

**POSSIBLE ABUSE AND MALADMINISTRATION OF HOME
REHABILITATION PROGRAMS FOR THE ELDERLY**

HEARINGS
BEFORE THE
SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE
NINETY-SIXTH CONGRESS
SECOND SESSION

SANTA FE, N. MEX.
OCTOBER 8, 1980

WASHINGTON, D.C.
DECEMBER 19, 1980



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**POSSIBLE ABUSE AND MALADMINISTRATION OF HOME
REHABILITATION PROGRAMS FOR THE ELDERLY**

WEDNESDAY, OCTOBER 8, 1980

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Santa Fe, N. Mex.

The committee met, pursuant to notice, at 9 a.m., in the auditorium, National Guard Armory, Senator Lawton Chiles, chairman, presiding.

Present: Senators Chiles, Melcher, and Domenici.
Also present: E. Bentley Lipscomb, staff director; David A. Rust, minority staff director; Charles H. Morley, chief investigator; and Kathleen L. Makris, minority office manager.

WELCOMING REMARKS BY SENATOR PETE V. DOMENICI

Senator DOMENICI. Mr. Chairman, before you make your opening statement, let me welcome you, Senator Chiles and Senator Melcher, to New Mexico and to this day of hearings. I know it is inconvenient and very difficult for both of you, in the middle of our recess, to take time from your busy schedules to be here. I am sure that all New Mexicans will appreciate it. We think we have a problem which deserves the attention of the Senate. By your presence, and by this hearing, we are hopeful we can take care of some of the issues that have been discovered in our State.

Therefore, on behalf of our State, we are most appreciative of your being here. We welcome you. We hope it hasn't been too difficult for you. We hope the hearing will go well.

All the witnesses the committee has asked for are here. We are ready to proceed.

Thank you, again.

OPENING STATEMENT BY SENATOR LAWTON CHILES, CHAIRMAN

Senator CHILES. Thank you very much, Senator Domenici. I know that Senator Melcher and I are glad to be here. We wish it were under better circumstances. We are delighted to have an opportunity to be in your State.

The Senate Committee on Aging is a committee that has been operating for a number of years in a very bipartisan manner, and continues to do so. Even now, when we are in very partisan times, a time of the year which is very partisan, the work that you have done on the committee as the ranking minority member is exemplary, and certainly Senator Melcher has long been interested in the problems that we are

dealing with, and problems of our senior citizens. He also is an expert in rural problems.

Today's hearing is the result of our investigation into the Farmers Home Administration home rehabilitation program in northern New Mexico. An investigation was conducted by the committee at the request of our ranking minority member, Senator Domenici. Though we will focus primarily on the Farmers Home grant under section 504 of the Housing Act, we will also discuss other home rehabilitation programs which provide similar services to the same constituents.

One of my concerns over a number of years has been the extent of the duplication and overlap which arises when Federal programs are administered by several agencies. The Federal housing program is a program in point. Among the housing programs available in New Mexico are those administered by Farmers Home, by the Community Services Administration, by the Department of Housing and Urban Development, the Department of Energy's weatherization grant program, and the New Mexico Housing and Rural Development Authority rehabilitation grant.

It has been my experience that unless these types of similar agency programs are very tightly managed, they can easily overlap and result in a waste of the taxpayer's money. Congress, of course, intended for these various programs to complement each other. After seeing some of the programs discovered in New Mexico, we decided that we would take a quick look at some of the section 504 programs, and look at the way the program was working in several other States.

We found, in looking at Florida and Pennsylvania, that Farmers Home make excellent use of the community, State, and Federal programs to get more productivity out of their limited section 504 funds that could otherwise be possible. This type of efficiency is going to be required of all of our Federal programs in the future as inflation makes us tighten our belts more and more.

In the two rural counties we were able to look at in Florida, we found that Farmers Home uses CETA labor supplied by a multi-county organization to rehabilitate the houses receiving 504 grants. Workmanship on the houses that we inspected appeared to be quite good. In Pennsylvania, CETA workers are used in several counties to locate people eligible for the 504 grants. The CETA workers then assist the applicants in packaging their application and finding contractors and otherwise assisting them throughout the grant process.

In Pennsylvania, we saw another instance where Farmers Home offices used both CETA and Green Thumb part-time help in their programs to help assist them in their heavy caseload.

In contrast, we are going to hear from several witnesses today who have received two or more grants from different agencies, and whose houses still have not been properly rehabilitated. Rather than complement each other, one program was apparently trying to remedy the problem created by a previous program. This, of course, is not at all what Congress had in mind in establishing the various housing programs. It looks like the failure was right from the outset. Once that failure had occurred, then we were kind of throwing good money after bad.

For those of you who are not familiar with the various programs, I would like to briefly outline the four we will be looking at today.

The Farmers Home section 504 grants provide up to \$5,000 to rehabilitate homes of the rural elderly of limited income so as to remove health and safety hazards.

Then we have the Department of Energy's weatherization program, which is administered at the local level through community action agencies. It provides up to \$560 in grant funds to be used by people of limited income to purchase insulation, doors, windows, et cetera. The labor for this program is generally provided by CETA workers.

Then we have HUD block grants that can be used in part to rehabilitate homes owned by low-income families. Unlike the Farmers Home grants, these HUD grants are not restricted solely to the elderly.

Finally, the State Housing and Rural Development Administration grants are Federal grants that are matched with State funds for use in home repair and rehabilitation of low-income families.

