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Complaints Against The
Heart Of Georgia Floriculture Project
Dublin, Georgia B-172934

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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096557

MAY 24, 1972



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

B-172934

Dear Mr. Thompson:

* This is our report on complaints against the Heart of Georgia Floriculture Project in Dublin, Georgia. Our examination into the complaints was made pursuant to your request of April 27, 1971.

We have not obtained the written comments of the Federal, State, and local agencies on the matters discussed in this report. The report contains recommendations pertaining to several of the Federal agencies involved in the management, supervision, and financing of the project. We therefore believe that copies of the report should be distributed to the Federal agencies involved. However, release of the report will be made only upon your agreement or upon public announcement by you concerning its contents.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

C1+R
The Honorable Fletcher Thompson
House of Representatives

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D I G E S T

WHY THE REVIEW WAS MADE

Congressman Fletcher Thompson requested the General Accounting Office (GAO) to review and report on complaints against the Heart of Georgia Floriculture Project in Dublin, Georgia.

The complaints fall into two principal categories. First, the project provided competition, characterized as unfair, direct, or Government, to the nursery and floral industry in Georgia. Second, project trainees were not being trained to grow flowers but were being used to provide low-cost labor.

The project was assisted financially by several Federal agencies to show that unemployed low-income persons living in a nine-county area of central Georgia could be (1) trained to grow flowers and related floral products, (2) assisted in establishing their own greenhouses upon completion of their training, and (3) organized into a self-sustaining cooperative group to market the floral products.

From July 1969 through September 1971, funds available to the nine-county area totaled about \$1 million comprising Federal planning grants of \$173,200; Federal grants for operation of the project of \$516,900; contributions of \$155,200 from the State of Georgia and from municipalities and counties in the nine-county area; income of \$152,600, which was realized from sales of flowers, plants, and raw materials; and private financing of \$16,600.

FINDINGS AND CONCLUSIONS

Complaints of competition

The complaints generated by the floriculture project generally were as follows:

- The project's use of Federal grant funds to finance the production and sale of flowers constituted an economic advantage over the private sector of the industry which used either personal equity or borrowed capital to finance its operations.
- The project sold flowers at prices lower than the prevailing market prices.
- Project sales of flowers displaced sales of the private sector of the industry.

the Administration found most of the trainees to be ineligible for loans.
(See p. 38.)

Also some of the Federal agencies had not monitored the expenditure of grant funds and had not made any attempts to evaluate the effectiveness of the training projects.

RECOMMENDATIONS OR SUGGESTIONS

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- 2 GAO recommends that the Economic Development Administration (1) make studies when financial assistance is requested by an activity which can produce products for sale in competition with private industry (see p. 24), (2) not award grants in those cases where studies indicate overproduction of products (see p. 24), and (3) reemphasize the necessity of establishing and maintaining adequate accounting records to ensure that Federal grant funds are spent properly (see p. 44).

CHAPTER 1

INTRODUCTION

Pursuant to a letter dated April 27, 1971, from Congressman Fletcher Thompson, we reviewed what generally is referred to as the Heart of Georgia Floriculture Project (hereinafter referred to as the project). The purpose of the project was to demonstrate that unemployed low-income persons living in a nine-county area of central Georgia could be (1) taught and trained to grow flowers and related floral products, (2) assisted in establishing their own greenhouses upon completion of their training, and (3) organized into a self-sustaining cooperative grower group to market floral products successfully.

Congressman Thompson furnished us with copies of numerous complaints about the project from members of the nursery and the florist industry and from project employees and requested that he be furnished with a full report on the results of our review. We obtained copies of additional complaints from other sources.

In essence the complaints fall into two principal categories: (1) the project, by selling flowers grown by trainees at the project site, provided competition, characterized as unfair, direct, or Government, to nursery and floral industry growers, wholesalers, and retailers in Georgia and (2) project trainees were not being trained to grow flowers but were being used to provide low-cost labor under a continuous construction program.

