\$68.2</u>

^aIncludes some political subdivisions and other entities not subject to the payment limitation.

^bDoes not give consideration to potential program changes or to producer actions, such as organizational and operational changes.

^cIncludes insignificant amounts applicable to extra-long staple cotton.

Of the 1,374 producers who received over \$55,000 in 1970, about 1,000 were located in Arizona, California, Mississippi, and Texas. These are the States where most of our review work was performed.

EFFECT OF PROGRAM CHANGES ON 1971 PAYMENTS

Many of the 1,374 producers who received more than \$55,000 in 1970 had their payments reduced in 1971 not as a result of the payment limitation but as a result of changes in farm program provisions. Some of the principal changes were:

1. Acreage diversion payments were not made in 1971; in 1970, however, diversion payments for feed grain and wheat were substantial--about \$830 million.¹
2. Barley was not included in the feed grain program in 1971 but was included in the 1970 program.¹

¹For 1972, (1) diversion payments for feed grain and wheat again have been authorized and (2) barley again is included in the feed grain program.

3. Payment rates for the various commodities were changed. For example, the payment rate for cotton was reduced from 16.8 cents a pound in 1970 to 15 cents a pound in 1971.

To examine into the effect of the payment limitation, we selected only producers who were still eligible to receive \$55,000 or more in payments after the effects of the changes in program provisions referred to above had been considered. Therefore the savings discussed in the following chapter are applicable solely to the effect of the payment limitation on such producers.

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CHAPTER 2

ACTIONS TAKEN TO REDUCE

THE FINANCIAL IMPACT OF PAYMENT LIMITATION

The authorizing legislation and the Department's implementing regulations did not prohibit cotton, wheat, and feed grain producers--individuals, partnerships, corporations, or other entities--who would have been affected by the \$55,000 payment limitation from changing their farming organizations or operations to reduce the financial impact of the limitation for the 1971 programs. Also the regulations allowed each individual in a partnership to be considered as a single person for payment purposes, whereas prior payments sometimes were made to the partnership as an entity.

These actions resulted (1) in an increase in the number of persons qualifying for payments or (2) in payments being made to persons not affected by the limitation; these actions also significantly reduced the savings in program expenditures which otherwise would have resulted. In some cases individual producers concurrently held interests in entities that also received program payments, which enabled the producers, in effect, to receive total 1971 farm payments in excess of \$55,000.

To examine into the effect of the payment limitation, we reviewed the 1970 and 1971 program participation of 98 producers--92 cotton, five wheat, and one feed grain--in six States. Payments under the 1970 cotton, wheat, and feed grain programs to these 98 producers ranged from about \$64,000 to about \$3.5 million and totaled about \$25 million. In 1971, because of changes in farm program provisions, these producers, in the absence of the payment limitation, would have been eligible to receive about \$22.5 million in payments under the three programs.

Had the 98 producers each been considered as a single person for payment limitation purposes, they would have received about \$5.4 million in 1971--a saving of \$17.1 million. Our analysis, however, showed that, largely because of the actions taken by the producers which reduced the

financial impact of the limitation, savings in program expenditures for these producers amounted to only about \$356,000. A study by the Department showed total savings of only about \$2.2 million, nationwide.

About 95 percent of the savings of \$356,000 were attributable to five of the 98 producers. In one instance, which accounted for about 45 percent of the savings, payments to a family-owned farming corporation were reduced because it could not obtain permission from the landowner to sublease a part of the cotton allotment to other producers.

Most of the 98 producers took actions to change their operations or organizations or to have payments made to individual partners. These actions reduced the financial impact of the payment limitation. In many instances producers took more than one action to change their operations or organizations for 1971.

The types of actions taken included (1) leasing allotments to spread the payments to more persons, (2) utilizing existing partnerships to have payments made to each individual partner instead of to the partnership as an entity, (3) forming new partnerships to qualify more persons for payments, (4) failing to renew leases held in prior years which had resulted in the producers' receiving payments totaling more than \$55,000 each, and (5) forming new corporations to spread the payments to more entities. The actions most frequently taken were leasing allotments and utilizing existing, or forming new, partnerships.

LEASING ALLOTMENTS

The practice of leasing cotton allotments to others accounted for the largest reduction in the amount of expected savings. Of the 98 producers included in our review, 43 leased cotton allotments, worth about \$12.7 million on the basis of 1971 program payments, to other persons or organizations.

The following two examples show how producers reduced the financial impact of the payment limitation by leasing cotton allotments.

