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Report to Secretary, Department of Agriculture; by Henry Eschwege Director, Community and Economic Development Div.

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During 1977, the Farmers Home Administration (FmHA) was authorized \$750 million in grants to finance the construction and/or improvement of water and waste disposal systems in rural areas. FmHA allocates these funds to States on the basis of population and per capita income which necessitates many adjustments. Findings/Conclusions: FmHA's present method of allocating the funds does not consider each State's individual needs. Some projects cannot be funded until the agency reallocates its moneys at the end of the fiscal year; moneys reserved for other States remain idle throughout the year until they are subsequently transferred to more needy States. There has not been enough information readily available for FmHA to effectively manage and evaluate its water and waste disposal program. Although certain priorities have been established for selecting projects, it is not known whether these priorities have been met. Also, there are no followup procedures to insure the timely receipt and review of borrowers' management reports. From the program's inception through June 30, 1976, FmHA reamortized 186 loans, of which 77 extended beyond the maximum 40-year period stipulated under section 307(a) of the Consolidated Farm and Rural Development Act. The agency contends that these actions are authorized under section 331(a) of the act. The scope and relationship of these sections need clarification. Recommendations: The Secretary of Agriculture should direct the Administrator of FmHA to: determine the need for water and waste disposal systems in rural areas on a State-by-State basis, modify the formula for allocating water and waste disposal funds to require that the need for funds in the various States be considered, develop followup procedures to insure the timely receipt of borrowers' management reports, and establish procedures requiring the timely review of borrowers'

management reports. The Secretary should ask the Congress to clarify the agency's policy of extending the repayment period of reamortized loans for periods exceeding 40 years and, if necessary, to amend section 307(a) of the Consolidated Farm and Rural Development Act. (Author/HTW)

2682

REPORT BY THE U.S.

General Accounting Office

Management Of Farmers Home Administration's Water And Waste Disposal Program Needs To Be Strengthened

The Farmers Home Administration helps needy rural communities construct or improve water and waste disposal systems.

However, funding requirements on a State-by-State basis are not known. The Farmers Home Administration should (1) determine these requirements for allocating funds to each State and (2) obtain sufficient information to evaluate the program and the operations of individual borrowers.

Clarification is needed on whether the Farmers Home Administration's policy of extending reamortized loans beyond 40 years is consistent with the authorizing legislation.



CE-78-61
MARCH 13, 1978



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

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-114373

The Honorable
The Secretary of Agriculture

Dear Mr. Secretary:

We made this review to measure the effectiveness of the program the Farmers Home Administration manages on financing the construction or improvement of water and waste disposal systems in rural areas. Our report suggests ways to strengthen its management.

This report contains recommendations to you on pages 10, 14, 15, and 18. As you know, section 235 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Acting Director, Office of Management and Budget; the Chairmen, House Committees on Government Operations and Agriculture; Senate Committee on Governmental Affairs; Subcommittee on Agriculture, Senate Committee on Appropriations; Senator James Abourezk; and Congressman Bill Alexander. We are also sending copies to your Assistant Secretary for Rural Development; Administrator, Farmers Home Administration; and Director, Office of Audit.

Sincerely yours,

A handwritten signature in cursive script that reads "Henry Eschwege".

Henry Eschwege
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE SECRETARY
OF AGRICULTURE

MANAGEMENT OF THE FARMERS HOME
ADMINISTRATION'S WATER AND WASTE
DISPOSAL PROGRAM NEEDS TO BE
STRENGTHENED

D I G E S T

During 1977, the Farmers Home Administration was authorized \$750 million in loans and \$275 million in grants to finance the construction and/or improvement of water and waste disposal systems in rural areas.

The Farmers Home Administration allocates these funds to States on the basis of population and per capita income. This necessitates numerous and sometimes large dollar adjustments. Some projects cannot be funded until the agency reallocates its monies at the end of the fiscal year; monies reserved for other States remain idle throughout the year until they are subsequently transferred to more needy States. Identifying needs on a State-by-State basis will provide the information necessary for allocating funds.