The project was planned and developed by a local planning and development district organization called the Heart of Georgia Planning and Development Commission (referred to hereinafter as the district). The nine-county area was designated as an economic development district by the Economic Development Administration (EDA), Department of Commerce, in May 1967 under the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3121).

In accordance with the act, EDA designates multicounty areas having high rates of unemployment and underemployment

The Coastal Plains Regional Commission includes 159 counties in the eastern portions of Georgia, North Carolina, and South Carolina and is composed of four members--the Governor of each State and a Federal cochairman.

PROJECT FUNDING

From July 1969 through September 1971, the funds available to the district for districtwide planning and for operating the project, as summarized below, totaled about \$1 million comprising (1) Federal planning grants to the district of \$173,200, (2) Federal grants for the operation of the project of \$516,900, (3) contributions of \$155,200 from the State of Georgia and from municipalities and counties in the nine-county area, (4) project income of \$152,600, generated primarily by sales of flowers, plants, and raw materials, and (5) private financing of \$16,600. The chronological sequence of this funding is shown in appendix II.

Federal grants for operation of the project:		
OEO	\$173,000	
Coastal Plains Regional Commission	93,000	
EDA	142,500	
Manpower Administration training allowances	<u>108,400</u>	\$ 516,900
Federal planning grants for the district:		
EDA	110,200	
HUD	27,700	
Law Enforcement Assistance Administration	<u>35,300</u>	<u>173,200</u>
		690,100
Project income		<u>152,600</u>
Subtotal		842,700
State, counties, and municipalities contributions		155,200
Private financing--bank loan		<u>16,600</u>
Total		<u>\$1,014,500</u>

Under the grant provisions and in line with its usual practice, OEO channeled the grant funds through the Heart of Georgia Community Action Council, Inc., a local agency sponsored by OEO having headquarters in Eastman. The council administers such activities as neighborhood service centers, Head Start programs, and food distribution to the poor. The involvement of the council was to ensure that the interests of the poor were protected and that prospective trainees would be recruited from the ranks of the poor in the nine-county area. The administration of the project, including expenditure of funds, was delegated by the council to the district under a grantee-delegate agency relationship.

In June 1969 the district submitted an application to the Coastal Plains Regional Commission for a grant of \$20,500 to supplement the OEO demonstration grant. The regional commission awarded the grant in September 1969.

During the 4-month period October 1969 to January 1970, the district began preparing the 4-H club site for the training program. The site was obtained from the Georgia State Board of Regents for \$250 a month maintenance charge, and 27 prospective trainees were selected by the council to participate in the project. The council also furnished a considerable amount of equipment at no cost to the project.

In December 1969 the district applied to the Department of Labor through the Georgia State Department of Labor for a grant of \$94,500 under the MDTA to pay allowances to the trainees while they were being trained as flower growers.

The application proposed two 34-week training cycles having 27 trainees in each cycle. Each training cycle was to be divided into two 17-week periods. The first 17-week training period beginning in February 1970 was to be held by project employees at the project site, and the second 17-week period was to be held in the trainee-owned greenhouses. The application was amended in May 1972, and the Manpower Administration increased the amount of its grant to \$117,800 to provide for additional training allowances. The application and other documents showed that the trainees would obtain loans from FHA at the end of the training period to finance the construction of greenhouses on land owned or leased by them.

In November 1970 the district applied to EDA for a demonstration grant in the amount of \$384,900 to continue the project and to establish another training program by adding three additional training complexes in the nine-county area. In December 1970 the district reduced the amount of its application to \$326,100 to cover only two additional training complexes. Also in December 1970 the executive director of the district submitted an application to FHA in the name of the cooperative for a working capital loan of \$550,000; a reduction from the \$1.1 million loan recommended in the feasibility study.

In March 1971 EDA awarded a demonstration grant of \$326,100, which included \$110,000 provided as a supplement by the Coastal Plains Regional Commission. That same month FHA hearings held before the House Subcommittee on Agriculture-Environmental and Consumer Protection, Committee on Appropriations, indicated that there was congressional displeasure with the project. (See p. 13.)