1. A Mississippi producer owned about 5,000 acres of cotton allotments valued at about \$732,000 on the basis of 1971 program payments. For 1971 the producer leased all but about 380 acres of the allotments to 45 other area producers. An ASCS county office employee told us that the allotments were leased for 7 cents a pound of cotton on the basis of an established yield per acre. The Government payment under the 1971 program was 15 cents a pound.

The leased allotments qualified the other producers for 1971 cotton payments totaling about \$677,000. The producers, in turn, paid lease fees totaling about \$315,000. The producer, in addition to collecting the lease fees, received the maximum payment of \$55,000 on the allotment he retained.

2. A California corporation and its wholly owned subsidiary leased about 11,600 acres of cotton allotments, worth about \$2.5 million on the basis of 1971 direct payments, to five newly created organizations qualifying for 53 separate payment limitations. In addition to receiving lease fees, the corporation contracted with the organizations to farm the cotton for fees based on the cost to produce the crops. This latter arrangement, called custom farming, allowed the 53 individuals to receive Federal payments of about \$2.5 million without actually farming.

The actions taken by the above two producers did not result in a reduction in farm payments but merely in a redistribution of the payments among more individuals or entities. The lessors, although each receiving \$55,000 or less in direct farm payments, in effect received additional payments indirectly through the lease fees. Also, because only the allotment was leased, the lessor retained the land and could continue to grow cotton or some other crop. Crops grown on land not covered by an allotment, however, are not eligible for direct payments.

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UTILIZING EXISTING AND NEW PARTNERSHIPS

The partnership, or other joint venture, was another major method used by producers owning sizable allotments or bases to qualify additional persons for payment. Although new partners frequently were immediate family members or previous farm managers, some were persons not actively engaged in farming. In some instances the partnerships contracted with the producers to furnish land, equipment, and services.

Of the producers included in our review, 39 utilized existing, or formed new, partnerships (or other joint ventures) for 1971 to qualify more persons for payments or to have payments made to each individual partner. Under the Department's regulations adult individuals, other than husband and wife, who are partners and who share in the proceeds of a joint farming operation are considered to be separate persons and are entitled to share in the direct payments at the same rate as they share in the farming profits of the joint operation.

The following two examples show how producers reduced the financial impact of the payment limitation by utilizing an existing partnership and by forming a new partnership.

1. A New Mexico partnership of a father and his two adult sons received about \$122,500 under the 1970 wheat program. In 1971, because of program changes, the partnership earned \$66,900. As provided in the Department's regulations, each of the partners qualified as a separate person and received \$22,300, and no savings resulted.
2. Under the 1970 cotton program, a Mississippi farmer received about \$87,000 and his adult son received about \$46,000. Had the father made no changes in his farming operation for 1971, he would have qualified for payments, in the absence of the payment limitation, of about \$79,300. Application of the \$55,000 payment limitation would have resulted in reducing his payments by about \$24,300.

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In 1971, however, the father and son combined their farming operations and joined with a son-in-law to form a three-member partnership. The partners increased the size of their farming operations by leasing additional cotton allotments and, as a result, were eligible, before application of the payment limitation, for \$165,152 in 1971 cotton program payments. Because each of the three partners could receive \$55,000, or a total of \$165,000, a savings of only \$152 resulted.

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In commenting on a draft of this report (see app. I), the Department stated that the rule it had adopted with respect to partnerships had a number of advantages in that it

- precluded the possibility of an individual's receiving a payment of \$55,000 while, at the same time, sharing in the profits of a partnership which also received \$55,000;
- precluded the possibility of an individual's proliferating the number of payments he could share in, by forming several partnerships;
- obviated the considerable burden of having to resolve, in each individual case, whether in fact a partnership existed; and
- conformed with the treatment of partnerships and other joint ventures for income tax purposes.

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MULTIPLE ACTIONS

Some producers took more than one action to change their operations or organizations for 1971. In some instances--such as the following example which involves a new partnership, a new corporation, and estates--these actions allowed a producer, through concurrently holding interests in other entities, to receive, in effect, more than \$55,000 in total payments.

In 1970 a Mississippi producer received cotton payments of about \$300,000 on one large farm. The lands and allotments making up this farm were owned in large part by the estate of the producer's deceased father (Estate A) and in part by (1) the estate of the producer's deceased mother (Estate B), (2) the producer and his sister, and (3) unrelated individuals. The producer and his sister were joint heirs of each estate. If the producer had not changed his operations in 1971, his payments would have been limited to \$55,000, a reduction of about \$220,000.

For 1971 the producer divided the farm into four separate farms having four different operators.

--Farm 1 was operated by a newly formed corporation jointly owned by the producer (24.5 percent), his sister (24.5 percent), and an unrelated individual (51 percent). The farmland and allotment were leased from other individuals. Under existing regulations a corporation is a person and is eligible for a maximum of \$55,000. Cotton payments to the corporation in 1971 totaled \$55,000; the producer received \$13,475, his sister \$13,475, and the other individual \$28,050.