Sufficient information has not been readily available for the Farmers Home Administration to effectively manage and evaluate its water and waste disposal program. Although certain priorities have been established for selecting projects, it is not known whether these priorities have been met. Also, there are no followup procedures to insure the timely receipt and review of borrowers' management reports.

From the program's inception through June 30, 1976, the Farmers Home Administration reamortized 186 loans, of which 77 extended beyond the maximum 40-year period stipulated under section 307(a) of the Consolidated Farm and Rural Development Act. The agency contends that the reamortizations are a servicing action authorized under section 331(d) of the act.

Since the scope of these sections and the relationship between them are unclear as to intent, a clarification is needed.

To enable the Farmers Home Administration to more effectively assist in the development of rural America, GAO recommends that the Secretary of Agriculture direct the Administrator of the Farmers Home Administration to:

- Determine the need for water and waste disposal systems in rural areas on a State-by-State basis. (See p. 10.)
- Modify the formula for allocating water and waste disposal funds to require that the need for funds in the various States be considered. (See p. 10.)
- Develop followup procedures to insure the timely receipt of borrowers' management reports. (See p. 15.)
- Establish procedures requiring the timely review of borrowers' management reports. (See p. 15.)

GAO also recommends that the Secretary of Agriculture ask the Congress to clarify the agency's policy of extending the repayment period of reamortized loans for periods exceeding 40 years and, if necessary, to amend section 307(a) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1927.) (See p. 18.)

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ABBREVIATIONS

FmHA	Farmers Home Administration
GAO	General Accounting Office
OGC	Office of General Counsel

CHAPTER 1

INTRODUCTION

Section 306 of the Consolidated Farm and Rural Development Act, as amended (7 U.S.C. 1926), authorizes the Secretary of Agriculture to make loans and grants to finance the improvement and/or construction of water and waste disposal systems in rural areas to serve farmers, ranchers, farm tenants and laborers, and other rural residents. The act defines a rural area as any area in a city or town that has a population of 10,000 or less.

WATER AND WASTE DISPOSAL PROGRAM

Responsibility for carrying out the water and waste disposal program has been delegated to the Administrator, Farmers Home Administration (FmHA), under the supervision of the Assistant Secretary for Rural Development.

The objective of this loan and grant program is to help financially needy communities that lack water and waste disposal systems and that are not able to develop such facilities through the usual methods of financing. Priority is given to projects which would remove serious health hazards in rural areas. Loans and grants may be made to any association--including nonprofit corporations, municipalities, and public and quasi-public agencies--to construct, enlarge, or improve facilities which store, treat, purify, and distribute water or collect, treat, and dispose of waste in rural areas.

The act requires that the highest priority be given to rural communities with a population of 5,500 or less where water systems have deteriorated or waste disposal systems are inadequate to meet the community's needs. Priority is also given to projects that will enlarge, extend, or otherwise modify systems to provide service to additional rural residents and those that will merge smaller systems. Applicants for water and waste disposal loans must be unable to obtain the needed funds from commercial or private credit sources at reasonable rates and terms.

Water and waste disposal loans have a maximum repayment period of 40 years or the useful life of the system, whichever is less, and bear interest at a rate of 5 percent. The act also requires that projects receiving such loans

be consistent with development plans for the community and comply with Federal, State, and local laws.

Water and waste disposal loans, which are made and serviced directly by FmHA, are financed from the Rural Development Insurance Fund. FmHA sells certificates representing pools of loan notes to the Federal Financing Bank to replenish the fund.

From 1940 through September 1976, FmHA obligated about \$3.4 billion in loan funds. For fiscal year 1977 FmHA was authorized \$750 million for water and waste disposal loans, including \$150 million for loans to 24 States seriously affected by prolonged drought. As of September 30, 1976, there were 7,496 active borrowers and an outstanding balance of about \$2.1 billion.