In April 1971, FHA decided against making the working capital loan to the cooperative and the Department of Labor decided not to fund any more training allowances. Also in April 1971 the cooperative legally was chartered by the State of Georgia as the Heart of Georgia Growers Association, Inc., and the second MDTA training session was completed.

At the completion of our review in September 1971, the cooperative had 19 members and was operating at a loss. Also no additional training complexes had been established although required by the EDA grant agreement.

The letters and telegrams containing the complaints about competition with private enterprise and the ways in which it was generated indicated that three basic issues were involved, namely:

1. Whether the project's use of Federal grant funds to finance the production and sale of flowers constituted an economic advantage over the private sector of the industry which used either personal equity or borrowed capital to finance their operations.
2. Whether the project sold flowers at prices lower than prevailing market prices.
3. Whether the project's sales displaced sales by private growers, wholesalers, and retailers.

WHETHER PROJECT USE OF FEDERAL GRANT FUNDS CONSTITUTED AN ECONOMIC ADVANTAGE

Our analysis of the Federal grants showed that \$516,900 was authorized specifically to establish and sustain the floriculture project. The use of grant funds to finance the construction of greenhouses, to purchase inventory, and to pay salaries and other costs resulted in generating sales of flowers and raw materials totaling \$152,600 by September 1971 and in a project inventory valued at about \$100,000. Project officials agreed that, as a result of using some of these funds, some degree of subsidy had occurred.

We noted in hearings held in March 1971 before the House Subcommittee on Agriculture-Environmental and Consumer Protection, that the discussion of the proposed FHA loan to the cooperative indicated congressional displeasure on this issue, as follows:

"Mr. MICHEL. Does this mean there is pending before your shop a request for a regular loan for [the Heart of Georgia Floriculture Project]-- would it be characterized as a loan to a cooperative?"

Mr. SMITH [of FHA]. That would be correct.

Mr. MICHEL. As a matter of national policy have we made any determination as to whether or not

Agency positions on project competition

Federal agencies and the regional commission that provided funds or otherwise assisted the project did not seem to be overly concerned initially as to whether any economic advantage over the existing floral and nursery industry would result from their participation in the project. OEO posed, but did not answer, the question of what should be done with income from the sale of products grown by the trainees. The regional commission did not address the competition issue, and, by the time HEW and the Manpower Administration took the position that trainee-grown products could not be sold--because it was generally illegal to sell trainee-produced goods under an institutional training program--the training phase of the project conducted under their auspices had been completed.

EDA had not taken a position on the propriety of selling trainee-produced goods or using such income as non-Federal matching funds. In addition, EDA took the positions that its grants did not constitute financial assistance and that therefore competition was not an issue.

The agencies' positions concerning competition are discussed separately below.

OEO position

OEO, through the Community Action Council in Eastman, provided grant funds of \$173,000 for the floriculture project through two separate demonstration and training grants made pursuant to title II of the Economic Opportunity Act of 1964 (42 U.S.C. 2825). The purpose of the grants was to demonstrate that:

1. Poor people could be trained to grow and market floral crops cooperatively.
2. The poor could move out of poverty as a result of developing existing resources within the area.
3. Development of existing resources, physical and human, could lead to the establishment of an association by training the poor.

which develop training projects; select trainees; and provide testing, counseling, and placement services. Also the Manpower Administration enters into agreements with States to pay training stipends to MDTA students. The Manpower Administration disbursed about \$108,000 of its grant for training allowances for 67 trainees enrolled in the project during the period February 2, 1970, through April 30, 1971.

The training program was classified and funded as an institutional training project by HEW and the Manpower Administration. HEW is responsible for obtaining instructors, classrooms, and training materials and otherwise becomes involved by working through the various State departments of education. Federal regulations applicable to HEW's involvement in an institutional training project restrict the sale of goods produced by the trainees presumably on the basis that allowing such sales would constitute a degree of adverse competition.

The Code of Federal Regulations, Title 45, paragraph 160.20, provides that:

"Disposal of saleable items.

