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

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Dear Senator Proxmire:

Pursuant to your request of February 24, 1972, we examined Mr. Paul R. Wooley's contention that an investigation by the Department of Agriculture's Office of the Inspector General of his charges of fraud and misuse of Federal funds may have been incomplete. The charges were made in connection with a Farmers Home Administration loan to extend the water system of Rural Water District No. 2 in Okmulgee County, Oklahoma.

We examined the material enclosed with your letter, the Office of the Inspector General's investigation report, and the pertinent files and records on the project loan to determine whether a detailed review by our Office would produce significant additional facts bearing on Mr. Wooley's charges. Also we interviewed officials of the Inspector General's office, the Farmers Home Administration (FHA), and the Department's Office of the General Counsel. Information on the project and results of our examination follow.

FHA made a loan of \$136,000 to the water district in March 1966 for the construction of a water distribution system to serve farmers and rural residents near Preston, Oklahoma. The water district obtained a supplemental FHA loan of \$175,000 in April 1968 to extend the water system to serve 152 additional users in Natura-Twin Hills.

On January 16, 1968, the chairman and the secretary-treasurer of the water district's board of directors certified to FHA that, with the 144 users of the original system, the water district had a total of 296 users who had signed water users' agreements.

The Inspector General's office investigated the project loan at the request of the U.S. Attorney, Eastern District of Oklahoma, who had received complaints of irregularities regarding the water district from Mr. Wooley and two other persons representing a group of the water district's users. The complaints included:

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- Officers of the water district had falsely certified to FHA the number of users before the supplemental loan was closed and had increased monthly user rates by \$2 for each user in January 1971, after the lack of enough users caused delinquency in payments on the loan.
- A person had borrowed about \$1,100 from a bank to make up the difference between funds paid by users and funds which would have been paid if 296 users had been obtained, and the water district's board of directors had voted funds of about \$500 to pay on the bank loan.
- The water district had been completely mismanaged with total disregard for the bylaws and interest of the membership.

The Office of the Inspector General reported on its investigation on November 4, 1971. The report, which contained detailed information on the complaints, stated that:

- The number of members who had signed for water service was less than the 296 certified to FHA.
- Two users had borrowed \$1,198 from a private bank to make up the difference between funds paid by users and funds which would have been paid if 296 users had been obtained. The loan had been repaid partially with funds voted from the water district's treasury and partially from new users' fees which had never been accounted for in the water district's books.
- The water district's board of directors, in many instances, had disregarded the water district's bylaws, had failed to submit reports required by FHA, and had shown total disregard for the membership.

We understand that the U.S. attorney, after reviewing the Inspector General's investigation report on the project loan, decided that there was no basis for Federal action against the project sponsors. Officials of the Inspector General's office and of the Department's Office of the General Counsel told us that they believed that FHA had been partly to blame for not verifying independently that the water district had had the number of users certified before the time of loan closing. They said that, although they were not experts in criminal law, they believed also that Federal criminal action would not be practical.

We asked an FHA official what action the agency had taken or had planned to take as a result of the Inspector General's investigation. He said that the agency had overseen and would continue to oversee closely the water district's board of directors and to give them counsel, advice, and guidance in the proper operation and maintenance of the water facility and in the management of the water district's financial affairs. He said that local people elected the board of directors and that the agency would not take action to dictate who should or should not be on the board.

FHA records showed that, as of December 31, 1971, the water district had been current in payments on the loan and had had 288 users and 20 potential users on the waiting list. These records indicated that the water district might soon have, or might have more than, the minimum 296 users certified at the time of loan closing in April 1968. In March 1971, shortly after the user rates were increased, the chairman of the water district wrote a letter to all users in which he expressed the goal of the water district to reduce water rates at the earliest possible time.

In our opinion, the Inspector General investigated thoroughly the questions Mr. Wooley raised about the project loan. We believe that further review by us would not produce any significant additional facts relating to the complaints.

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In connection with the matter in question, you may be interested in a report issued by our Office in April 1971, entitled "Financial Feasibility of Rural Water and Sewer Systems Should Be Checked More Thoroughly" (B-114873, Apr. 21, 1971). We have enclosed a copy of that report, in which we stated that FHA often had not independently verified borrowers' lists or statements of potential users which had been furnished as evidence that the minimum number of users had been obtained to support fully the operation of their systems. As a result, many borrowers had lacked sufficient users and had become delinquent on their loans.

We have enclosed copies of FHA Bulletin 4065(442), dated August 24, 1971, and its proposed amendments to the Code of Federal Regulations (see 37 F.R. 4276-4278), which indicate that the agency has taken, or will take, various actions consistent with recommendations in our report. These actions should overcome the problems described in our report and should help to prevent situations such as occurred in the subject water project loan.

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Officials of the Department of Agriculture have not had an opportunity to formally review and comment on this report; however, this report was based on information available in their files or furnished by them.

We are enclosing the material you received from Mr. Wooley and sent to us. We shall be pleased to discuss these matters with you or members of your staff if you desire.

Sincerely yours,


Deputy Comptroller General
of the United States

Enclosures - 4

The Honorable William Proxmire
United States Senate