Water and waste disposal grants may be made in conjunction with or separately from a loan and are used to reduce user rates to a reasonable level. In determining the grant amount, FmHA considers the (1) rates charged in other communities with systems constructed at similar costs and (2) median family income in the community where the proposed project will be located. The grant amount may not exceed 50 percent of the project cost.

Grants will not be made to projects where it has been determined that the (1) area's population is likely to decline below that for which the project was designed, (2) project is not designed and constructed to meet present needs and to provide for reasonable foreseeable growth, and (3) project is inconsistent with a comprehensive community water, waste disposal, or any approved development plan. Water and waste disposal grants may not exceed \$300 million in any fiscal year.

From inception of the water and waste disposal grant program in 1966 through September 1976, FmHA obligated about \$646 million in grants. For fiscal year 1977, FmHA was appropriated \$275 million for water and waste disposal grants, including \$75 million for grants to 24 States seriously affected by prolonged drought.

ADMINISTERING THE PROGRAM

FmHA administers the water and waste disposal loan and grant program through a national office in Washington, D.C.; a national finance office in St. Louis, Missouri; and State, district, and county offices. FmHA's national office establishes general agency policies and provides

guidance to field offices. The national finance office develops and executes FmHA's financial program and reporting requirements.

The State offices, each headed by a State director, are responsible for administering all FmHA programs and activities in one or more States and for supervising district and county operations. State offices provide program supervision and management assistance to the county offices. The State office staffs include program supervisors and specialists in such fields as farming, engineering, architecture, and business. The county offices make and service loans and grants at the local level and provide technical guidance to the borrower.

PREVIOUS GAO REPORTS

We recently issued two other reports on FmHA's water and waste disposal program. One report, addressed to Senator Abourezk (CED-77-109, Aug. 17, 1977), dealt with the use of grant funds for water and waste disposal systems. It identified 429 projects, out of 650 receiving grants in fiscal year 1976, through June 30, that did not receive the maximum grant allowed by law and FmHA regulations. This review was designed to identify projects that did not receive the maximum grant; therefore, it contained no recommendations.

The acting Administrator of FmHA said that FmHA was opposed to making adjustments to underfunded projects because the program had accomplished its goal of reducing user payments to a reasonable level, and any adjustments in grant amounts would not have a great impact on the user payments. The acting Administrator also stated that FmHA's foremost concern is that the benefits of the program be fairly and equitably distributed to all eligible communities desiring assistance and that the agency's present program administration is fair and equitable.

The second report, addressed to the Secretary of Agriculture (CED-77-116, Sept. 1, 1977), suggested the need for improvements in the administration of the water and waste disposal program. Among other things the report noted that

--lack of documentation prevented determination of whether FmHA was complying with the "credit elsewhere" provision of the program,

- borrowers' files were not always reviewed to determine their ability to refinance water and waste disposal loans,
- current requirements for maintaining reserve funds did not insure that a system would remain viable over the life of the loan, and
- the agency's method of compensating engineers penalized them for designing the most economical system and could result in excessive costs for the system.

The Secretary of Agriculture agreed with most of our findings and said that consideration would be given to our recommendations. The Secretary's response indicated disagreement with our recommendations on (1) eliminating the "credit elsewhere" provision for nonpublic bodies, (2) documenting the unavailability of interim financing, and (3) discontinuing the use of the percentage of construction cost method of compensating engineers.

SCOPE OF REVIEW

We made our review primarily at FmHA's national office and the State and county offices in Arkansas, Louisiana, Mississippi, North Carolina, and Washington. We reviewed applicable laws, regulations, instructions, and procedures; interviewed FmHA officials at the national, State, and county levels; and examined agency records and borrower files. We also interviewed selected FmHA borrowers, Rural Electrification Administration borrowers, and officials of State and local agencies.

CHAPTER 2

ALLOCATION FORMULA DOES NOT CONSIDER NEED FOR WATER AND WASTE DISPOSAL FUNDS

The Farmers Home Administration has developed a procedure for allocating water and waste disposal loan and grant funds to the 50 States, Puerto Rico, and the Virgin Islands by a formula which considers the population and income of rural areas. This procedure, however, does not consider the need for and cost of water and waste disposal projects in each State. Consequently, some projects cannot be funded until FmHA reallocates its monies at the end of the fiscal year; monies reserved for other States remain idle throughout the year until they are subsequently transferred to more needy States.