If items produced from supplies paid for in whole or in part with funds under the Act or otherwise resulting from institutional training are disposed of, the disposition shall not involve the sale or resale of such items except as may be specifically authorized by the Commissioner [of Education]."

As stated previously the MDTA-funded training allowances were for the period beginning February 1970. The HEW Region IV program officer advised both the State of Georgia and the Manpower Administration in that month that:

"Because of the 160.20 clause to our Regulations, and *** in order to permit the funding of the training allowances under the Manpower Development Training [Act] for this project, *** a waiver of the 160.20 requirement on the sale of these products produced by the class in this particular case is granted." (Underscoring supplied.)

investigating the project in connection with a proposal to train 80 to 108 additional trainees under MDTA.

Upon conclusion of the investigation, the State Commissioner of Labor notified the Manpower Administration in May 1971 that:

"[Because] our examination reveals that certain plants and flowers have been marketed in conflict with private enterprise without our being able to determine who benefits from the profits, it is my request that this project not be refunded under the MDTA program."

The project's executive director similarly was notified by the Commissioner the same month that:

"Basically, the program is an infringement on the rights of private enterprise and does not meet the criteria which we normally apply to MDTA projects. Therefore, I have requested that the U.S. Department of Labor not refund this project under the MDTA program."

As of September 1971 the Manpower Administration had suspended its consideration of the project's latest proposal as requested by the Commissioner.

the fact that trainee production would be sold on the open market and the fact that part of the proceeds would be used as non-Federal matching funds. The grant agreement merely recognized that project income would be generated from the sale of trainee-grown products which would be used to continue the training program in future years.

In implementing its regulations EDA categorized all grant funds provided under title III as other assistance as opposed to financial assistance which EDA provides under the other titles of the act. Financial assistance provided by EDA under the other titles of the act is subject to the provisions of section 702 of the act (42 U.S.C. 3212) which deals with unfair competition.

Section 702 prohibits EDA from providing financial assistance to any project if the result would be to increase the production of goods when there is not sufficient demand for such goods to employ the efficient capacity of existing competitive commercial or industrial enterprises. The section was added as an amendment to the act just prior to the act's being passed in August 1965. The proponent of the amendment stated that:

"Generally speaking, this amendment would prevent the incredible situation which arises when the ARA [predecessor agency to EDA] lends money to establish a business which is going to create goods and services that are already in oversupply."

* * * * *

"This amendment is simple. It will prevent this type of shocking misuse of the taxpayers' funds."

The proponent of a subsequent perfecting amendment stated that what the amendment would do is prohibit the agency from coming into a market area and from loaning money to set up a new company to compete directly with an established company in the same line of business.

Before providing assistance categorized as financial assistance to projects, EDA, in its implementation of section

The EDA study, dated March 1, 1971, divided potential products of the project into three classifications--cut flowers, bedding plants, and potted plants. The study concluded that, with the exception of potted plants, the project flower products could be absorbed by a strongly growing market without adverse effect on present efficient producers.

EDA awarded the demonstration grant 4 days after the section 702 study report was completed despite the fact that potted mums--classified as potted plants--were a major project product. EDA officials advised us that the demonstration grant was awarded on the basis that (1) having one of the three products in a potential overproduction of capacity was not sufficient reason to deny awarding the grant, (2) the EDA section 702 study was hurriedly made and was incomplete, and (3) the EDA General Counsel had ruled that section 702 studies were not required for title III-supported projects; therefore this particular study was considered only as a guide and not as a binding mandate.

EDA officials told us that (1) EDA had not taken a position on the propriety of selling trainee-produced items or of using such income as non-Federal matching funds and (2) EDA was under the impression that the district, a non-profit organization, would administer the project rather than transfer the funds and responsibility for administration to a privately organized cooperative as was done. Therefore the question about the source of the project's income and its use as non-Federal matching funds by a private enterprise did not arise.

Conclusions

The project's use of Federal grant funds to finance the production of floral products for sale constituted an economic advantage over the private sector of the industry which used either personal equity or borrowed capital to finance its operations.