--Farm 2 was operated by Estate A which owned all the farmland and cotton allotment. Under the regulations Estate A was considered a separate person and received a 1971 payment of \$55,000. The payment was shared equally by the heirs of the estate, the producer and his sister.

--Farm 3 was operated by Estate B. A portion of the farmland and allotment was owned by Estate B; the balance was leased from Estate A. The 1971 payment to Estate B totaled \$55,000, which was shared equally by the heirs of the estate, the producer and his sister.

--Farm 4 was operated by a partnership owned equally by the producer and his sister. Most of the farmland and allotment was owned by the producer and his sister; a portion of it was leased from Estate A. Regulations provide that each member of a partnership is a person, separately eligible for \$55,000. In 1971 the producer and his sister each received \$54,750 as their share of the payment to the partnership.

The following table summarizes the total payments to the four farms and the subsequent distribution of these payments.

<u>Entity</u>	<u>Total payment</u>	<u>Producer's share</u>	<u>Sister's share</u>	<u>Other individual's share</u>
Corporation	\$ 55,000	\$ 13,475	\$ 13,475	\$28,050
Estate A	55,000	27,500	27,500	-
Estate B	55,000	27,500	27,500	-
Partnership	<u>109,500</u>	<u>54,750</u>	<u>54,750</u>	<u>-</u>
Total	<u>\$274,500</u>	<u>\$123,225</u>	<u>\$123,225</u>	<u>\$28,050</u>

As shown above, the producer and his sister each received \$123,225, or a total of \$246,450, by having interests concurrently in several entities, each of which received program payments.

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The Department stated that it believed that the change in regulations for 1972 pertaining to a stockholder's ownership interest in corporations (see p. 21) effectively

strengthened the rules. The Department stated also that it had not anticipated a potential for abuse of the rules with respect to estates, because estates are not created by voluntary action; therefore the rules for estates remain as they were in 1971.

DEPARTMENT STUDY OF EFFECT
OF PAYMENT LIMITATION

Pursuant to Senate Resolution 153, dated July 15, 1971, the Department of Agriculture made a nationwide study to determine (1) the extent of changes in farming operations for 1971 by participants who received more than \$55,000 each in program payments in 1970, (2) the effect of the limitation on producer participation in the 1971 programs, and (3) the probable effect that a \$20,000 payment limitation might have on farm programs.

The Department's March 1972 report on its study stated that:

- Of about 1,350 producers who received more than \$55,000 each in 1970 payments under the three programs, 1,046, or 77 percent, changed their farming interests or operations for 1971.
- For 1971 the payment limitation resulted in actual reductions of \$2,183,976 in payments to 466 producers who earned more than \$55,000 in 1970 under the three programs.
- Payments to producers who received more than \$55,000 in 1970 also were decreased in 1971 by about \$70.7 million. About \$28 million of this amount was due to basic changes between the 1970 and 1971 programs and was not related to the payment limitation, and \$42.7 million represented a redistribution in 1971 program payments to other individuals or entities resulting from changes in farming operations by those producers who received more than \$55,000 each in 1970.
- Although the payment limitation adversely affected some individuals and benefited others, it had no

significant effect on (1) program participation, (2) surplus of grain or shortage of cotton, and (3) Government expenditures.

--The anticipated impact of a \$20,000 limit in subsequent crop years would be:

1. A slight reduction in participation in the set-aside programs.
2. A slight increase in grain production which, at present, is surplus to needs.
3. A modest decrease in cotton production which, at present, is short of requirements.
4. A nominal decrease in Government payments under the set-aside programs.
5. Increases in cotton production for a considerable number of small operators who would increase production by renting acreage from farmers with payments above \$20,000.

CHANGES IN PAYMENT LIMITATION
REGULATIONS FOR 1972

The Department made certain changes in the regulations governing the payment limitation for the 1972 programs. The most significant changes were:

1. Each partner or member of a joint venture must be actively engaged in the farming operation.
2. If a stockholder owns more than 20 percent of the stock in a corporation, the stockholder's pro rata share of program payments to the corporation shall be attributed to the stockholder for purposes of applying the limitation.
3. Custom farmers (see p. 15) must have no interest in the allotment being farmed.

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CONCLUSIONS

The \$55,000 payment limitation caused no significant reduction in the total amount of 1971 cotton, wheat, and feed grain program expenditures because the authorizing legislation and implementing regulations did not prohibit producers from making operational and organizational changes which significantly reduced the financial impact of the limitation. The primary effect of the changes made by the producers was to increase the number of persons qualifying for payments and therefore to spread program payments among more individuals or entities.