At the time of our review, FmHA distributed \$20,000 of water and waste disposal funds to each State, and allocated the remaining funds by a formula which considered each State's proportion of the total U.S. population in open country and towns of less than 10,000 outside urban areas and each State's rural per capita income. The population and income factors were weighted two to one, respectively.

For fiscal year 1978, FmHA revised its allocation formula by substituting the number of poverty households in rural areas and cities outside urban areas with populations of 2,500 to 10,000 for rural per capita income. The two elements, rural population and poverty households, are weighted one to two, respectively. However, neither the formula used at the time of our review nor that used to allocate fiscal year 1978 funds gave consideration to the need for water and waste disposal funds in the individual States.

States requiring funds in excess of their allocated amounts may receive additional funds through subsequent allocations from the national office reserve--about 10 percent of the funds authorized for each fiscal year and retained by FmHA's national office for subsequent allocations, adjustments, or emergencies--and by transfers from other States. However, transfers, which must have prior approval by FmHA's national office, are permitted only among States supervised by the same State director. In addition, funds that have not been obligated by the States before the end of the fiscal year may be returned

to a national office pool and be used to fund projects which have been approved by various State offices but for which there were not sufficient funds.

The allocation procedures used at the time of our review were adopted in December 1973 and used initially to allocate fiscal year 1974 funds. Before that time, FmHA allocated water and waste disposal funds by considering towns with a population under 5,500 without water and sewer systems and such towns needing the facilities, rural population, rural income, and applications received in previous fiscal years.

The allocation procedures were revised in 1973 to provide each State with a proportionate share of the water and waste disposal funds based on rural population and per capita income. However, to insure that all water and waste disposal funds were used, FmHA had to make numerous adjustments to States' allocations. The following table shows for fiscal years 1974 through 1976, including the transition quarter, the number of States whose loan allocation was increased and the amount of the increases for each of the fiscal years.

	<u>FY 1974</u>		<u>FY 1975</u>		<u>FY 1976</u>	
	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>
	(millions)		(millions)		(millions)	
Received from reserve	24	\$77.6	20	\$57.2	31	\$52.8
Transferred from other States	3	9.5	4	2.6	8	5.3
Received from pool	<u>16</u>	<u>33.1</u>	<u>28</u>	<u>24.0</u>	<u>34</u>	<u>31.2</u>
Total States receiving additional funds and amounts	<u>a/28</u>	<u>\$120.2</u>	<u>a/34</u>	<u>\$83.8</u>	<u>a/43</u>	<u>\$69.3</u>

a/Totals for States do not equal sum of separate categories because several states received funds from more than one category.

As shown above, 43, or about 83 percent, of the 52 States and territories received additional funds during fiscal year 1976. Further, we noted that 36 States received additional funds in 2 of the 3 fiscal years. Of these 36 States, 19 received additional funds in all 3 fiscal years.

Two of the States we reviewed--Louisiana and Mississippi--exemplified the situation where one State did not use funds allocated to it while the other required more than its allocated amounts. For fiscal years 1974 through 1976, including the transition quarter, Louisiana received allocations totaling about \$40.6 million, but obligated only about \$28.0 million. The \$12.6 million which the State did not use reverted back to FmHA's national office pool for use by other States.

In Mississippi we found the opposite situation. For the same period Mississippi received allocations of \$42.4 million and obligated \$67.7 million in loans. The additional \$25.3 million came from subsequent allocations from the national office reserve (about \$20.1 million) and national office pool (about \$5.2 million).