We believe that EDA was required to make a section 702 study; that it should have been conducted in an efficient, business-like manner; and that any disclosure of anticipated overproduction of a product by those who completed training should have been considered mandatory grounds for not awarding the grant.

WHETHER THE PROJECT SOLD FLOWERS AT PRICES
LOWER THAN PREVAILING MARKET PRICES

Several Georgia florists and nurserymen complained that project-grown flowers were sold at prices lower than prevailing market prices; however, project officials denied this complaint.

Our analyses of the project's sale of floral products showed that the prices generally were in line with the project's published wholesale pricing list. Although we requested them to do so, Georgia florists and nurserymen did not provide us with marketing data showing prevailing market prices or with price lists for their products which we could compare with the project's published wholesale pricing list. Instead the growers' representative advised us that the project was selling 6-inch pots of chrysanthemums ranging from \$1.65 to \$2.15 a pot, depending on the quantity purchased. They also told us that the prevailing market price in Georgia for 6-inch pots of mums ranged from \$2 to \$2.25 a pot.

In attempting to find an independent pricing source, we contacted the U.S. Department of Agriculture. Department officials advised us that periodic marketing bulletins on ornamental crops were published by some of the States. The Georgia Department of Agriculture does not publish a marketing bulletin for ornamental crops. The U.S. Department of Agriculture's pricing data for 23 States, not including Georgia, showed that the average wholesale price of potted mums was \$1.54 and \$1.52 during 1969 and 1970, respectively.

We contacted also the Department of Commerce as an independent pricing source, but we were advised that it did not maintain and publish such data.

The project's marketing manager told us that project prices generally were in line with market prices shown in agriculture marketing bulletins of various States as well as those shown in classified sections of florist and nurserymen weekly publications. He indicated that differences between project prices and prevailing market prices would exist because project prices were constant throughout the year, whereas industry prices fluctuated with the seasons.

The project director acknowledged that some supermarkets and other retail outlets had sold project potted mums on a consignment basis at \$3.49 each. Industry officials told us that a retail florist would have sold potted mums at \$6 to \$7 a pot. The project received the wholesale price of \$2.15 for each pot sold. The director told us that the project had discontinued sales by consignment after determining that it was not profitable. An industry official acknowledged that it was not unusual to use the consignment method to help establish a market.

The project director told us that some of the flowers produced by the trainees early in 1970 had been donated to hospitals and nursing homes in the Heart of Georgia area because the Federal agencies involved in funding the project had not determined at that time whether it was legal to sell trainee-produced products. Therefore, rather than throw the flowers away, the project director chose to give them away.

Local florists complained that the practice of giving flowers away was hurting their business. Consequently project officials held a meeting in March 1970 with 29 area florists and agreed to cease donating flowers within the nine-county area. Project officials also agreed at this meeting that they would sell products to local florists only at prices equal to, or above, those charged by other wholesalers within the area.

Conclusions

We could not determine conclusively whether the project sold floral products at prices higher or lower than those prevailing in the nine-county area because (1) marketing data showing prevailing prices was not available and (2) the project's sales prices were constant, whereas the industry's prices fluctuated with the seasons.

In the upper limits of the project's pricing structure for mums, the prices seemed to be consistent with prices verbally cited to us by an industry representative. In the lower limits, however, the prices appeared to be lower than those cited because of a discount allowed for quantity purchases.

to its closer proximity to several large metropolitan areas including Atlanta, Georgia; Chicago, Illinois; and New York, N.Y.

From an economic viewpoint the conclusions cited in the feasibility study report seemed reasonable and logical. The data in the report showing an expanding floral crop market and the shortage in Georgia floral crop production compared to Georgia floral product sales were based on statistics compiled by the Federal Government.

We were unable, however, to determine the particular types of floral products that Georgia imported to meet the shortage of floral production in the States.

