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The Honorable William D. Ford, Chairman  
Subcommittee on Agricultural Labor  
Committee on Education and Labor  
House of Representatives

Dear Mr. Chairman:

Your letter of May 3, 1973, requested that we investigate and report on allegations made by the Florida Rural Legal Services, Incorporated, and the American Friends Service Committee, Incorporated, concerning administration of the Farm Labor Housing Program in Palm Beach County, Florida, by the Department of Agriculture's Farmers Home Administration (FHA). The allegations, which involved one of two farm labor housing projects provided by the Rangeline Labor Foundation, Incorporated, and financed with FHA-insured loans, were as follows.

- FHA attempted to cover up the possible loss of hundreds of thousands of dollars, due to poor FHA administration, by negotiating to transfer the project to the Palm Beach County Housing Authority (PBCHA).
- Rangeline skimmed rental profits without adequately maintaining the labor housing project.
- FHA permitted nonfarmworkers to occupy housing provided under the Farm Labor Housing Program although only farmworkers are eligible tenants.
- Farm labor housing funds were used to increase labor contractors' control over farmworkers; specifically, one or more apartments were leased (block leasing) to labor contractors, contrary to FHA regulations.

In summary, we found no evidence that FHA's proposed transfer of the Rangeline project to PBCHA was an attempt to cover up possible losses. Both Rangeline projects were poorly maintained under the original owners, and the lack or condition of the Rangeline records was such that we could not verify the reported income and expenses.

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Nonfarmworkers had occupied the project in question since the summer of 1972 although this occupancy was unauthorized. Farmers or labor contractors block leased apartments from Rangeline and thereby controlled their occupancy, restricting it to farmworkers they employed. FHA regulations prohibiting block leasing were applicable to the Rangeline projects for a 7-month period but are no longer applicable.

We made our review at FHA's national, Florida State, and Palm Beach County offices. We reviewed FHA's Farm Labor Housing regulations, instructions, records, and financial statements on Rangeline. We interviewed FHA officials knowledgeable of the conditions at Rangeline, including the former FHA county supervisor; existing and former officers and employees of Rangeline; the architect who designed the project in question and prepared subsequent plans and cost estimates for its renovation; one of the accountants who prepared financial statements on Rangeline; and representatives of Florida Rural Legal Services, American Friends Service Committee, and PBCHA.

On September 19, 1973, we briefed your office on the results of our review and were requested to provide a written report. Background on the operation of the Rangeline projects and our findings on each of the specific allegations are discussed below.

#### OPERATION OF RANGELINE PROJECTS

The Housing Act of 1949, as amended in June 1961 and September 1964 (42 U.S.C. 1484, 1486), authorizes FHA to insure loans and to make grants for the purpose of providing decent, safe, and sanitary housing and related facilities for domestic farm labor in areas where the need exists. In 1963, Rangeline, a nonprofit corporation, received two FHA-insured loans for constructing farm labor housing in Palm Beach County. Rangeline was organized and operated by a labor contractor who served as its president, the labor contractor's wife, and the contractor who built the projects and served as the vice president.

The first loan, for \$150,000, was used to construct four concrete buildings containing eight two-bedroom apartments each (Rangeline I). The second loan, for \$385,000, was used to construct four concrete buildings containing eight two-bedroom apartments each, four concrete buildings containing 176 single rooms, and one concrete building to serve as a commissary (Rangeline II). Annual payments at 5-percent interest rate were \$10,870 for 25 years on Rangeline I and \$25,044 for 30 years on Rangeline II. Rangeline I opened in late 1963 and Rangeline II in early 1964.

As early as February 1964, the FHA county supervisor noted that Rangeline's records were inadequate, and FHA records showed that Rangeline continued to have problems with its records through 1966. FHA records also noted problems due to inadequate maintenance of the projects, and in April 1965 the county health department refused to issue Rangeline a permit for operating the housing projects because of unsanitary conditions. Rangeline continued to operate the housing projects without a permit.

In January 1966 Rangeline became delinquent in its loan repayments, and in September 1966 the FHA county supervisor and the State office recommended foreclosure to the national office. But in May 1967, the Rangeline officers agreed to resign. The new officers who assumed control of Rangeline were three farmers associated with Flavor Pict Corporation, a farming venture, and the construction contractor who was the original vice president of Rangeline before resigning in 1965.