During fiscal year 1976 subsequent allocations from the national office reserve totaling \$52.8 million were made to 31 States. A review of the files for these requests for additional funds indicated that \$21.5 million was to fund 54 projects. An additional \$7.0 million was to complete the funding for 21 projects and to cover cost overruns of projects under construction. The files did not specify how many projects were funded either wholly or partially with the remaining \$24.3 million. We noted one project in New York that had to wait over 5 months to be funded. The State office notified the applicant in January 1976 that his loan request could not be further processed at that time because the demand for agency funds far exceeded its annual appropriation. In July of 1976, FmHA's national office transferred \$1 million from its reserve to New York's allocation so that this project could be funded.

FmHA water and waste disposal loan funds were pooled by the national office in January and again in August 1976. In January, FmHA pooled \$7.8 million from seven States, representing the unobligated funds in those States as of January 1 from one-half of their yearly allocation. These funds were added to the national office reserve fund to be used for subsequent allocations. In August \$24.4 million of pooled funds was used, along with the remaining funds in the national office reserve, to fund 76 projects in 34 States costing \$31.2 million.

We noted that Maine had six projects receiving \$2.4 million and South Carolina had seven projects receiving \$3.5 million from the August pool. A review of the national office files for 12 of these 13 projects showed that the period of time the project waited for funding was indicated for only one of the projects. For this project, in Maine, the file indicated that funds were applied for in May 1975 to repair a sewer system which had deteriorated and was no longer producing the desired effect. The project was determined eligible for FmHA funding in October 1975, but the State office's allotment did not contain sufficient funds to obligate the project. Other projects in the State had a higher priority for funding; as a result, this project had to wait 10 months. There was no file for 1 of the 13 projects.

The subsequent allocations from the national office reserve and the national office pool are not only an effective means of using all available water and waste disposal funds but also gives funds to States that can use them. However, one disadvantage is that States having a need for additional funds do not always know if or when funds will be available. Consequently, a project that is ready to proceed may be delayed because funds are unavailable.

Another disadvantage is that States with funds available may obligate them for projects less urgent than those in States that have obligated all of their available funds. This occurs because (1) each State director follows priorities stated in the Consolidated Farm and Rural Development Act as well as additional criteria which he may establish and (2) one State may obligate only projects with the highest priority whereas another State may fund projects of a lesser priority so as to use available funds.

EFFORTS TO DETERMINE NEED FOR WATER AND WASTE DISPOSAL FUNDS

Although FmHA made a study in 1969-1970 to identify needs for new or improved water and waste disposal systems, it has not yet updated the study conducted to reflect the changed definition of a rural community to include communities with up to 10,000 people. None of the four State offices we questioned had identified the need for new or improved water and waste disposal systems for communities with a population between 5,500 and 10,000. These four States had a total of 78 communities falling in this category.

FmHA is planning a survey of community facilities in rural areas. It is expected that this will be completed in June 1978. The survey, which will be used to support future budget requests, is to include an inventory of present facilities and identify the need for such facilities. However, FmHA has not decided whether the survey will identify the overall need for community facilities on a national basis, with no breakdown of the need in the individual States, or on a State-by-State basis. We were told that conducting the survey on a State-by-State basis would cost about twice as much as doing it on a national basis because the number of communities sampled for a State-by-State survey would have to be about three times larger than a national survey to have an acceptable level of confidence in the results.

Identifying the need on a national basis will not show FmHA where the need exists. Although this information could be used to support future budget requests, it will not provide FmHA with the information necessary for placing the funds in those States that have the greatest need. The identification of need on a State-by-State basis could be used for overall program management and would provide necessary information for allocating available funds to those States with an identified need.

Recognizing that the need identified by the survey will probably exceed its annual funding authorizations for a number of years, FmHA will have to assign specific priorities to the projects which have the most immediate need for funding. Based on the needs study performed in 1969-1970, we estimate that it would take until at least 1984 to meet the funding need, considering that the fiscal year 1978 funding levels will continue.

CONCLUSIONS

FmHA's present method of allocating water and waste disposal funds does not consider each State's individual need. Consequently, some projects cannot be funded until FmHA reallocates its monies at the end of the fiscal year; monies reserved for other States remain idle throughout the year until they are subsequently transferred to more needy States. If the planned survey identifies the need for the various community facilities in each State, it could also provide FmHA with the information necessary to allocate water and waste disposal funds on a more effective basis. Further, allocating funds on the basis of need could reduce or eliminate the need for subsequent adjustments to States' funding levels.