A U.S. Department of Agriculture marketing economics official advised us that the Department had made no economic studies on the demand for flowers by types. Consequently he was not aware of any available statistics on demands. He advised us also that the only information available on the demand for flowers was the number and dollar amount of floral product sales. He stated, however, that he believed that the demand for floral products was so substantial, quantitatively, that the market could absorb the floral products grown by the project without hurting existing wholesalers.

One Georgia floral product grower-wholesaler stated that, although the above-mentioned feasibility study report showed that Georgia got much of its floral products from outside the State, the report failed to point out that many of the imported floral products could not be grown successfully in Georgia. He stated also that in the past one of the project's primary crops had been mums, even though they were already being grown in Georgia in sufficient volume to meet Georgia's needs. He said that the project's production of large quantities of mums had created an oversupply within the State and that the oversupply caused him to be unable to sell all of his mums and additionally forced him to sell some mums at prices lower than normal.

The Manpower Program Coordinator, Georgia Department of Labor, in a letter dated May 21, 1971, to the Georgia Commissioner of Labor stated that the project "*** apparently has been able to market all of their plants as quickly as they produce them."

CHAPTER 3

COMPLAINTS REGARDING LOW-COST LABOR

In his letter Congressman Thompson stated that:

"This EDA trained project is in Dublin and, according to the information that I have been given, and supported by the file, no training actually takes place, but instead the trainees are used for low-cost labor."

* * * * *

"In fact, I was told that the only instructor hired taught only one day and then was told he had no requirement to instruct the people in horticulture training."

Analyses of the documents and other related information provided to us revealed that two of the complaints were set forth in letters purportedly written by a former project trainee. This former trainee, through his attorney, denied writing the letters.

One letter stated that three cooperative member growers had never made over \$18 a week after leaving the training program and that trainees had not been provided training in flower growing and had not been assisted by the horticulturist after building their own greenhouses.

One unsigned document stated that the project was not a training program but, rather, was a work camp involved in a continuous building program.

The remainder of the documents furnished by Congressman Thompson were less specific concerning complaints. Therefore we considered all events related to the project's construction, training, and grower income that occurred from the inception of the project to the completion of our fieldwork in September 1971.

\$108,400 was disbursed as allowances to 67 trainees during the period February 2, 1970, through April 30, 1971.

The training program was endorsed by the State, and the allowances were paid directly to the trainees by the State through local employment security offices. According to State records, of the 67 trainees, 38 successfully completed the training course and 29 dropped out--primarily because of poor attendance, illness, or lack of progress and/or interest.

Of the 38 trainees who completed training at the time of our review, 18 had built and were operating their own greenhouses; 12 were employed by the cooperative; one had his greenhouse foreclosed; and, as near as we could determine, the remaining seven were not engaged in training-related jobs. Actually six of these seven did not attend the full 34-week training course because they had entered the training program late. Manpower Administration records show them to have successfully completed the course apparently because they still were enrolled when the final week of training under MDTA auspices was completed.

During the first 3 months of training (February to April 1970), the trainees were paid a stipend of \$50 a week and travel expenses of 8 cents a mile. These stipends were paid from OEO and regional commission grant funds because the Manpower Administration was late in funding the training course. Regional commission officials informed us that they were aware that the commission's funds had been used to pay training allowances and they knew of no regulation prohibiting the use of funds in this manner. These rates were based on the project's application for a grant under title I of MDTA as a demonstration training course.

When the Manpower Administration approved the course for funding in April 1970, however, it obligated title II funds because it noted that title I was designed to demonstrate improved techniques and specialized methods of meeting the manpower needs of certain working groups.

Under title II, which deals with training and skill development, each trainee should have been provided an allowance based on the average unemployment weekly compensation

1969, for services rendered to the project as a construction foreman. According to records this instructor was dismissed effective April 15, 1970, for not performing his duties and for promoting discord among the trainees.

After the instructor was dismissed, his duties were performed by the project horticulturist. The horticulturist's evaluation reports regarding the ability of trainees to become growers indicated that he devoted some time to instructing and familiarizing himself with their abilities.

