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

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AUG 5 - 1970

Dear Mr. Clay:

On February 4, 1970, you, together with Congressmen Robert N. C. Nix, Charles C. Diggs, Jr., Augustus F. Hawkins, John Conyers, Jr., Adam C. Powell, and Louis Stokes, and Congresswoman Shirley Chisholm, requested our Office to examine into the activities of the Farmers Home Administration, Department of Agriculture, in connection with the financing of recreational facilities such as golf courses for associations, with emphasis on certain specific questions.

During a meeting on March 3, 1970, with you, Congressman Charles C. Diggs, Jr., and staff members of three of the other Congressmen, it was agreed that (1) our review would include not only golf facilities but also all other types of recreational facilities financed by the Farmers Home Administration, such as swimming pools, tennis courts, recreation centers, and water sports, and (2) separate statistics of the same nature as requested in your letter for golf courses would be provided on each type of recreation facility. In accordance with other agreements reached at this meeting, we have obtained a substantial amount of statistical data related to the association recreation loan program through our analyses of questionnaires and through other information available at the National Headquarters Office of the Farmers Home Administration.

In August 1969 the Farmers Home Administration initiated a review of its association recreation loan program and required each of its county supervisors to complete a questionnaire for each association which had received a loan for the construction of recreational facilities from inception of the program in September 1962 through August 1, 1969. The completed questionnaires, for the most part, represented the most recent information available on loans made under this program. As of June 1, 1970, the Farmers Home Administration had not issued a report on the results of its review of the association recreation loan program.

LOANS

We also reviewed (1) the policies and procedures under which the Farmers Home Administration administers the association recreation loan program, (2) pertinent legislation relating to the civil rights aspect of the program, and (3) an internal audit report of the Office of the Inspector General, Department of Agriculture, on its review of the association recreation loan program.

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Information and our comments relating to each of the 11 questions raised in your letter of February 4, 1970, are included in the enclosure to this letter. Also, certain additional information is provided which we believe may be of assistance to you. The additional information relates to (1) the number of loans made and the types of recreation facilities which were approved by the Farmers Home Administration from August 2, 1969, through March 31, 1970, and (2) the amount of recreation loans made in fiscal years 1968 and 1969 and the amount of loans the Farmers Home Administration expects to make in fiscal years 1970 and 1971.

We have informally discussed the information presented in the enclosure with officials of the Farmers Home Administration.

This report is being forwarded to each of the other members of the Congress who signed the request.

We plan to make no further distribution of this report unless copies are specifically requested and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you or one of the other congressional representatives concerning the contents of the report.

We will be glad to discuss these matters further with you and the other members of the Congress who signed the request or designated staff members and to obtain additional information if you so desire.

Sincerely yours,



Comptroller General
of the United States

Enclosure

The Honorable William L. Clay
House of Representatives

GENERAL ACCOUNTING OFFICE
SUMMARY OF INFORMATION REGARDING
THE ASSOCIATION RECREATION LOAN PROGRAM

FARMERS HOME ADMINISTRATION
DEPARTMENT OF AGRICULTURE

INFORMATION REGARDING QUESTIONS RAISED

1. Total loans made or insured by Farmers Home Administration under its association recreation loan program from inception of the program in September 1962 through August 1, 1969.

<u>Type of facility</u>	Direct loans (note a)	Insured loans (note b)	<u>Total</u>
Golf, with other types of facilities	15	391	406
Golf only	18	197	215
Swimming only	5	58	63
Other--such as baseball diamonds, water sports, shooting sports, winter sports, and recreation centers (note c)	<u>7</u>	<u>142</u>	<u>149</u>
Total	<u>45</u>	<u>788</u>	<u>833</u>

^a Direct loans to associations are financed by Treasury borrowings and are made from the Farmers Home Administration's Direct Loan Account.

^b Insured loans are generally made to associations from the Farmers Home Administration's Agricultural Credit Insurance Fund. After making these loans at interest rates not to exceed 5 percent, the Farmers Home Administration sells the association notes to private investors for periods ranging from 1 to 25 years and guarantees repayment of the loans. At June 1, 1970, the Farmers Home Administration was selling association notes to private investors at interest rates in excess of 8 percent.