We know that these programs have been effective in other locations. We hope that this is the rule rather than the exception. Unfortunately, we have received information that there are some rather severe problems in northern New Mexico. Our hearing today is going to take a closer look at these programs and hope that if such a problem exists, we, as a committee and Members of Congress, will be able to prevent their recurrence elsewhere.

Another thing we will be looking into today, and perhaps in the future, is when these problems come to light, as they have by the investigation that Senator Domenici triggered originally, what is happening then? Is the corrective process working? Once someone rings the bell, once the auditors come in, is someone following up? What we find many times is that even where auditors discover problems, and it looks like this is true in northern New Mexico too, no one follows up on that auditors' report. No one determines whether the auditor has found what amounts to fraud or not. We pride ourselves with thinking that we have now established an Inspector General in most of the agencies of the Federal Government. The Inspector General is to be that force within that agency that is to self-police it. Yet, if the auditors are not meshing with the inspectors, if they are not talking to each other, if the auditors' findings are not looked at by someone in authority, someone in management who is going to do something about it, then we have created one more layer of bureaucracy, but nothing is going to happen. We will see what the results of that have been today, too.

Senator Domenici, again we are glad to be in your State. This is a problem that certainly needed to be brought to the attention of the committee. We are glad that you have done that. We look forward to hearing about it.

Senator DOMENICI. Thank you, Mr. Chairman.

I wonder if I might yield to Senator Melcher and let him make his opening remarks. Then I will make mine last, if that is all right with you, John.

STATEMENT BY SENATOR JOHN MELCHER

Senator MELCHER. Thank you, Pete, and Mr. Chairman.

I first became aware of this set of circumstances when the committee met in executive session June 30 of this year. We then reviewed Dr. La Vor's memo, which was dated June 27, in the executive session.

I was quite shocked to learn that a very fine program, designed to help the elderly in their homes, was apparently being abused. I think there is, to put it in the vernacular, strong evidence of ripoffs of the elderly by contractors who are certainly not delivering fully in terms of labor and materials.

My State of Montana is pretty much like New Mexico. I suspect we could argue the better aspects of each State, but, frankly, I think they are pretty much alike.

We depend on the Farmers Home Administration and the Department of Agriculture programs in Montana, just as you do here in New Mexico, and just as so many other States do throughout the country.

In States like New Mexico and Montana where there are vast areas of big agricultural land but relatively few people, we look up to these agricultural programs as being part and parcel of what we are doing about the livelihoods of people in our States. Those of us who come from States like this have looked for years at how to improve the programs for rural areas. We chose the Farmers Home Administration to carry the ball for a great number of programs, including this one for the elderly, section 504.

It is not working very well in your area. The evidence isn't all in, and we can't draw a final conclusion.

But make no mistake, we want these programs to work. We are determined that they are going to work well. They are modest funding programs. When you look at the total funding—I think it is around \$24 million this year. That is a relatively small program out of the Federal budget. Nevertheless, it must work. It has got to work and it can't be allowed to falter or deteriorate.

I hope this committee hearing today will lead to a more effective 504 program and strengthen related housing programs for the elderly here in New Mexico and throughout the country. I am going to pay careful attention to just how these services are being delivered in my State of Montana. I have confidence in the Farmers Home Administration. If they sustain a black eye in one program, that may jeopardize their funding in a whole host of other programs. We could see going down the tube 10 years of hard work in Congress trying to move up the delivery of programs that are needed for the rural areas. To have them go down the tube because of slipshod management in a program such as 504, and have the rest of FmHA suffer as a result would be tragic. We want this program to work just as we want the rest of the elderly programs to work and as much as we want all worthy Federal programs to work. We have got to get the dollar's worth out of them.

STATEMENT BY SENATOR PETE V. DOMENICI

Senator DOMENICI. Thank you very much, John.

Mr. Chairman, you know it is my pleasure to have both of you here. You have traveled a great distance to be with us; to help with this program. Your concern, both as legislators and taxpayers, about the efficient, effective, and honest use of our Nation's resources is appreciated.

This is the first time the Senate Committee on Aging has held an investigative hearing in New Mexico to explore possible abuse and maladministration in Federal programs. I have played an active role in efforts to shape legislation and to help you, Mr. Chairman, in requesting appropriations, regulations, and public policies to better meet the needs of our older Americans. I have taken a special interest in the needs of rural New Mexicans and Americans. In many cases, they are the poorest, most isolated, and most underserved of our Nation's needy senior citizens.

Our committee has taken oversight responsibilities for a wide range of aging programs. On April 11 of this year, I chaired hearings of this committee in Las Vegas, N. Mex. These hearings were entitled "Rural Elderly—The Isolated Population: A Look at Services in the 80's." We heard testimony from senior citizens, service providers, State and local officials, and representatives of Federal agencies. During the hearing and the town forum which followed, several senior citizens raised questions about the operation of some of the Federal Government's programs in their counties.

An elderly resident from one of our very isolated communities charged that those individuals responsible for the housing rehabilitation program in Mora County used the program to "play favorites." He went on to state that the elderly firmly believed that many times the improvements made to homes went to those who least needed them, rather than to those that needed them the most. He said he knew of people who were pretty well off getting help, while those who were very poor didn't receive any help.

Another citizen complained of favoritism or nepotism, and later provided documentation to support his contention. As a result of revelations emerging from that hearing, I approached Senator Chiles to ask that he commence an investigation. The services of Dr. Martin La Vor were secured to carry out this investigation.