State officials generally monitored and followed up on the progress of the trainees to ensure that the training received was adequate. Records showed that 35 to 40 hours of onsite instruction and 8 to 12 hours of off-site instruction were provided each week. After completion of the training session, an official of the Georgia Department of Labor concluded that "training overall appears to be fairly effective."

EDA-FUNDED TRAINING PROGRAM

One of the purposes of the EDA demonstration grant for the project early in March 1971 was to establish two additional training complexes in two counties in the Heart of Georgia area to train a total of 65 trainees in floriculture over a 1-year period. These trainees were to be paid \$1.40 an hour (minimum farm wage plus 10 cents) while in training.

The EDA training program actually began in February 1971 and had 26 enrollees. Through September 1971, 33 additional trainees were enrolled. Of the 59 trainees, 49 had dropped out by September 1971. The reasons for the high dropout rate are shown below.

<u>Reason for dropping out</u>	<u>Number of trainees</u>
Dismissed:	
Work unacceptable	5
Drinking on the job	1
Resigned:	
Commuting distance too far	14
Disliked the work	9
Student--returned to school	5
Physically unable to do the work	5
In prison or in trouble with the police	3
Gave no reason	3
Various reasons	4
	<u>49</u>
Total	<u>49</u>

that training and instruction under this program did take place and that they satisfied State requirements.

At the completion of our review, the EDA-funded training program had been operating about 7 months. Of the total 59 trainees, 49 had dropped out. The 10 remaining trainees who worked in the cooperative bedding houses were provided with some instruction and were paid \$1.40 an hour from EDA grant funds. Whether this training program was meeting its objectives is questionable because of the high dropout rate and because no trainees had completed training.

The degree to which these trainees contributed toward flower production for the cooperative could not be determined. The cooperative made flower sales totaling \$82,500 during the period March through September 1971. We believe that the EDA-funded training program could be considered as low-cost labor in the sense that the trainees were contributing toward bedding plant production for the cooperative while enrolled in the training program.

Of the 16 growers (former trainees) who bought and sold through the cooperative, 11 realized net incomes and five sustained net losses. Their operating results indicate that since completing training some of the former trainees may have made as little as \$18 a week and that some actually have sustained losses.

One of these programs is "Opportunity Loans to Rural Families With Low Incomes" (known as EO loans), which is funded by OEO but is administered by FHA. Under this program FHA makes individual loans of up to \$3,500 to low-income farm and nonfarm rural families who need small amounts of capital to improve their earnings but who are unable to obtain credit from other sources at reasonable rates and terms. The loan funds can be used to buy or build various assets, including greenhouses and ancillary equipment. The maximum loan term is 15 years, and the annual interest rate is 4-1/8 percent.

As in the case of most of the other loan programs, the EO loan applications are processed and approved by local FHA county offices which are managed by a loan supervisor. A county or area committee of three farmers certifies the eligibility or ineligibility of the loan applicant and makes recommendations as to the amount of the loan and other loan conditions.

A total of 75 applications for EO loans to build and equip greenhouses were made in the nine-county Heart of Georgia area during the period January 1970 through January 1971. Of these applications, 58 were from persons who were enrolled in the floriculture training project and 17 were from persons who, although selected for training, never were enrolled for various reasons. The following table summarizes the disposition of these applications.

	<u>Number</u>
Applicants determined eligible by FHA:	
Obtained loans and loans are current	14
Obtained loan but loan foreclosed	1
Loans not made because applicant either dropped from MDTA training course or decided against obtaining loan	<u>9</u> 24
Applicants determined ineligible by FHA:	
Sufficient resources to obtain other financing	11
Poor debt-paying record and/or reputation	15
Did not possess physical and/or mental capacity to operate greenhouse	4
Training course dropout	3
Had no land to build greenhouse on	1
No reason shown in FHA records	<u>2</u> 35
Applicants not processed:	
Withdrawn	6
Pending before county committee	6
Canceled due to lack of EO loan funds	<u>3</u>
Total	<u>75</u>

of their newly learned skills but also to give the trainees employment. The result was that, instead of growing floral products in their own greenhouses as originally planned, the trainees began producing floral products on the project site that were sold by the cooperative, which aggravated the unfavorable competition controversy.