These new officers operated Rangeline I and II until June 1968, when they requested that FHA dispose of Rangeline I because the project could not be operated efficiently. In June 1969 Rangeline voluntarily conveyed the property to FHA. After FHA allowed Rangeline a credit of \$75,000--the project's appraised value--toward its debt, Rangeline still owed FHA \$98,000.

In October 1969 FHA sold Rangeline I to Machek Farms, Incorporated, for \$70,000, taking a downpayment of \$14,000 and a mortgage for \$56,000. As a result of this sale, FHA wrote off a \$5,000 loss (\$75,000 appraised value less \$70,000 selling price) and retained on its books \$98,000 still owed by the original Rangeline officers. In October 1970 Machek Farms filed for bankruptcy, and FHA, which holds a mortgage on the property, has been unable to gain title to the property because the Machek case is still in the courts. Machek Farms still owes FHA \$56,000, plus accrued interest on the mortgage.

Rangeline I is currently unoccupied and in a very poor state of repair--most doors and windows are missing, wiring and fixtures are torn out, and interiors and exteriors are dirty.

Rangeline continued to operate Rangeline II, but in May 1970 FHA, with Rangeline's concurrence, offered the project to the newly organized PBCHA. Although Rangeline had not formally requested the transfer, it had no objections. Flavor Pict Corporation had objected to the amount of time the officers spent on the project, and the officers had informed FHA they would not be able to spend as much time on the project as before.

During negotiations between PBCHA and FHA, Rangeline continued to operate Rangeline II. Then about April 1972, according to the project manager, a tenant was evicted for nonpayment of rent. The tenant requested aid from Florida Rural Legal Services, which contacted Rangeline about the situation. Since Rangeline had not followed the prescribed legal procedures for eviction, the tenant was reinstated. The project manager told us that other tenants then refused to pay rent, but since the harvesting season was almost over, Rangeline took no further action and closed the camp for the summer as usual about May 1972.

The project manager told us also that, when the camp was reopened in the fall of 1972, several tenants were already occupying the housing, apparently having moved in during the summer. He stated that most tenants again refused to pay rent, and Rangeline ultimately abandoned the project. However, it still holds title to the project.

A list of income and expenses prepared by Rangeline for May 1, 1972, through February 22, 1973, showed expenses of \$20,920 and income of \$3,218. A \$2,500 payment by a farmer who leased one building for 6 months accounted for most of the income for that period.

The tenants, many of whom had gotten jobs with a construction company, continued to occupy the housing, and in April 1973 the county health department began proceedings to close the project because of health conditions. However, the tenants, represented by Florida Rural Legal Services, received permission from the court to continue occupying the housing until suitable housing could be found, provided they maintained certain sanitary conditions. At the time we completed our fieldwork, several tenants were still living there.

FHA records attributed the projects' failure partially to ineffective FHA administration. Other factors included poor overall management; migrant workers' changing from single status to family status, resulting in less need for single rooms; and excessive maintenance requirements.

#### FHA NEGOTIATIONS WITH PBCHA

We found no evidence that the offer to transfer Rangeline II to PBCHA was, as alleged, an attempt to cover up the possible loss of hundreds of thousands of dollars on the loan.

According to the former FHA county supervisor, Rangeline II was offered to PBCHA in 1970, along with another farm labor housing project, because it was obvious these two projects would never be economically feasible without a grant. FHA records showed that Rangeline's payments in recent years had not been sufficient to meet the annual payments and that PBCHA, being a public body, was eligible for a grant.

Under the proposed transfer, PBCHA was to receive a \$514,000 grant and a \$193,000 loan to renovate the two projects and was to assume \$251,000 in loans, of which \$51,000 was for Rangeline II, to cover the appraised value of the two projects. The two projects were to be renovated, including combining single rooms to form apartments; an independent architect estimated the cost to be \$637,000. However, the low bid on the renovation was \$959,700, plus about \$100,000 for individually priced items, for a total cost of \$1,059,700, or \$422,700 above the estimate. Therefore, the loans and grant which FHA had approved were canceled, and negotiations between FHA and PBCHA ended.