Over the last 4 months, Dr. La Vor and other members of our staff, have made numerous trips to New Mexico. They visited homes in three different towns, had conferences with Federal, State, and local officials, and met with numerous senior citizens who felt they had been poorly served.

I believe that the testimony we are about to receive will reveal an unfortunate pattern of shoddy workmanship, weak and ineffective supervision, and possible fraud. This is especially tragic because the victims are the old and very poor, many of whom are defenseless in the face of these abuses. They cannot cope with the complexities of government. Their plight sends a very strong signal that something is wrong. It has to be corrected.

It all boils down to making sure that those who run the programs are accountable. This hearing is an accumulation of this process. I hope it will help all of us to understand the problems and why they exist and where the responsibility lies. We must determine what steps can be taken to insure there won't be a repetition.

I hope these hearings will be constructive, Mr. Chairman, and enable us, as national legislators, to identify specific problems; and then apply specific solutions to eliminate them.

Mr. Chairman, some of our witnesses may have difficulty with English. We have an interpreter. I can help them translate to some extent. I hope they will all try to speak as much as they can in English because we do have limited time. You have to leave early. I hope you will understand some of them will have difficulty. I think this also points to the nature of the bilingual problems we have in terms of contracts.

Thank you, Mr. Chairman.

Senator CHILES. Dr. Martin La Vor will be our first witness.

Dr. La Vor, we are going to swear all our witnesses because this is an investigative hearing.

STATEMENT OF DR. MARTIN LA VOR, INVESTIGATOR/CONSULTANT, U.S. SENATE SPECIAL COMMITTEE ON AGING

Dr. LA VOR. I would like to take this opportunity to extend my appreciation to you, Mr. Chairman, to you, Senator Domenici, and Senator Melcher, and your personnel and committee staffs for the kindness and cooperation given me throughout this investigation. It is thoroughly appreciated and most helpful to me.

Mr. Chairman, I have prepared a detailed report.

Senator CHILES. Without objection, it will be made a part of the record.

Dr. LA VOR. As well as the first investigative report?

Senator CHILES. Yes.¹

Dr. LA VOR. So in the interest of time, let me summarize the major findings of the investigation.

We found the rehabilitation work done on most of the homes was generally incomplete and of poor quality.

We found that the Farmers Home Administration—FmHA—and Community Services Administration—CSA—guidelines and procedures for awarding money and their methods for audit and evaluation are so loose they almost invite misuse.

We found elderly, low income, and handicapped individuals truly need help in rehabilitating their homes, since a large number of their houses are substandard and in need of repair.

We found that mismanagement of existing programs has resulted in the expenditure of Federal and State funds to such an extent as to actually frustrate and even circumvent the objectives Congress established to meet the pressing needs of low-income rural elderly.

We found the rules, regulations, and procedures promulgated by the national FmHA office were generally not adhered to in the three counties investigated. This breakdown in the management of the program appears to be a major cause of the problems which were observed.

We found duplication and overlap of programs.

We found programs funded by different agencies and authorized by different laws being used for the same purposes and for the same target populations.

We found money provided by one program is often used to do, redo, or correct work that was already done by another.

We found there is little, if any, coordination or communication between the Farmers Home Administration, the State Housing and

¹ Retained in committee files.

Rural Development Authority, the Department of Housing and Urban Development, the Department of Health and Human Services, the Department of Energy, the Office of Community Affairs in New Mexico, or at the regional or Federal levels.

We found evidence that nepotism was a factor in the awarding of grants and the selection of contractors.

We found some evidence of possible double billing for the same job.

Mr. Chairman, at this point, a brief explanation about how this investigation evolved is in order. In late May, I came to New Mexico for the first time to examine the operation of several programs for the elderly. Except for a courtesy call on the New Mexico State Agency on Aging, I made no contact with any of the agencies involved. I met primarily with older New Mexicans, including John Haberl, who was one of the senior citizens who spoke up at the April 11 hearing. Mr. Haberl and others showed me several homes in the Las Vegas area which had received Federal rehabilitation assistance grants. Each contact seemed to lead to another. I visited homes in other parts of San Miguel, Mora, and Rio Arriba Counties and was surprised by what I found. Many homes were small and in need of extensive repair even though they had already received one or more home improvement grants funded by the Federal Government. I took pictures of each home and made notes about what I had observed.

Mr. Chairman, I would like to show the committee some slides made from photographs I took of these houses so that you may gain a better understanding of what I found.

I would point out, Mr. Chairman, that the owner of this home is not here today and has not been called as a witness.

Let me first describe what this home received from grants. There was a weatherization grant for \$791.37. I have the purchase order here. The \$791 goes for material only. They purchased three storm windows, one storm door, two solid core doors, 38 12-foot tin roof strips, six pieces of sheetrock, four rolls of insulation, miscellaneous lumber, and other materials.

Senator CHILES. Is this an "after" picture?

Dr. LA VOR. This is after these three grants that I am going to describe to you.

That was the weatherization grant.

They received a Farmers Home 504 grant. I will read from the actual file what that grant was supposed to do.

"Grant will repair roof, sheetrock in bedroom and kitchen, replace two exterior doors, replace three windows and one plate glass." That grant was for \$3,400. So we have \$791.37 for the first grant, \$3,400 for the second. That home subsequently received a grant from the State housing authority. I will read the official description from that grant. "Grant will be used to repair roof," which is a duplication of the first one, "install new windows," which is a duplication of the first grant, weatherization grant and the Farmers Home grant. "and door in kitchen," which is a duplication, "and install new electrical wiring in the dwelling."