Some changes permitted certain individual producers to hold interests concurrently in other entities which also received program payments and thus, in effect, to receive more than \$55,000 in farm payments. Other changes, particularly the leasing of allotments, allowed some producers to receive additional payments indirectly.

The effect that the above-described changes in the Department's payment limitation regulations will have on program expenditures in 1972, of course, cannot be determined at this time.

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CHAPTER 3

ADMINISTRATION OF PAYMENT LIMITATION

NEEDS STRENGTHENING

To ensure that payments made to cotton, wheat, and feed grain producers subject to the payment limitation are valid, accurate, and in compliance with applicable laws and regulations, ASCS needs to:

- Develop a system for obtaining information on all farming interests of each farm program participant so that it can apply payment limitation regulations fully and fairly.
- Provide for periodic reviews, at a higher organizational level, of the propriety and consistency of the determinations of persons made by ASC county and State committees.
- Improve its system for controlling payments to persons with more than one producer identification number.

NEED TO OBTAIN DOCUMENTATION OF FARMING INTERESTS

ASCS instructions generally place responsibility for compliance with the payment limitation on the producer and do not specifically require county committees to obtain information about a producer's other farming interests or documentation to support organizational or operational changes. We noted several instances in which ASCS officials had not determined the nature, ownership, or relationship of program participants, and therefore they could not be certain that these various entities properly met the separate-person criteria.

Without a system for determining and documenting the farming interests of all program participants, ASCS cannot administer or enforce the payment limitation effectively.

For example, a corporation qualified for a separate payment limitation under the 1971 program as long as no more than 50 percent of its stock was owned by one individual (including spouse and minor children). To ensure compliance with this rule, ASCS must know which program participants are corporate entities and the names and relationships of the stockholders and the amount of stock each owns.

Following are examples of instances in which ASCS failed to obtain complete documentation of producers' farming interests. In the first instance such failure resulted in an overpayment.

1. The ABC Company collected cotton payments totaling about \$77,500 in 1970 and \$55,000 in 1971. When we inquired about the nature and ownership of the entity, an ASCS county official told us that he believed that the company was a partnership. At our request, however, he obtained documentation which showed that the entity was a corporation controlled principally by one person. This person had received 1971 cotton payments of about \$5,600 in his own name.

Because the person owned more than 50 percent of the corporation's stock, the corporation did not qualify in 1971 as a separate person. Therefore the combined payments of about \$60,600 to the ABC Company and its principal stockholder resulted in an overpayment of about \$5,600. We brought this matter to the attention of the county office, which obtained a refund of the overpayment.

2. Cotton payments of about \$111,400 were made in 1970 to a producer and five corporations, all but one of which had the producer's name in their corporate names. In 1971 the producer and the five corporations received cotton payments totaling about \$98,700. Despite the similarity of the corporations' names, county office officials told us that they were unaware of the ownership of the five corporations.

Because of the similarity of names, we asked the county office to obtain additional information about the producer's farming operations. The information obtained showed that four of the five corporations were wholly owned by the producer and therefore should have been considered, together with the producer, as one person for purposes of the payment limitation. The fifth corporation, which was owned equally by the producer and his adult son, qualified as a separate person under 1971 program regulations.

The following table summarizes the producer's farming interests and related payments for 1971.

<u>Name of participant</u>	<u>Mr. X's interest</u>	<u>1971 cotton payments</u>
Mr. X (the producer)		\$ 8,031
The X Company, Inc.	100%	5,655
X and Son Farms, Inc.	100%	15,596
X Investment Co., Inc.	100%	22,313
V and W Lumber Co., Inc.	100%	<u>2,360</u>
Total		<u>\$53,955</u>
X Farms, Inc.	50%	<u>\$44,787</u>

Although no overpayment resulted in this instance, the failure of ASCS officials to recognize and obtain information about the relationship between the producer and the five corporations represented a breakdown in controls over the payment limitation which could have had a significant effect.

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The Office of the Inspector General, Department of Agriculture, which reviewed the administration of the payment limitation by ASCS State and county offices in five States, noted weaknesses with regard to the documentation of farming interests. It reported that:

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- Instructions to county committees did not require the committees to systematically obtain and record information concerning the interests of producers in, and expected payments from, all farms or entities, even though such information was necessary for making determinations regarding separate persons and bona fide changes.
- Numerous changes in farming operations, which resulted in avoidance of the payment limitation, were approved with little or no documentary evidence supporting such changes.
- Operating plans submitted by producers did not contain sufficient information to determine the number of persons for payment purposes.