RECOMMENDATIONS

We recommend that the Secretary of Agriculture direct the Administrator of FmHA to:

- Determine the need for water and waste disposal systems in rural areas on a State-by-State basis.
- Modify the formula for allocating water and waste disposal funds to require that the need for funds in the various States be considered.

FmHA officials 1/ agree that it is essential to know what the need is for water and waste disposal systems in rural areas. They also agreed with our recommendations and stated that the FmHA Administrator would probably be receptive to adjusting the allocation formula to consider the need for funds in the various States, especially if the change benefited the rural poor.

1/The Assistant Administrator for Community Programs and the Directors of the Water and Waste Disposal and Community Facilities Loan Divisions, FmHA.

CHAPTER 3

ADEQUACY OF INFORMATION TO EVALUATE

PROGRAM OPERATIONS

To effectively evaluate or manage any loan program depends partly on the availability of reliable information concerning that program. Information is needed on overall program operations and on the operations of each borrower. FmHA's current management information system does not provide adequate information on the program's effectiveness in meeting the priorities established by the authorizing legislation and FmHA regulations. We also noted FmHA does not have adequate followup procedures to insure the receipt of borrowers' management reports and that there was not always a timely review of reports.

ADEQUACY OF MANAGEMENT INFORMATION

FmHA's current management information system does not provide sufficient information for its staff to effectively manage the water and waste disposal program. The lack of adequate information also makes it difficult to evaluate the program.

FmHA field staff told us that the availability of certain information would help them properly manage the program at their level. This includes information on (1) whether funding practices meet established priorities, (2) financial aspects of the borrowers, (3) problems experienced by borrowers, and (4) borrowers' eligibility to refinance their loans through private credit sources.

Although FmHA has established priorities (see p. 1) for selecting projects for financing, the management information system does not indicate whether or not these priorities are being met.

Much of the above information can only be acquired by reviewing individual borrower files, which is a time-consuming process. This reduces FmHA's ability to make timely decisions concerning program and borrower operations and to provide timely program information to others. The latter deficiency was demonstrated when FmHA's national office had to make a special request to each of its State offices to obtain information we asked for on the water and waste disposal program.

To determine if FmHA funding practices were following established priorities, to see if specific legislative requirements were being met, and to gather data for our review, we requested the following information on the water and waste disposal program:

- Loan and grant obligations broken down by priorities.
- Number of systems that have merged and the reasons for the merger.
- Number of systems that have refinanced their loans through private credit sources.
- Number of loans that have been reamortized.
- Fee structures for basic engineering services.

FmHA has a long-range effort underway to develop a unified management information system to provide current, accurate, timely, and relevant data to FmHA managers at all levels. To identify the type of information that should be placed in the system, FmHA interviewed various officials in their county, district, State, and national offices. The information identified includes:

- A semiannual listing of loans obligated by priority categories.
- Annual financial data on borrowers, including operation and maintenance costs and depreciation expenses.
- An annual listing of borrowers who may be eligible to refinance their loans through private credit sources.

The director of the task force developing the system told us that new information will be put into the system as the need arises. A field test of the operational system is planned to begin in 1979. FmHA hopes that its unified management information system will provide its managers with the information needed to effectively manage all FmHA programs.

PROCEDURES NEEDED TO INSURE RECEIPT AND ANALYSIS OF BORROWER REPORTS

FmHA instructions state that it will provide management assistance to assure borrower success. They provide that

borrowers submit annual reports to the county supervisor for forwarding to the State director who is responsible for their review. To determine which borrowers are experiencing problems or are about to experience problems and the amount and type of assistance needed depends on the timely and effective review of borrower reports. We noted, however, that not all reports are received and reviewed in a timely and effective manner.