At this point, Mr. Chairman, we are going to show nine slides. I would just like to point out what we found. These were taken in July of this year after all the work was completed.

This [indicating] is the window that was put in in the weatherization grant, the storm door. This is what you find throughout northern New Mexico. The windows are put in solidly, but the house generally needs to be painted. That is not the problem. On this house there was electrical work put in. The contractor broke into the wall here [indicating]. When I came 1 year after the work was done, this [indicating] area was still exposed.

These [indicating] are two more windows in the back that were not done by the weatherization. You can see the difference. There are better slides coming up.

One of the reasons this house was fixed was that the roof leaked. The roof was repaired and this [indicating] is still open. Right here [indicating] you can see through. That [indicating] is sunlight. Right here [indicating] is sunlight. The house is still open. The owner of the home told me that the roof leaked worse now than before they started working.

This [indicating] just shows you what the condition of the wall is.

This [indicating] door was supposed to have been replaced and it was not. There is so much wind coming in that they have actually used cardboard for insulation at this point.

Here [indicating] is a window put in by the contractor. You can see here an example of how it is just kept open. Also the roof was supposed to have been fixed. The wood up there is rotting. There are no soffits on the roof and there is no insulation. Also, when it rains, the water comes down and comes through the window.

The next slide, this is the drainpipe coming from the sink. The water just comes out and goes right into the ground.

The contractor put these steps up. There is no railing. This is the steps. The purpose of the grant is to make homes safe and sanitary.

The total that this house received was \$7,691.37. There are many other examples, but this house is a reflection of the others and they will be presented later on in the morning as the witnesses seek to give their testimony.

Mr. Chairman, getting back to how the investigation evolved, after meeting with senior citizens and visiting approximately 10 homes, I drove to Villanueva and had an unscheduled meeting with Pete Gallegos, Sr., who is a leader of senior citizen activities in San Miguel County. During a lengthy conversation, in which many senior activities were discussed, I just happened to ask him whether any of the nearby homes had received rehabilitation grants from the Farmers Home Administration. Mr. Gallegos directed me to four homes which were within a few hundred yards of the general store he owns in the center of town. I found a striking difference between these homes and those I had observed earlier. The contrast was overwhelming because these homes were beautifully done and had received more and better work than anything I had seen before or since. Mr. Chairman, I would like to show some additional slides which will demonstrate what was done to these homes for their \$5,000 grants.

There are four slides of this home. This [indicating] is the outside. You can see the condition of the house was much better than most you will see later. They put on an entire new tin roof.

You can just go through the four slides. I will read what this house received. Installed a complete new tin roof, new kitchen cabinets, new

panel in several rooms, a new water heater, a new bathroom heater, two new windows, two new storm doors. They also had 10 to 15 sheets of sheetrock left over. The owner claimed that she still had money left over after all this work was done.

The next home, there are three slides. This home, installed a complete new tin roof, two storm doors, a new cement floor in the kitchen and dining room, the entire house was carpeted. They also installed a new water heater, and a new sink and a vanity. Finally, a cabinetmaker made a magnificent set of kitchen cabinets and he also hung the screen doors. In this home the owner also claimed to have had money left over.

Those [indicating] are the kitchen cabinets.

This is the outside of the next home. This home received a complete new tin roof, the entire ceiling in the house was replaced. New cement floor was laid throughout the house and it was covered with new vinyl linoleum. In addition, two rooms were paneled, a new space heater was placed in the bedroom, three storm doors, and four windows were installed. Finally, the kitchen received a new light and a double kitchen sink. The owner of this home also claimed to have money left over.

The next set. This is the fourth home I visited in Villanueva. The first three were done by the borrower method. In other words, the individuals who received the money did the work themselves with somebody to do it.

Senator DOMENICI. In other words, there was no contractor involved in completing this work?

Dr. LA VOR. Right, and all the money supposedly went just for materials.

Senator DOMENICI. Thank you.

Dr. LA VOR. This [indicating] home was done by a contractor. It was the same contractor who did the first home that I showed you. The only thing that was done on this home for \$5,000, the next slide, please, was a tin roof was added to part of the roof. I was told that the ceiling in the kitchen was plastered and the house was rewired. That was for a total of \$5,000.

So that was the contrast that I saw.

It was not until I left Villanueva that I learned that each of the four homes I just described belonged to relatives of Mr. Gallegos, who had sent me to them. The family relationship was further complicated when I discovered one of these homeowners was the grandmother, and it was the last home that I showed you, was the grandmother of Robert Madrid, an employee of the State Housing and Rural Development Authority, who was working in the county FmHA office in Las Vegas. Mr. Madrid had principal staff responsibility for dispensing funds in Mora and San Miguel Counties. In addition, FmHA County Supervisor Roberto Maese, delegated to Mr. Madrid the primary responsibility for managing the FmHA section 504 program in those counties as well. Later I learned he had developed at least 11 section 504 contracts and an undetermined number of State housing authority contracts that his cousin, Pete Gallegos, Jr., received. Mr. Gallegos, Jr., was the principal partner in the P. & P. Construction Co. and he is the son of Pete Gallegos, Sr., from Villanueva. His brother, Etimio Gallegos, was until several months ago, the director of the Sierra y

Llanos Community Action Agency, and the man responsible for dispensing the weatherization funds in San Miguel, Mora, and Colfax Counties.