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NEED FOR HIGHER LEVEL REVIEWS
OF COUNTY OFFICE DETERMINATIONS

ASCS' procedures do not require ASCS national and State offices to review county-level determinations that changes made by producers in their farming operations are bona fide and substantive. Without such reviews there is no assurance that the determinations are proper or that ASCS regulations and instructions are being applied consistently. We noted several instances in which, we believe, county committee determinations of the number of persons for payment limitation purposes were questionable. Following are two examples.

1. In 1970 a Mississippi producer (Mr. A) owned and operated one farm. Had he made no changes in his farming operation, he would have qualified, in the absence of the payment limitation, for payments totaling about \$76,300 in 1971. Application of the \$55,000 payment limitation would have resulted in a reduction in payments of about \$21,300. For 1971, however, Mr. A expanded his operations by leasing additional allotments and entered into a four-member partnership with his son-in-law, his brother, and his nephew. Mr. A requested and received county committee approval of the arrangement which, in effect, would allow each of the four individuals to be considered as a separate person for payment limitation purposes.

Documentation submitted in support of the planned 1971 operations showed that Mr. A deposited \$4,000 in the partnership bank account and accepted \$1,000 promissory notes from each of the new partners as their investment. The partnership then leased or subleased all of its farm machinery, equipment, land, and cotton allotment from Mr. A to whom it gave 1-year promissory notes totaling about \$143,000.

All partners were to contribute time and services to the partnership and were to receive monthly payments of \$500 each. All partners were to have an equal voice in the management of the partnership, although Mr. A, unless overruled by all of the other partners, had the final decisionmaking power. In

addition, Mr. A was the only partner authorized to withdraw funds from the partnership's bank account. Each of the partners received direct payments of about \$43,350 in 1971, or a total of about \$173,400 for the partnership.

We did not find any evidence that the State or national offices had reviewed this change to determine whether, in view of the negligible investment and limited authority of the three new partners, the change should have been considered to be bona fide.

2. A corporation and a partnership were each owned by the same two persons. Had no changes been made in the operations of these two entities for 1971, the corporation, in the absence of the payment limitation, and the partnership would have earned 1971 payments totaling \$96,440 and \$42,800, respectively.

Under the ASCS regulations the corporation's payment would have been limited to \$55,000--a reduction of \$41,400--because a corporation is considered to be a single person for payment limitation purposes. The partnership would have received the \$42,800 which would have been divided equally between the two partners.

For 1971, however, the two persons requested, and the county committee approved, an operational change allowing the partnership to rent the lands farmed by the corporation and vice versa.

The change enabled the partnership to collect the entire \$96,440 payment because each partner was eligible to receive up to \$55,000 under the regulations and the corporation to receive the entire \$42,800 payment. The change negated the effect of the payment limitation.

Under the ASCS regulations, changes in operations have to be substantive. In this case the same principals continued to benefit from the same farming operations. We did not find any evidence that the State or national offices had

reviewed this change to determine whether, under the circumstances, the changes were substantive.

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The Office of the Inspector General, in reporting on its reviews, stated that ASCS instructions applicable to the 1971 program were not sufficiently clear in defining what constituted substantive or bona fide changes. It questioned several county committee determinations on the basis that the operational changes proposed were not substantive. The circumstances surrounding the questionable cases were similar to the examples noted above in that the ownership interests and the farmland and allotments were substantially the same both before and after the operational changes were made.

The Inspector General also reported inconsistencies in the application of certain payment limitation regulations among three counties in the same State. Proposed operational changes which were denied by some county committees appeared to be similar to changes which were approved by other county committees.

The Inspector General reported, for example, that some county committees allowed changes from a corporate-type organization, where only one person (the corporation) was eligible for payments, to a partnership, where each partner and the old corporation were eligible to receive \$55,000. Other county committees, however, did not allow such changes unless the old corporations were dissolved.

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NEED FOR IMPROVED CONTROL
OVER PAYMENTS TO PRODUCERS

For the past several years, ASCS has utilized a centralized data processing system to process and control direct payments. Under the system ASCS uses identification numbers to control payments to producers--individuals, corporations, and other entities--eligible to receive such payments and tabulates the payments by such numbers. Depending on organizational and operational arrangements, some payees received payments prior to 1971 under two or more numbers. In some cases family members had separate identification numbers.

To assist in enforcing the \$55,000 payment limitation, ASCS programmed the computer so that, when earnings for any number reached the limit, payments were terminated automatically. Also, to help ensure that a person, as defined by the Secretary, received no more than \$55,000, ASCS issued instructions directing that, when it was apparent that the payments for a person under a program would exceed \$55,000, county offices furnish the data processing center with all identification numbers on the two or more individuals or entities considered to be the one person.