Receipt of annual reports

Two of the three State offices where we examined the procedures for monitoring borrower operations were experiencing problems with the receipt of the required borrower management reports. Although all three State offices had a report receipt control system, only one, in Arkansas, appeared to insure the timely receipt of borrower reports. The other two State offices lacked effective followup procedures.

The Mississippi State office lists the reports by month due. At the time of our review, State office records for 5 of the 11 Mississippi FmHA districts showed that annual reports for the borrowers' last fiscal year were not at the State office in 51, or about 19 percent, of the 270 cases required. Further, we noted that follow-up letters on delinquent reports were sent to the appropriate district directors only once a year, regardless of the due date of the reports. When this was brought to the attention of responsible Mississippi State office personnel, they agreed that additional followups were needed and planned to strengthen their procedures.

After December 1975 the Louisiana State office established a report receipt control register showing the name of each borrower, the ending date of each borrower's fiscal year, and whether or not the borrower's reports had been received. However, as of June 30, 1976, most of the borrower reports received since December 1975 had not been posted to the register.

In July 1976 State office personnel compared the data available from the control register with a listing of reports received at the State office since December 1975. The results were that 87, or 48 percent, of the 180 annual reports due as of January 20, 1976, had not been received at the State office. A letter dated July 20, 1976, was sent to each district director regarding the delinquent annual reports.

Review of annual reports

The State director has responsibility for reviewing borrowers' management reports. Reviewers note items such as the amount of revenue, the operation and maintenance expenses as compared to the operating budget, the amount of reserves set aside during the year and any changes in the number of users. The reviewer also analyzes and approves the borrower's proposed budget for the next fiscal year.

As of June 1976 most of the 82 annual management reports received in the Louisiana State office just before and after December 31, 1975, had not been reviewed. We were told that this was because an insufficient number of technical staff was assigned to the community programs section. To alleviate this problem, an assistant county supervisor was transferred to the State office in February 1976 as a community program specialist. However, as of August 1976, annual reports were still being set aside to be reviewed later, because priority was being given to processing obligating documents.

At the time of our review, the Mississippi State office had one person assigned to review the reports of approximately 650 borrowers in the State. This person informed us that he reviews all of the annual management reports submitted. The Arkansas State office had two persons assigned to review the reports of approximately 325 borrowers.

CONCLUSIONS

FmHA hopes that its proposed unified management information system will provide managers at all levels with timely and responsive program information to enhance effective management of the water and waste disposal program.

The amount of management assistance necessary to insure borrower success is dependent on the timely review of borrowers' operations. To facilitate this review, procedures are needed to insure the timely receipt and review of borrowers' annual management reports.

RECOMMENDATIONS

We recommend that the Secretary of Agriculture direct the Administrator of FmHA to:

--Develop followup procedures to insure the timely receipt of borrowers' management reports.

--Establish procedures requiring the timely review of borrowers' management reports.

- - - -

FmHA officials (see p. 10) agreed with our recommendations but stated that it would probably be impossible to get all borrowers to submit the required management reports and that there was not much it could do to force the borrowers to submit them. They also informed us that, during training sessions, FmHA continually emphasizes the need for timely receipt and review of borrowers' management reports.

CHAPTER 4

LEGISLATIVE REQUIREMENTS NEED TO BE CLARIFIED

Section 307(a) of the Consolidated Farm and Rural Development Act, as amended (7 U.S.C. 1927), states that the repayment period for water and waste disposal loans shall not exceed 40 years. However, section 331(d) of the act (7 U.S.C. 1981(d)) grants FmHA broad authority to modify and adjust the terms of the agreements and contracts entered into under the act. For a number of loans that FmHA has reamortized, the total repayment period exceeds 40 years. It is unclear to us if the authority given under section 331(d) was intended to allow FmHA to extend the repayment period beyond the time specified in section 307(a) of the act.

Section 331(d) states that the Secretary may:

"* * * adjust and modify the terms of mortgages, leases, contracts, and agreements entered into or administered by the Farmers Home Administration under any of its programs, as circumstances may require* * *."