^c These facilities were generally constructed in various types of combinations and the portion of loan funds used to develop each type of facility was not readily available from the records of the Farmers Home Administration.

2. Total borrowers requiring membership and requiring payment of fees and total borrowers not requiring membership and payment of fees, as of August 1, 1969.

Membership required by <u>Type of facility</u>	<u>Number of borrowers</u>		Total (note a)
	<u>Public organization</u>	<u>Private nonprofit organization</u>	
Golf, with other types of facilities	1	314	315
Golf only	1	176	177
Swimming only	1	55	56
Other	<u>6</u>	<u>125</u>	<u>131</u>
Total	<u>9</u>	<u>670</u>	<u>679</u>
Membership not required by type of facility			
Swimming only	1	-	1
Other	<u>2</u>	<u>-</u>	<u>2</u>
Total	<u>3</u>	<u>-</u>	<u>3</u>
Total	<u>12</u>	<u>670</u>	<u>682</u>

The range of initial membership fees to join associations as of August 1, 1969.

<u>Type of facility</u>	Number of associations (exclusive of the three associations not requiring membership)	<u>Range of fees (in dollars)</u>				
		<u>0</u>	<u>1 to 50</u>	<u>51 to 100</u>	<u>101 to 200</u>	<u>Over 200</u>
Golf, with other types of facilities	315	15	25	118	106	51
Golf only	177 ^b	43	38	70	17	8
Swimming only	56 ^c	9	30	9	5	2
Other	<u>131^b</u>	<u>30</u>	<u>82</u>	<u>16</u>	<u>2</u>	<u>-</u>
Total	<u>679</u>	<u>97</u>	<u>175</u>	<u>213</u>	<u>130</u>	<u>61</u>

The range of annual membership dues assessed by associations as of August 1, 1969.

<u>Type of facility</u>	Number of associations (exclusive of the three associations not requiring membership)	Range of annual dues (in dollars)				
		<u>0</u>	<u>1 to 50</u>	<u>51 to 100</u>	<u>101 to 200</u>	<u>Over 200</u>
Golf, with other types of facilities	315 ^d	1	9	72	211	20
Golf only	177 ^e	1	37	92	41	5
Swimming only	56	3	47	6	-	-
Other	<u>131^e</u>	<u>14</u>	<u>90</u>	<u>21</u>	<u>5</u>	<u>-</u>
Total	<u>679</u>	<u>19</u>	<u>183</u>	<u>191</u>	<u>257</u>	<u>25</u>

^aSome borrowers received more than one loan under the program. The 682 borrowers had received the 833 loans shown in item 1.

^bOne association did not indicate whether initial membership fees were charged.

^cOne association required the purchase of 25 shares of stock, but the cost per share was not shown.

^dTwo associations did not indicate whether they required annual membership dues.

^eOne association did not indicate whether it required annual membership dues.

3. Total funds loaned by the Farmers Home Administration under its association recreation loan program from inception of the program in September 1962 through August 1, 1969.

<u>Type of facility</u>	<u>Direct loans</u>	<u>Insured loans</u>	<u>Total</u>
Golf, with other types of facilities	\$1,796,120	\$57,427,651	\$59,223,771
Golf only	1,153,600	16,234,910	17,388,510
Swimming only	316,450	3,860,280	4,176,730
Other	<u>308,950</u>	<u>9,761,150</u>	<u>10,070,100</u>
Total	<u>\$3,575,120</u>	<u>\$87,283,991</u>	<u>\$90,859,111</u>

4. Number of association borrowers that have integrated facilities with no restrictions upon membership by Negroes or other minority citizens.

The questionnaires completed by the Farmers Home Administration's county supervisors in August 1969 did not contain information on how many associations have integrated facilities with no restrictions upon membership by Negroes or other minority citizens. Our analysis of the completed questionnaires showed that, of the 682 associations, 106 were reported to have minority members. Our analysis showed also that, of the 106 associations, 52 had no Negro members; 33 had one to four Negro members; and 21 had five or more Negro members. The types of facilities and the membership of the 106 associations follows.