The computer was programmed to consolidate these numbers for the payment limitation cutoff. The ASCS instructions, however, were misunderstood, or were not followed, by several of the county offices included in our review.

For example, a Texas producer submitted information to an ASCS county office describing farming operations in which he, his wife, and a minor son had interests. The county committee forwarded the information to the ASC State committee, which determined and advised the county committee that these three individuals and their wholly owned corporation should be considered as a single person for payment limitation purposes. The county office, however, did not furnish a listing of the identification numbers for the three individuals and the corporation to the data processing center for consolidation, contrary to the requirements of the ASCS instructions.

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As a result these farming operations, which should have been considered as one person, received 1971 feed grain payments of about \$85,000 under four producer identification numbers--an overpayment of about \$30,000. After we brought this matter to the attention of the ASCS county office, a refund of the overpayment was obtained.

In another case a California corporation realigned its farming operations to include several new organizations and submitted data to ASCS in Washington for a determination of the number of persons for payment limitation purposes. ASCS ruled that three of the new organizations were one person. The county office was notified of this decision by ASCS headquarters.

The county office, however, did not notify the data processing center, contrary to the requirements of the ASCS instructions, that payments to the three organizations were to be consolidated for limitation purposes. As a result overpayments totaling \$450 were made. County office officials were not aware of the overpayments until they were notified by the corporation in December 1971. The county office then obtained refunds on the overpayments.

In a number of instances, we noted that a person receiving payments in one county also received payments in one or more other counties under different identification numbers because ASCS had not established procedures to ensure the consolidation of identification numbers when two or more individuals or entities considered to be one person operated in separate counties or States. Although one county office included in our review had attempted to obtain and consolidate the identification numbers of producers known to have farming interests in other counties, the officials could provide no assurance that they had identified all such interests.

Although we noted no overpayments in the cases where persons received payments in more than one county, failure to properly report identification numbers of multicounty or multi-State operations could result in payments' being made in excess of the \$55,000 limitation.

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CONCLUSIONS

To ensure that payments subject to the limitation are valid, accurate, and in compliance with applicable laws and regulations, ASCS needs to (1) develop a system for obtaining information on all farming interests of producers participating in the program, (2) provide for a review at a higher organizational level of county committee determinations, and (3) improve its system for controlling payments to persons having more than one identification number.

In the absence of complete information on producers' farming interests, ASCS had no means of determining the total number of farming operations engaged in by each participant. Such information is necessary to control the amounts of payments to the participants.

Also ASCS should require that each producer participating in the upland cotton, wheat, and feed grain programs provide the county committees with complete information about his farming operations or interests, including those in other counties or States. Information on multicounty and multi-State operations should be submitted to the ASCS State or national offices for appropriate coordination of individual identification numbers. A system for controlling and coordinating payments to multicounty and multi-State operators is essential to ensure compliance with the payment limitation.

We recognize the difficulties involved in administering the payment limitation provision of the 1970 act, especially in view of the need for individual judgments in making determinations of the number of persons in complex farm operations. In our opinion, however, these difficulties indicate the need for a review, at a higher organizational level, of the determinations made by the numerous ASC county committees in the several States. Such a review is necessary to ensure that the payment limitation regulations are applied properly and consistently.

In August 1971, as a result of its findings in five States, the Office of the Inspector General made recommendations to ASCS to improve the administration of the limitation. The recommendations were that ASCS:

1. Provide guidance to State and county offices to (a) systematically collect, document, and review data on changes in farming operations subject to payment limitations and (b) clarify what constitutes a substantive change in farming operations to aid the State and county committees in their evaluations.
2. Require State offices to spot check county committee determinations and to follow up with county committees to ensure that adequate reviews were made of proposed changes in farming operations.
3. Require State and/or county office employees to follow up with producers to determine whether substantive changes were made as set forth in the producers' proposals.

ASCS agreed with the Inspector General's findings and took or promised actions to implement the above recommendations. We believe that the actions, if effectively implemented, will improve significantly the administration of the payment limitation by ASCS. We believe, however, that additional actions are necessary to ensure adequate documentation of farming interests and control over payments to producers.

RECOMMENDATIONS TO
THE SECRETARY OF AGRICULTURE

We recommend that ASCS:

- Establish procedures to obtain information on all farming interests of each program participant so that ASCS can apply the payment limitation fully and fairly.
- Provide for periodic reviews by ASCS headquarters, as well as by the ASCS State offices, of the propriety and consistency of determinations made by ASC county and State committees.
- Clarify and expand instructions to county committees to ensure that all producer identification numbers are furnished properly to the data processing center

and, if information obtained indicates multicounty or multi-State operations, require that it be submitted to the ASCS State or national offices for coordination of individual identification numbers.