The architect who prepared the estimate said the bids were higher than his estimate because (1) the estimate was about 1 year old when bids were requested, during which time construction costs increased at a rate more rapid than anticipated, and (2) PBCHA's changes in the renovation specifications to make the housing units more "homey" were not reflected in the cost estimate.

The chairman of PBCHA expressed the opinion that the projects could have been operated successfully if the bids had been within the estimated cost. He never felt that FHA was trying to give PBCHA a bad deal and a review of the minutes of PBCHA confirmed his statements.

As of July 12, 1973, Rangeline owed \$326,574 in principal and interest on Rangeline II and owed FHA \$145,335 for advances for loan payments, taxes, and insurance, or a total of \$471,909. In May 1973, the FHA State Director notified the national office that a \$60,000 bid had been received on Rangeline II. If the bid represents a reasonable value of the project, FHA could lose \$411,909 (\$471,909 less the \$60,000 bid) on Rangeline II, plus interest that will accrue until the loan is liquidated, provided FHA is unable to collect this amount from Rangeline.

#### RANGELINE'S MAINTENANCE, INCOME, AND EXPENSES

It was alleged that Rangeline skimmed rental profits without adequately maintaining the housing projects. We found evidence that Rangeline housing was poorly maintained by its original officers. The reported lack or condition of the records was such that we were unable to verify the reported income and expenses for Rangeline.

FHA records showed that the Rangeline projects had significant maintenance problems when the original Rangeline officers were operating them. The county health department refused to issue Rangeline a health permit in 1965 and in January 1966 required certain repairs to be made

to the project for it to continue operating. FHA cited poor management and the lack of a full-time project manager as major reasons for the maintenance deficiencies.

According to several sources, occupancy of the housing under the original officers was at or near capacity during the harvest season each year. Financial statements through December 31, 1965, showed income of about \$108,000 and expenses of about \$158,000, resulting in a net loss for the period of about \$50,000. Financial statements and other documents showed that about \$10,000 a year was spent on maintenance.

FHA records showed that Rangeline lacked records regarding occupancy, failed to set up accounts specified in the loan resolution, and failed to keep adequate records or books on income and expenses. Accountants who prepared financial statements through December 31, 1964, on the basis of checkbooks, bank statements, and information provided by Rangeline members and FHA representatives said they could not express an opinion as to the fairness of the statements since they "could not complete all the necessary tests and procedures in accordance with generally accepted auditing standards."

In February 1967, 3 months before the new officers took control, the FHA county supervisor reported that the accountants had refused to continue keeping the books because they had not been paid and that Rangeline had kept no books since January 1965. The county supervisor asked Rangeline several times to take corrective actions, but even though the Rangeline president promised to do so, nothing was actually accomplished.

The original vice president of Rangeline told us that he could not obtain access to Rangeline's records and that the president had told him the records were destroyed in a fire. We could not locate Rangeline's original president and therefore were unable to obtain any of Rangeline's records or confirm whether they were destroyed in a fire. However, had we obtained them, we doubt whether we could have made a complete audit because of the reported condition of the records, especially the reported lack of occupancy records which would be needed to verify income.

When the new Rangeline officers assumed control in 1967, the projects had already deteriorated considerably. However, the county health department, tenants, and FHA officials informed us that the new officers adequately maintained the projects from 1967 until the 1972-73 season. FHA attributed maintenance problems during that season to difficulties in collecting rent and subsequent abandonment of the property by the owners.

NONFARMWORKERS' USE OF LABOR HOUSING

Nonfarmworkers, as alleged, had occupied Rangeline II--but not until the summer of 1972--although this occupancy was unauthorized. We found no instances when nonfarmworkers were allowed to occupy the housing before the summer of 1972.

The Housing Act of 1949, as amended, requires that farmworkers be given absolute priority in occupying housing involving grant funds. The act contains no specific provision on priority under projects financed by FHA-insured loans but provides that such loans be made "for the purpose of providing housing and related facilities for domestic farm labor."

FHA defines a domestic farmworker as one who receives a substantial part of his income as a laborer on farms. Determining what is substantial is left to the FHA State and county offices. The Florida State and Palm Beach County offices had not defined substantial in terms of dollar amounts or percentage of total income. The FHA State Director told us that an individual may, on occasion, work at nonfarm jobs and still be considered a farmworker as long as his basic income comes from agriculture. An FHA headquarters official stated that, although farmworkers are given priority, it is necessary to rent to nonfarmworkers, especially during the off-season, to maintain an adequate income.