<u>Type of facility</u>	Number of associations	<u>Membership</u>			
		<u>Total</u>	<u>White</u>	<u>Negro</u>	<u>Other</u>
Golf, with other types of facilities	31	8,050	7,686	66	298
Golf only	27	5,140	5,038	17	85
Swimming only	13	3,984	2,851	474	659
Other	<u>35</u>	<u>24,394</u>	<u>11,140</u>	<u>12,856^a</u>	<u>398</u>
Total	<u>106</u>	<u>41,568</u>	<u>26,715</u>	<u>13,413</u>	<u>1,440</u>

^aOne association was reported to have 12,000 Negro members.

5. Instances in which an investigation into the composition of the memberships of these association borrowers have been conducted.

The Office of the Inspector General, Department of Agriculture, made a review of 107 associations in 14 States and issued a report in January 1970 covering the results of its review. In summary, the report pointed out that the associations generally did not benefit minority groups in their communities. Sixty-five of the 107 associations were located in areas with substantial minority groups, usually Negroes. The report pointed out that of the 107 associations, only 10 had members from minority groups. The Office's workpapers on the 10 associations did not contain information on the extent of integration.

In August 1969 the Farmers Home Administration initiated a review of the association recreation loan program and required each of its county supervisors to complete a questionnaire for each association which had received a loan for the construction of recreation facilities from inception of the program in September 1962 through August 1, 1969. In order to complete the questionnaire, the county supervisors had to obtain information on the composition of the membership of each association.

A Farmers Home Administration official advised us that, as of June 1, 1970, the Farmers Home Administration had not issued a report covering the results of its review. He advised us also that the Administrator, Farmers Home Administration, had assigned an individual to review the information on a state by state basis.

6. Total membership of all associations and the number of Negro members from inception of the program in September 1962 through August 1, 1969.

<u>Type of facility</u>	<u>Number of associations</u>	<u>Membership</u>			
		<u>Total</u>	<u>White</u>	<u>Negro</u>	<u>Other</u>
Golf, with other types of facilities	315	68,956 ^a	67,954	271	298
Golf only	177	29,332	29,230	17	85
Swimming only	57	13,222	11,538	1,025	659
Other	<u>133</u>	<u>37,661^b</u>	<u>23,003</u>	<u>13,330^c</u>	<u>398</u>
Total	<u>682</u>	<u>149,171</u>	<u>131,725</u>	<u>14,643</u>	<u>1,440</u>

^aOne association with 433 members did not show a breakdown of members according to race.

^bTwo associations with 930 members did not show a breakdown of members according to race.

^cOne association was reported to have 12,000 Negro members.

7. Number of loans made to associations with all Negro members and to associations with predominantly Negro members from inception of the program in September 1962 through August 1, 1969.

NUMBER OF ASSOCIATIONS HAVING ALL NEGRO MEMBERS

<u>Type of facility</u>	<u>Number of associations</u>	<u>Number of members</u>	<u>Number of loans all insured</u>	<u>Amount loaned</u>
Golf, with other types of facilities	1	205	2	\$208,650
Swimming only	3	551	4	170,580
Other	<u>8</u>	<u>474</u>	<u>10</u>	<u>215,980</u>
Total	<u>12</u>	<u>1,230</u>	<u>16</u>	<u>\$595,210</u>

NUMBER OF ASSOCIATIONS HAVING PREDOMINANTLY NEGRO MEMBERS

<u>Type of facility</u>	<u>Number of associations</u>	<u>Membership</u>				<u>Number of loans all insured</u>	<u>Amount loaned</u>
		<u>Total</u>	<u>White</u>	<u>Negro</u>	<u>Other</u>		
Swimming only	1	318	4	314	-	1	\$ 70,000
Other	<u>6</u>	<u>12,864</u>	<u>184</u>	<u>12,680^a</u>	<u>-</u>	<u>7</u>	<u>420,000</u>
Total	<u>7</u>	<u>13,182</u>	<u>188</u>	<u>12,994</u>	<u>-</u>	<u>8</u>	<u>\$490,000</u>

^aOne association was reported to have 12,000 Negro members.

8. Number of loans, if any, that have been canceled.

According to Farmers Home Administration officials, no loan under this program has been foreclosed or written off. However, Farmers Home Administration records show that, as of February 1, 1970, 152 of the 682 associations were delinquent on repayment of their loans, in the amount of \$2,465,027.

9. Number of loans, if any, that are in violation of title VI of the Civil Rights Act or any other Federal law or policy.

Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d) vests in each department and agency empowered to extend Federal financial assistance the responsibility for enforcement of the national policy that no person shall, on the ground of race, color, or national origin, be subject to discrimination under any program or activity receiving Federal financial assistance. (See 28 CFR 50.3(b), for guidelines promulgated by the Attorney General for the enforcement of title VI.) Title VI also provides the procedures for an express administrative finding of noncompliance after an opportunity for a hearing and a report of the case to the legislative committees having jurisdiction over the program or activity involved.

The Department of Agriculture has promulgated regulations (See 7 CFR 15) to carry out the provisions of title VI which are applicable to the association recreation loan program administered by the Farmers Home Administration. The regulations provide, among other things, that any person who believes himself or any specific class of individuals to be subjected to discrimination prohibited by the regulations may by himself or by an authorized representative file with the Secretary of Agriculture or any agency of the Department a written complaint. The regulations also provide that the complaint:

--be filed not later than 90 days from the date of the alleged discrimination, unless the time for filing is extended by the Secretary or the agency,

--be promptly referred to the Office of the Inspector General, and

--be investigated in the manner determined by the Inspector General and such further action taken by the Secretary of the agency as may be warranted.

Farmers Home Administration officials have advised us that they have not received any complaints from individuals or organizations of discrimination by associations assisted under the association recreation loan program and that there is not pending any administrative action to terminate or refuse to continue assistance because of noncompliance with the departmental regulations seeking to effectuate title VI of the Civil Rights Act of 1964.

10. Number of associations that attracted industry to rural-oriented areas.

The questionnaires completed by the Farmers Home Administration's county supervisors stated that, of the 682 associations, 150 had attracted a total of 231 industries to rural areas. The questionnaires did not contain any indication of the basis on which a decision was made that the industries had been attracted by the presence of the recreational facilities. Farmers Home Administration officials advised us that they did not provide the county supervisors any specific criteria for use in making such a determination.

11. The General Accounting Office's previous investigation into the Farmers Home Administration recreation loan program.

The General Accounting Office made a review of the association recreation loan program and issued a report in September 1966 to the Administrator, Farmers Home Administration. Our report pointed out that there was a need for the Farmers Home Administration to (1) make adequate determinations that recreational facilities will primarily benefit farmers and rural residents, (2) obtain assurance that land purchased with loan funds will be limited to recreational use, and (3) define the type of clubhouse facilities which may be constructed with loan funds.

We noted that the 1970 Office of the Inspector General, Department of Agriculture report pointed out weaknesses similar to some of those reported by our Office in September 1966.

The General Accounting Office is presently making a review of loans made by the Farmers Home Administration to individual farmers, associations, and municipalities for rural recreational facilities. This review was initiated in June 1969 and is still in process. The areas being reviewed relate to the (1) eligibility and feasibility of recreation projects. (2) degree of

the Administration's analysis of the financial soundness of the projects, (3) extent to which the borrowers are meeting the loan closing conditions, (4) extent to which the Administration is involved in approving significant changes in construction contracts, (5) existence and feasibility of operations and management plans for projects, and (6) extent to which the Administration is timing cash advances with the cash requirements of the borrowers.

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OTHER RELATED INFORMATION

1. Number of loans closed by the Farmers Home Administration from August 2, 1969, through March 31, 1970. (Membership composition and membership fee data for the associations to whom the loans were made is not available at the Farmers Home Administration Headquarters Office.)

<u>Type of facility</u>	Number of borrowers (note a)	Number of <u>loans</u>	Amount of <u>loans</u>
Golf, with other types of facilities	33	36	\$3,874,990
Swimming only	2	2	41,500
Other	<u>9</u>	<u>9</u>	<u>1,236,000</u>
Total	<u>44</u>	<u>47^b</u>	<u>\$5,152,490</u>

^aAll loans were made to private, nonprofit organizations.

^bLoans were made from the Farmers Home Administration Agricultural Credit Insurance Fund.

2. Amount of recreation loans made in fiscal years 1968 and 1969 and the amount of loans the Farmers Home Administration expects to make in fiscal years 1970 and 1971.

<u>Fiscal year</u>	Amount of loans (<u>in millions</u>)
1968	\$23.9
1969	18.3
1970	7.0 ^a
1971	2.0 ^a

^aEstimated