In addition to these relations, I learned that FmHA applications, which are supposed to be processed in the order that they are received, were actually packaged and promoted by Mr. Madrid out of turn on a regular basis.

In early June, I returned to Washington and drafted my first investigative memorandum, which was submitted to the committee on June 27, 1980. Based upon my initial findings, the committee met and unanimously issued subpoenas requesting information from the P. & P. Construction Co., the First National Bank of Las Vegas, which administers a number of the "supervised bank accounts" under the section 504 program, and the Sierra y Llanos Community Action Agency, which administered the Department of Energy's weatherization program until a few months ago. In addition, records were requested and received from the FmHA and the State Housing and Rural Development Authority.

I subsequently made three additional trips to New Mexico, visited more homes, and had an opportunity to meet with State and local employees of the agencies involved, to explore with them, the problems I had detected.

Mr. Chairman, I visited approximately 20 homes in the area of northern New Mexico. These are the counties which receive 90 percent of the section 504 money and almost all of the State housing and rural development authority funding in the State. Every home I visited, regardless of the funding agency, with the exception of those homes of the family members that I just showed you in Villanueva, had poor or incomplete work. In every case, there was a failure to complete the work described in the development plan and, in most cases, a failure to meet State building code requirements.

The thrust of section 504 is to do work designed to make homes safe and sanitary. Judging from the homes this investigation touched, and those evaluated by the Department of Agriculture's Inspector General, the fundamental intent of Congress was not achieved.

As I gained access to additional files, I had an opportunity to compare homes that were funded by more than one agency. My wider access to official files opened a new avenue in the investigation that had not previously been anticipated.

By cross-referencing the files, I discovered that a number of the homes had received more than one grant. In some cases, I found evidence that homes had received grants from one or more agencies to do the same basic work. While agencies may argue that "piggybacking" is a way of "leveraging" additional funds from other sources, it appeared that they were using the resources of the other agencies to hide or cover up poor workmanship done under their own auspices. Instead of requiring a contractor to correct shoddy or incomplete work or take legal action to recover funds, the agencies tended to seek additional funds from another source to quiet complaints.

Mr. Chairman, it is difficult to specifically pinpoint why these problems exist. The explanation most often heard is that these programs are so small that they are not carefully monitored.

The section 504 program administered by FmHA spends, as Senator Melcher said, only \$24 million a year nationally. Of that, approximately \$500,000 was spent in New Mexico during the fiscal year 1980, 90 percent of it went to Mora, San Miguel, Rio Arriba, and Taos Counties.

Since it is small when compared to other programs administered by that agency, FmHA, it seems to just fall through the cracks. To illustrate how low a priority the Department of Agriculture places on the 504 program, you only have to look at the number of audits done on it.

During the last 3 years, there have been only three section 504 audits done nationally, throughout the entire country. All three were in northern New Mexico. None of the three was planned. They were initiated in response to a newspaper exposé and a complaint by a grant recipient.

The responsibility for many of the problems found in New Mexico must be placed on the shoulders of the directors of the State and local agencies who administer them. State and local supervisors have failed to exert adequate leadership in the administration of rural housing programs, particularly the section 504 program.

Mr. Chairman, one of the most frustrating aspects of this investigation was the discovery that the Inspector General's Office of the U.S. Department of Agriculture had already conducted three audits in Rio Arriba, Mora, and San Miguel Counties. These audits found many of the same problems that we have detected. One of these audits was completed 6 months before I first came to New Mexico.

In spite of the findings of these three audits and the voluminous backup material which accompanies each—Mr. Chairman, this is the actual backup material from the auditors that they found in this State—in spite of the findings of the three audits and the voluminous backup material which accompanies each, few actions appear to have been taken to correct the basic defects of the program and no discernible effort was made to locate and correct these homes which had received less than they were entitled.

The primary exceptions to this rule were those homes where the seniors themselves or their family members, were extremely vocal. In Rio Arriba County, attention was given to the four homes which were featured in a series of articles by the Rio Grande Sun.

Even though an intense effort was made by FmHA to correct the four houses in Rio Arriba County, it is my understanding that two of them have still not been completed, and that is almost 1 year ago.

Mr. Chairman, as I mentioned at the beginning of my remarks, I have a lengthy memorandum. It will be made as part of the record and I would proceed as you suggested.

Senator CHILES. Senator Domenici.

Senator DOMENICI. Mr. Chairman, I am aware that Dr. La Vor will be here for the remainder of the hearing. From my standpoint, I want to call him back during the day for additional questions.

I will ask one or two now.

I understand testimony concerning six different homes will be heard today by people owning them. Has there been an appraisal of what the value of the work actually is from an outside appraiser's standpoint?

Dr. LA VOR. Yes; the way we will present each of the six homes, I will read the development plan from the agency. We will show what was done through slides and I will read from the estimator's evaluation of what he felt the work, including labor, was worth.

Senator DOMENICI. Second, you indicate you have visited approximately 20 homes, including the 4 in Villanueva. These seemed to have received their money's worth, although not completed by contractors. How did you find the other 20 homes you visited?

Dr. LA VOR. As I said the first weekend I came into New Mexico, I didn't speak to any agencies. As a matter of fact, I didn't know what section 504 was that weekend. I was merely looking at programs for the elderly in general.

I met with some senior citizens from New Mexico and I just asked them what was happening and they started complaining. I said, "Can I see what you are talking about?" They took me to a home.