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The Department, in its letter dated March 17, 1972 (see app. I), stated that it agreed with our recommendations and that corrective actions already had been taken or were being initiated.

Regarding the need to obtain information on all farming interests, the Department said that members of partnerships were required to be listed separately on program documents and that lists of stockholders owning more than 20 percent of the value of issued stock must be attached to enrollment documents. The Department said also that, for 1972, county office instructions had been strengthened to require the county offices to advise all producers, for whom there was any possibility that the limitation might be applicable, that program payments could not be made until the producers had furnished all details, in writing, regarding their farming operations necessary for the county committees to make determinations regarding the application of the payment limitation rules.

Regarding the need for higher level reviews of county committee determinations, the Department stated that, in addition to continuing to require State offices to furnish to the Washington office narrative reports on a 10-percent sampling of all determinations made by county committees, it was issuing specific instructions to States to conduct periodic reviews of county committee determinations. The Department stated also that difficult cases had been, and would continue to be, referred to the State office and, if necessary, to the Washington office for determination or advice. The Department stated further that the Washington ASCS staff would continue to conduct periodic reviews of State and county committee determinations.

Regarding the need for better control over payments to producers, the Department said that its instructions had been rewritten with greater clarity and contained examples

of the manner in which the necessary data was to be submitted. The instructions were issued on March 3, 1972. The Department said also that the reports were to be routed through State offices to be reviewed for reasonableness and clarity and that the State offices thus would be enabled to monitor multicounty operations.

We believe that the above actions, if effectively implemented, will significantly strengthen the administration of the payment limitation.

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CHAPTER 4

SCOPE OF REVIEW

Our review was directed primarily toward evaluating the effect of the payment limitation provisions of the Agricultural Act of 1970 on expenditures under the 1971 upland cotton, wheat, and feed grain programs and the manner in which the Department of Agriculture administered those provisions. To accomplish these objectives, we made a detailed analysis of the 1970 and 1971 farming operations of 98 producers who received more than \$55,000 under any of these programs in 1970. We also evaluated program implementation and administrative policies and procedures at five ASCS State offices and at selected county offices in six States.

Our work was conducted primarily in the States of Mississippi, Texas, California, and Arizona. In addition, we evaluated the operations of two wheat producers in the State of Washington and of one in the State of New Mexico. We did not review the overall administration of the programs.

We examined into the effectiveness of payment controls at the ASCS New Orleans Data Processing Center and into the overall program guidance provided by the Deputy Administrator of ASCS for State and County Operations, Washington, D.C.

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

MAR 17 1972

Mr. Richard J. Woods
Assistant Director of the Civil Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Woods:

The Department appreciates the efforts of the General Accounting Office in developing information and making recommendations for more effective administration of the \$55,000 payment limitation. We agree with the facts contained in the report and are in substantial agreement with the conclusions and recommendations.

There are two matters contained in the body of the report upon which we would like to comment:

1. The report refers to actions which enabled some individual producers to legally receive total farm payments in excess of \$55,000. The report contains an example to illustrate such a situation. It involves payments made to a corporation, two estates, and members of a partnership. After attributing to the stockholders amounts paid to the corporation, attributing to the heirs amounts paid to the estates, and adding payments made to the individual partners, the sum is shown to exceed \$55,000. This occurred because in certain described circumstances a corporation was regarded as a separate "person" from its stockholders and an estate was regarded as a separate "person" from its heirs. Individual producers could not legally receive total farm payments in excess of \$55,000 although they may have concurrently held an interest in another entity which also earned program payments. We recognized that there was a need for a change in the regulations in this regard for 1972. Accordingly, an amendment to the regulations was approved in December, 1971 which included a provision that for a stockholder owning more than 20 percent of the value of the outstanding shares of stock, the stockholder's pro-rata share of payments made to the corporation shall also be attributed to the stockholder for purposes of applying the limitation. We believe that this has effectively strengthened the rules for 1972. With regard to estates, the rules remain as they were in 1971 since we did

APPENDIX I

Mr. Richard J. Woods

not anticipate a potential for abuse of the rules because estates are not created by voluntary action. In the examples contained in the report, we do not have enough facts to determine whether the rules were properly applied in every case. For this reason we have informally asked the GAO staff to identify the cases so that we may examine them more thoroughly. Appropriate corrective action will be taken if indicated.