The district's February 1968 feasibility report on the floriculture project stated that about 150 individual members would be needed to sustain the cooperative. As of September 1971 there were only 19 cooperative members. Project officials informed us that success of the cooperative was dependent upon having a sufficient production of floral products for sale to meet fixed expenses.

Because only a few trainees could obtain financing to build and equip their own greenhouses, production has fallen far short of the cooperative's needs. Since it was chartered in April 1971, records of the cooperative show that it has sustained a cumulative operating loss of \$118,200 over the ensuing 5-month period.

* * * * *

"Although not graduate horticulturists, [the trainees] nevertheless are pragmatic growers of quality flowers and shrubs for a profit."

* * * * *

"*** I would hope that the Agency could very quickly make its commitment to the applicant, in order that the multitudinous benefits to flow from this project might soon enhance the economic outlook of an entire area."

The evidence showed that the methodology in accomplishing the above goals was delegated to the district without any attempt by EDA and the regional commission to ensure that the goals were being achieved.

Federal advisory committee

As early as 1968 a committee was formed for the purpose of coordinating and monitoring the project from the Federal level. This committee, usually referred to as the Federal Advisory Committee,¹ was composed of representatives from HUD, HEW, FHA, EDA, regional commission, Manpower Administration, and OEO.

Minutes of committee meetings, which have been held intermittently since July 1968, showed that, although the problems and controversies associated with the project had been discussed and each representative had promised individual action, there did not seem to be a coordinated effort to try to get them resolved.

CONCLUSIONS

Many of the problems which generated some of the controversy associated with the project were caused by the

¹Sometimes included State and local representatives when committee meetings were conducted under the auspices of the Governor's Committee for Coordinating Opportunities in South Central Georgia.

CHAPTER 5

SCOPE OF REVIEW

We reviewed legislation; regulations; policies; procedures; practices; Federal grant agreements; and related documents applicable to authorizing, initiating, financing, and administering the floriculture project from its inception in February 1968 through September 1971. We held discussions with Federal, State, and local officials having management and administration responsibilities for initiating, administering, and operating the project. We also interviewed private florists and nursery industry officials.

Financial data and transactions related to the project and independent audits thereof were reviewed and analyzed. We also accompanied project officials on inspection tours to observe training being conducted, products being grown, and the physical layout of the training plant facility as well as individually owned greenhouses.

Following is a complete list of agencies and organizations contacted during our review.

<u>Federal</u>	<u>Location</u>
U.S. Department of Commerce Economic Development Administration	Washington, D.C. Huntsville, Alabama
Office of Economic Opportunity	Washington, D.C. Atlanta, Georgia
U.S. Department of Labor Manpower Administration	Washington, D.C. Atlanta, Georgia
U.S. Department of Agriculture Economic Research Service Farmers Home Administration	Washington, D.C. Washington, D.C. Atlanta, Georgia, and five Georgia county offices

BEST DOCUMENT AVAILABLE

FLETCHER THOMPSON
MEMBER OF CONGRESS

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Congress of the United States
House of Representatives
Washington, D.C. 20515

April 27, 1971

Honorable Elmer B. Staats
General Accounting Office
441 G Street
Washington, D. C. 20548

Dear Mr. Staats:

Enclosed is a complete file on the Georgia Floricultural Project.

This EDA trained project is in Dublin and, according to the information that I have been given, and supported by the file, no training actually takes place, but instead the trainees are used for low-cost labor.

In fact, I was told that the only instructor hired taught only one day and then was told he had no requirement to instruct the people in horticultural training. The big complaint of the florists is that these people are just spending their time building green houses for a coop that will be in direct competition with them.

Would you please have someone look through this information and give me a full report? I would like this file returned since it is my only copy.

Kindest personal regards.

Yours very truly,



FLETCHER THOMPSON
Member of Congress

FT/mr
Enclosure

cc: Mr. Cecil G. Brown