I was surprised and I took some pictures and then they said, "Let us take you to another home." I said, "Are there any other examples of this?" They took me to, I think, four or five homes that day.

Then I kept saying to the person who was driving me around, "There have to be other things that are going on in this area. Who are some of the senior citizen leaders?" Pete Gallegos, Sr.'s name came up. I said "Where does he live?"

Senator DOMENICI. To make it brief then, you do not know whether the condition of the remaining homes which were repaired, were exemplified by these 20?

Dr. LA VOR. Except—that was the first trip and that is how I got into it. I came back a second time. I had official lists from the agencies and all I did was pick homes at random. I pointed to a home and I said, "Let's go see this."

Senator DOMENICI. How many of the 20 are derived in this manner?

Dr. LA VOR. Fourteen. I also picked homes in Rio Arriba County that were not done by the Farmers Home order. I specifically picked homes that were done several years ago to see if it was just a new phenomenon that existed today, or it was a pattern from day No. 1.

Senator DOMENICI. Thank you, Mr. Chairman.

Senator CHILES. John.

Senator MELCHER. No questions.

Senator CHILES. Would you tell me, Doctor, when you finally got a chance to see this audit—and you told me you didn't know the audits were being done at the time you made the investigation—was it clear from the fact of the audit report itself the extent of what the problems were here?

Dr. LA VOR. Audits are generally very bland because they are cleansed down, but in these audits there was no question they had found everything we had found through our investigation.

But it wasn't until we called down to the Inspector General's Office that we asked for the backup material, that we were stunned, because there is more information in the backup material, in such detail, and it's far more detailed than I had the time or the opportunity to discover.

Senator CHILES. Do you know what happened as a result of the audits? What action, if any, had been taken by Farmers Home, USDA, the Inspector General of the USDA?

Dr. LA VOR. As I said and as you will see this morning, when relatives are the grantees or the grantees become very vocal, then there is some action taken. The first house I showed you is the home of a woman who never complained. So, the home wasn't repaired.

In Rio Arriba County, the four homes that were cited in the order have received an unbelievable amount of attention. In fact, somebody from the State office spent almost 2½ months up there just monitoring those three homes. He made at least 23 inspections on each one of them, and he actually helped the builder to complete some of the work on one of the homes. That was because the Rio Grande Sun was continuously investigating, so there was some pressure.

The homes that nobody pointed to, or they didn't receive complaints on, apparently nothing has ever been done.

Senator CHILES. As a result of the audits, were there any real management changes?

Dr. LA VOR. There were a few but I would suggest they are minimal. It just isn't apparent to us, yet, that there are substantive changes in the program.

Senator CHILES. All right, I suppose that we will go on now and put on our next panel.

Thank you, Doctor.

Our next panel will consist of individuals and people that were concerned with some of the housing in Mora and San Miguel Counties. I will ask them to all come up. I suppose we will have them all here at one time. Part will sit at the table and the rest will have to stand behind them.

If Mrs. Frank Maestas would come up, Roberto Maese, Mrs. Steven Handy, Robert Madrid, Pete Gallegos, Lee Pacheco, Steven Handy.

Do you all understand English?

Mrs. MAESTAS. Part ways.

Senator CHILES. I am going to ask you to stand and be sworn, if you would, please.

Do each of you swear the testimony you are about to give before the committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Dr. LA VOR. Mr. Chairman, the procedure we would like to follow with each of the panel is, I will introduce by reading what they received and then show you what we found; with the exception of this panel. I am going to read from the memo by the county supervisors.

This is the home of Mrs. Maestas. The Farmers Home narrative says:

The grant will replace the entire roof on dwelling, stucco cracks around windows and doors. Living room will be repaired and linoleum will be placed on the bathroom floor, as it is presently rough wood floor. Paneling and insulation will be installed on east and south wall in living room. Three new locks and doors will be installed. These factors will bring dwelling to decent and safe and sanitary living conditions.

The total for this grant was \$5,000.

Senator CHILES. These, again, are all after pictures?

Dr. LA VOR. These are all—these pictures were taken in June of this year, after all of the work was done. Rather than tell you what I found, Mr. Chairman, I am going to read a report from Mr. Maese, the county supervisor, that was written September 19 of this year.

What he does is he describes that Vernon Stoddard was supposed to have been the contractor. Mr. Stoddard was busy and Robert Madrid arranged for Pete Gallegos of P. & P. Construction to do the work.

I am going to read the evaluations that Mr. Maese wrote. Also present when Mr. Maese inspected this house was Bill Horton and John Moore, who were inspectors from the Department of Agriculture Inspector General's Office and Robert Madrid, who is on the panel.

I am reading from Mr. Maese's letter.

Senator DOMENICI. Mr. Chairman, could I ask a question first?

Senator CHILES. Yes.

Senator DOMENICI. Dr. La Vor, you talk about Stoddard Construction not having the ability to do the work, so P. & P. does it. My understanding of this program is that the owner and a contractor of the owner's choosing enter into an agreement. The money is put in a bank. The money is drawn down for the job by signature of the owner and cosignature of a Farmers Home employee.

How can we have two contractors if we already have a contract with another contractor to do the work?

Dr. LA VOR. I was trying, in the interests of time, to shortcut it. Let me go back to the first page of Mr. Maese's letter and I think you will have your explanation.

Senator DOMENICI. Wait a minute now. Is there a contract signed between the owner and the Stoddard Construction Co.?