2. The report points out that the regulations allowed each individual in a partnership to be considered a single person for payment purposes whereas prior payments may have been made to the partnership as a whole. This is cited as one of the reasons why the "savings" were not as much as would be expected without changes in farming operations. The rule with respect to partnerships adopted by the Department in applying the \$55,000 payment limitation has a number of advantages. It excludes the possibility of an individual receiving a payment of \$55,000 while at the same time sharing in the profits of a partnership which also receives \$55,000. It excludes the possibility of an individual proliferating the number of payments he can share in by forming several partnerships. It obviates the considerable burden of having to resolve in each individual case, whether in fact a partnership exists. This determination is consistent with the treatment of partnerships and other joint ventures for income tax purposes.

The report contains three recommendations. Each will be repeated here followed by our response:

1. Recommendation. Establish procedures to obtain information on all farming interests of each farm program participant so that ASCS can apply the payment limitation fully and fairly.

Response. We agree and to a large extent this has been accomplished. Members of partnerships are required to be listed separately on program documents and lists of stockholders owning more than 20 percent of the value of issued stock must be attached to enrollment documents. For 1972, county office instructions were strengthened to require them to:

"Advise all producers for whom there is any possibility that the limitation may be applicable that program payments cannot be made until they have furnished all details in writing regarding their farming operations necessary for the county committee to make a determination regarding the application of the payment limitation rules. These details may include ownership of land, corporations, trusts, partnerships, operating agreements, leases, etc., and any other matter having a bearing on the application of the limitation rules."

Mr. Richard J. Woods

These details are not required of all producers since only about 1,400 of the producers on the approximately 2 million participating farms are subject to the limitation. The experience of county committees and their employees has enabled them to identify those producers for whom there is a possibility that the limitation is applicable.

2. Recommendation. Provide for periodic reviews by the national as well as the State ASCS offices of the propriety and consistency of determinations made by county and State committees.

Response. We agree. For 1971, States were required to furnish to the Washington office a narrative report on a 10 percent sampling of all determinations made by county committees. This report will again be required for 1972. In addition, counties referred difficult cases to States and States referred about 80 difficult cases to the Washington office for determination or advice. The Department's Office of Inspector General conducted a number of coordinated audits of payment limitation determinations that revealed a number of matters discussed in this report. The Office of Inspector General will continue to concentrate on payment limitation matters in their 1972 audits. We are issuing specific instructions to States to conduct periodic reviews of county committee determinations. The Washington ASCS staff will continue to conduct periodic reviews of State and county committee determinations.

3. Recommendation. Clarify and expand instructions to county offices to insure that all producer identification numbers are properly furnished to the data processing center and, where information obtained indicates multi-county or multi-State operations, require that it be submitted to the State ASCS or national offices for coordination of individual identification numbers.

Response. This has been accomplished. The report cites cases in which counties failed to follow 1971 instructions which required submission to the data processing center of groups of identification numbers of entities considered as one person for limitation purposes. The instructions have been rewritten with greater clarity and contain examples of the manner in which the data is to be submitted. The reports are routed through State offices to be reviewed for reasonableness and clarity. The State offices will thus be enabled to monitor multi-county operations.

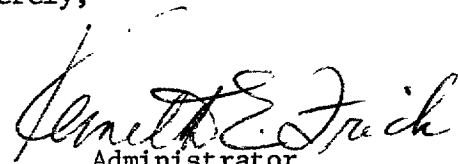
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APPENDIX I

Mr. Richard J. Woods

The draft report notes that the regulations were amended in December, 1971 to be effective for 1972. The changes, based on our experience in 1971, are to: (1) Make it clear that each partner must be actively engaged in the farming operation by furnishing land, labor, equipment, or capital, and, if the principal contribution is capital, the partner must furnish it directly with no assistance from the partnership or its other members, (2) Attribute to stockholders their pro-rata share of corporation payments where the stockholder owns more than 20 percent of the stock, (3) Clarify the rule that changes must be bona fide and substantive by adding examples of changes that may be regarded as substantive, and (4) Add a requirement that entities performing custom farming must have no interest in the allotment on a farm in addition to the 1971 requirements that the entity must have no interest in the land or in the crop.

Sincerely,



Kenneth E. Frick
Administrator

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

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

DEPARTMENT OF AGRICULTURE

SECRETARY OF AGRICULTURE:

Earl L. Butz	Dec. 1971	Present
Clifford M. Hardin	Jan. 1969	Nov. 1971

UNDER SECRETARY OF AGRICULTURE:

J. Phil Campbell	Jan. 1969	Present
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AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

ADMINISTRATOR:

Kenneth E. Frick	Mar. 1969	Present
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DEPUTY ADMINISTRATOR, STATE AND
 COUNTY OPERATIONS:

Elvin J. Person	Feb. 1972	Present
Elvin J. Person (acting)	Nov. 1971	Feb. 1972
George V. Hansen	May 1969	Nov. 1971

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