In regard to the allegation that nonfarmworkers were allowed to live in the Rangeline housing, a representative of the American Friends Service Committee said he knew of no nonfarmworkers living in the housing before the summer of 1972. The project manager said some of the occupants since the summer of 1972 were employed in nonfarm occupations, but this occupancy was unauthorized and was not a result of Rangeline policy.

INCREASED CONTROL OVER FARMWORKERS

It was also alleged that farm labor housing funds provided to lift migrant workers out of poverty had been used to increase labor contractors' control over farmworkers. A closely related allegation was that labor contractors were permitted to block lease apartments, contrary to FHA regulations. Farmers or labor contractors block leased apartments from Rangeline and thereby controlled their occupancy, restricting it to farmworkers they employed. FHA regulations prohibiting block leasing were applicable to the Rangeline projects for a 7-month period but are no longer applicable.

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Since the beginning of the Rangeline projects, blocks of housing units have been leased to farmers and labor contractors. In these instances the farmers and labor contractors restricted occupancy of these units to their employees. Further, Rangeline's original president was a labor contractor who used some of the units to house his laborers. The FHA county supervisor told us that block leasing has an economic advantage in that it guarantees income for a number of units for a specific period of time and therefore may be desirable in some instances.

The Housing Act of 1949, as amended, does not specifically prohibit block leasing, but FHA's regulations (7 CFR 1822.68(d)), in effect since November 1966, provide that:

"No organization borrower, unless it is composed of individual farmowners, will be permitted to require as a condition of occupancy of the housing that an occupant work on any particular farm or for any particular owner or interest."

FHA's Multiple-Family Housing Loan Division Director told us that this provision of the regulations prohibits block leasing by nonfarmers.

Rangeline was a nonprofit corporation of nonfarmers when it was organized in 1963. However, FHA's regulations prohibiting block leasing by nonfarmers did not go into effect until November 1966, about 7 months before the new officers assumed control of Rangeline. FHA's Multiple-Family Housing Loan Division Director told us that, when the new officers took control of Rangeline, it changed to a nonprofit corporation of farmers who, according to the regulations, could block lease or restrict occupancy to those working on a particular farm or for a particular owner or interest.

#### AGENCY COMMENTS

As agreed with your office, we obtained FHA's comments on this report. FHA's Rural Housing Assistant Administrator, who retired in December 1973, said he believed our report was fair and objective.

Later, in discussions with FHA, the Acting Rural Housing Assistant Administrator (FHA's Multiple-Family Housing Loan Division Director) stated that:

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- FHA's supervision of the loans was ineffective because it could not get the original Rangeline owners to make needed changes and this lack of cooperation contributed to the projects' failure.
- Maintenance costs at Rangeline were higher than expected because of the lack of adequate management by the original owners.
- Recordkeeping problems at Rangeline were also due to the Rangeline owners' lack of cooperation.

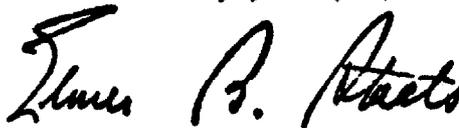
The Acting Assistant Administrator said that, since the beginning of the program, when Rangeline was constructed, FHA has gained a lot of experience about the design, operation, and location of farm labor housing projects and that this experience has been incorporated into FHA's instructions and training programs. Before approving loans to organization borrowers, FHA now must approve the proposed management plan covering the types of leases to be used, the rules for operating the housing project, and the recordkeeping and management expertise needed for the project. In addition, the Housing Act of 1949 was amended in 1970 to prevent certain types of nonprofit organizations, such as the original Rangeline, from obtaining farm labor housing loans.

The Acting Assistant Administrator stated also that the need for more family-type apartments had increased because of a change in the requirements of migrant farmworkers in that area. This factor affected Rangeline II, which was composed mostly of one-room apartments. FHA attempted to have the project renovated to make more family-type apartments available. This renovation would have been accomplished had the project been transferred to PBCHA. (See p. 5.)

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As agreed with your office, we are sending copies of this report to the Department of Agriculture. We will not distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,



Comptroller General  
of the United States