Dr. LA VOR. I don't think in this case there was.

Senator DOMENICI. Will we find out?

Dr. LA VOR. That's why they are all here.

Senator DOMENICI. Go ahead.

Dr. LA VOR. I will read from his letter verbatim.

The original bid was to replace the roof, replace exterior doors, repair the deteriorated floor in one room, and weatherize the dwelling.

She stated she had been in the office on several occasions and explained she needed assistance to contact Mr. Stoddard, the contractor, to do the work on the roof. She stated that Mr. Madrid told her that Mr. Stoddard was building homes and it would be some time before he could do work on her house. She asked if anyone else was available to do the type of work, as it had become extremely hazardous to her and her family.

As an aside, Mr. Chairman, the roof had collapsed during a storm.

She stated that within a few days, Mr. Madrid brought Pete Gallegos of P. & P. Construction and work was started immediately. I asked her if there had been any changes made in the development of the plan and whether or not she had been consulted in the change of contractors and she said she had not.

She said she was confident the FmHA could find someone who would do a good job. I asked her if the development plan was discussed with her and the contractor and she said it had not and she trusted the original development would be done.

Then he goes on describing the house.

The roof facing the street was not replaced. It was only coated with two coats of aluminum paint. The tin on the southwest and north sides of the roof was removed and one-half inch plywood decking was nailed to the old rafters. The old rafters where the eaves were, were approximately 6 feet from the wall, or 6 inches from the wall. I can't make it out on this.

Rolled roofing was installed over the plywood decking on the west roof. The rafters were nailed down flat, and this was to the old roof instead of the edge,

as it should be, in order to give support to the roof. The exterior doors, which were installed, were not solid core. They were hollow core and filled with sawdust inside. They were hung on the old frames and the west doors have already fallen off the hinges once. They were installed with very small screws.

Mr. Moore and Mr. Horton asked me to estimate the amount of money in materials that went into this project and on a rough calculation I have estimated about \$800 worth of materials with current prices.

Mrs. Maestas explained she was told the original bid was for \$4,500 including labor and materials. She stated that a day or so later, after she got the contract, she was told to sign a \$500 check for contingencies over to Pete Gallegos for the labor.

In evaluating this project, I feel the inspection on this job was negligent. There is not sufficient work for the amount of money given to the contractor for the job. The development plans were never revised to reflect the new contract. New estimates were not received. The job is not complete and it does not eliminate the existing health hazards.

The most dangerous problem in this house is the vent for the hot water heater, which is LP gas, pushed to one side, thus disconnecting it from the heater instead of cutting a hole in the eave of the roof and leaving the vent in the same place.

Mrs. Maestas says she realized she was using the water heater at her own risk and I recommended she contact the gas company which supplies LP gas, to properly install ventilation.

It is my opinion that this job is not complete. It is hazardous to the family and more so than prior to the construction being started.

Finally, Mr. Chairman, there is a little more and I am going to skip it. I will read to you from the estimator's report. This is an independent estimator who went to this house last week.

He estimated that the quality of materials and workmanship on the foregoing components is fair to good and he wrote a note.

The narrative that was provided indicates the roof on the entire dwelling was to be replaced. Rolled roofing was installed on the lower pitched portion of the house. The main portion of the house covered by the corrugated steel roofing appeared to only have been painted.

There is no evidence that the linoleum was placed in the bathroom, nor that paneling or insulation were installed in the living room, as called for in the narrative.

The estimator felt, that including materials and labor, the cost on this house was \$1,025 at today's cost, out of the \$5,000 grant.

Mr. Chairman, briefly, if we can just go through these slides, then we can go to the witnesses. We can go through it quickly.

This is the roof that was tarred and it was tarred back here, too [indicating]. This is one of the new doors that was replaced. This is, again, another picture of that door.

This is a picture not taken by me. This was taken last week by the estimator. This is the roof that was simply painted with aluminum paint. This is the roof that was tarred. But this is the major problem. This vent is the heating vent, and this house is totally unsafe at this time. That vent should have been anchored and should be straight up.

This is not a good picture, but this will show you the existing roof. The existing roof on one side where the tarpaper is placed, 1/2-inch plywood was placed on the existing roof and tarpaper over it.

This, Mr. Chairman, is the door. This shows the leaking in the house where the roof was leaking, and the next one shows the linoleum wasn't placed.

That is my presentation.

Senator CHILES. Senator Domenici.

Senator DOMENICI. Are you the county supervisor for Farmers Home Administration in Las Vegas?

Mr. MAESE. Yes, sir.

Senator DOMENICI. How long have you been the supervisor?

Mr. MAESE. I was in Las Vegas, a supervisor from 1970 to 1976, when I was transferred to Espanola; and then I was brought back in October 1978, back to Las Vegas.

Senator DOMENICI. Do I understand correctly, Mr. Maese, you wrote the letter from which Dr. La Vor just read, dated September 19?

Mr. MAESE. Yes.

Senator DOMENICI. I have the letter in front of me and it has your name as county supervisor.

Mr. MAESE. Yes; it was written on his request that he wanted a report and we met with him over there at the district office.

Senator DOMENICI. Mr. Maese, weren't you the supervisor of the area where this home is located? Isn't it right there in your area?

Mr. MAESE. Yes, sir.

Senator DOMENICI. How did the \$5,000 get paid out, if this kind of work was done and you are the supervisor? Did you just find out on September 19 that it was done wrong?