FmHA has interpreted this section to permit the reamortization of water and waste disposal loans so that the original loan period plus the reamortized loan repayment period may extend beyond 40 years. A clarification as to the relationship of these two sections is needed to determine if FmHA's interpretation of section 331(d) is consistent with the intent and purpose of section 307(a) of the act.

Data provided us by each of the FmHA State offices showed that through June 30, 1976, a total of 186 water and waste disposal loans totaling \$50.1 million had been reamortized by 23 of the 42 State offices, including 1 loan which was reamortized twice. Of the total loans reamortized, 77 had their repayment periods extended beyond 40 years. For 20 of the 77 loans, the extension was up to 5 years, and for 56 of the loans, the repayment periods were extended from 5 to 10 years. The remaining loan was reamortized twice, extending the total repayment period to 56 years.

The previous FmHA Administrator told us that the reason behind FmHA's policy of reamortizing loans for periods exceeding 40 years is that FmHA is in the business of lending money and that it is better to reamortize a loan and have the borrower repay it than to have the borrower default. The Administrator felt that extending the repayment period was legal because the Department of Agriculture's Office of General

Counsel (OGC) reviewed and approved the FmHA regulations allowing reamortizations.

FmHA policies and procedures for servicing water and waste disposal loans are found in an FmHA instruction entitled "Servicing of Community Program Loans and Grants." The instruction permits the extension of the final maturity date of the loan. It should be noted, however, that the instruction is not specific regarding the extension of the total repayment period beyond 40 years (the maximum allowable under section 307(a) of the authorizing legislation).

The instruction further directs that the reamortization be accomplished through the use of a new note unless the OGC recommends the modification of the existing note or other appropriate action. When a new note is used, the original is to be attached to the existing note and filed in the county office and retained until the account is paid in full or otherwise satisfied.

The maximum repayment period specified in section 307(a) of the act also applies to some other FmHA loan programs, including the farmownership loan program. It is important that the FmHA operating instructions for these programs specifically state that the reamortization of each existing loan may be made only within the remaining period of the loan. Apparently, the FmHA officials responsible for the day-to-day administration of these programs have interpreted section 307(a) to mean that loan repayment periods cannot be extended through reamortization.

We discussed the propriety of extending the repayment periods of reamortized water and waste disposal loans with an OGC official. He said that his office had worked with FmHA on reamortizing specific loans but that he was unaware of any legal decision regarding reamortization of loans over more than 40 years. During a later discussion with this official, he told us that FmHA construes section 331(d) to permit the reamortization of water and waste disposal loans so that the original loan period plus the reamortized loan repayment period may extend beyond 40 years.

It is not clear to us that the reamortizations violate section 307(a) of the act. We could find no court decision nor provision in the act's legislative history that explains the scope or relationship of sections 307(a) and 331(d). One of the objectives of our review was to determine whether the program was being administered in strict accordance with the governing statutes. However, the latitude given to FmHA under

section 331(d) makes it unclear whether or not reamortizations that extend the total repayment period beyond 40 years are consistent with section 307(a) of the act.

CONCLUSIONS

FmHA has interpreted section 331(d) of the Consolidated Farm and Rural Development Act, as amended (7 U.S.C. 1981(d)), to permit the reamortization of water and waste disposal loans for periods that exceed the 40-year maximum repayment period stipulated in section 307(a) of the act. However, other FmHA programs to which section 307(a) applies do not permit reamortizations that extend the final maturity date of the loan. Given these conflicting interpretations, a clarification of the relationship of these two sections is needed to determine if FmHA's interpretation of section 331(d) is consistent with section 307(a) of the act.

RECOMMENDATION

We recommend that the Secretary of Agriculture ask the Congress to clarify FmHA's policy of extending the repayment period of reamortized loans for periods exceeding 40 years and, if necessary, to amend section 307(a) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1927).

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FmHA officials (see p. 10) stated that to ask the Congress for such an amendment would be complicated and they thought that the Department of Agriculture should first have the option of getting an opinion from their General Counsel to clarify the policy.