Mr. MAESE. Yes, sir, I have two assistants that were working under me. One of them was Steve Handy, and the other one was a housing employee of the State, Robert Madrid, and they had authority to make inspections and Steve had authority to countersign checks.

Senator DOMENICI. You are telling our committee that as county supervisor you had no responsibility to see whether this was being done properly?

Mr. MAESE. No, sir, I didn't say that. I said they were under me and they were capable of doing the work. They had been trained, and I did not check every job they inspected, Mr. Domenici. I would inspect some of the reports and the reports seemed adequate and I had not had any complaints, so I couldn't follow up on complaints, which I didn't have.

Senator DOMENICI. Is Steve Handy here?

Mr. HANDY. Yes.

Senator DOMENICI. Mr. Handy, what was your role in San Miguel County during the period of time this house was remodeled and the \$5,000 paid out?

Mr. HANDY. I worked mostly on 502 housing loans.

Senator DOMENICI. So you didn't have anything to do with the 504 program?

Mr. HANDY. I did some inspections occasionally.

Senator DOMENICI. Are you telling the committee you inspected this house?

Mr. HANDY. Pardon me?

Senator DOMENICI. Did you inspect this house or not?

Mr. HANDY. I believe so.

Senator DOMENICI. Your former boss is sitting right by you. He was in charge. You just heard him tell the committee what he found. How could you have countersigned checks paying out \$5,000 for this kind of work?

Mr. HANDY. Well, sir, the instructions for grants reads, the house cannot be made totally safe and sanitary, the grant will not be made.

That house was in pretty bad shape. I don't think at that time that \$5,000 would have made that house totally safe, decent, and sanitary.

The roof structure probably would have needed all to be replaced. That's rafters and the whole works.

Senator DOMENICI. Wait a minute. We are going from one to one here and none of you wants to accept the blame for this.

Now you are telling the committee the loan grant shouldn't have been made from the beginning, because they couldn't have completely repaired it with \$5,000? Is that what you are telling us?

Mr. HANDY. Well, if you go by the instructions, that is what I am telling you.

Senator DOMENICI. So as an inspector, charged with seeing whether the work contracted for was done, it is your testimony that you would approve the issuance of the full \$5,000 even if the work wasn't done properly, because the \$5,000 could not have made the house safe anyway? Is that what you are telling us?

Mr. HANDY. No.

Senator DOMENICI. What are you telling us then?

Mr. HANDY. I was not properly trained on rehabilitating houses, so I have no idea how much money in labor and any materials went into that house. I didn't do the development plan. I made no inspection—I made one inspection.

Senator CHILES. I am looking at an inspection report in which you state, and I guess this is in your handwriting, "All work is completed according to the development plan." Is that correct?

Mr. HANDY. That's my report.

Senator CHILES. Take a look at that. It says, "100 percent complete?"

Mr. HANDY. Right.

Senator CHILES. "All work done according to the development plan." Is that your report, your handwriting, your signature?

Mr. HANDY. Yes.

Senator CHILES. The development plan said all the roof was going to be replaced. Was it?

Mr. HANDY. No, sir.

Senator CHILES. Do you have to be trained to know whether or not the roof was replaced? You knew whether the roof was replaced or not, didn't you?

Mr. HANDY. Yes, the part of it that was.

Senator CHILES. So that had nothing to do with your training?

Mr. HANDY. No; it could be that there was another development plan or something like this going about that time, that is no longer there in the file.

What happened on many of these old houses is when they started working on them they ran into more things, so they claimed, than what they could do, what they felt they could do originally. This accounted for a lot of the problems we have.

Senator CHILES. Do you see anything they ran into there that they couldn't have done? The roof looks like it's got to be one of the most important things on that, and they didn't replace the roof.

We now see that estimators say, one of them said \$800. I think that's what Mr. Maese said, \$800. The other guy says, "Work and labor, \$1,200." The development plan called for replacement of the floor in the bathroom and that wasn't done.

Mr. HANDY. [No response.]

Senator DOMENICI. Mr. Maese, who is responsible to determine if the inspectors, such as Mr. Handy, are trained for the job?

Mr. MAESE. The supervisor in charge, plumb up to the State level.

Senator DOMENICI. Who was responsible for Mr. Handy? He says he isn't trained.

Mr. MAESE. I was immediately responsible for him.

Senator DOMENICI. How did you hire him? A field inspector, who doesn't know how to inspect. How did that happen?

Mr. MAESE. He was already in my office when I was transferred back up there to Last Vegas, Mr. Domenici. He came there about 1 year before I was transferred back.

Senator DOMENICI. Who else did inspections before the moneys were spent up in that county, Mr. Maese? Who was the other one? Mr. Handy just testified a little bit. Who was the other person?

Mr. MAESE. I did some of them and, also, Robert Madrid, our State employee, did some of them.

Senator DOMENICI. Is Robert Madrid here?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Mr. Madrid, did you ever inspect that house we just saw?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Who signed or cosigned the checks so the money could be paid out that belonged to this lady?

Mr. MADRID. Mr. Handy.

Senator DOMENICI. You didn't cosign these?

Mr. MADRID. No, sir.

Senator DOMENICI. When did you inspect it?

Mr. MADRID. When they started to put the back roof on.

Senator DOMENICI. Do you agree with Mr. Handy and Mr. Maese, who has now gone out and looked at it, that the house was not repaired properly?

Mr. MADRID. In my opinion, sir, I thought it was repaired properly.

Senator DOMENICI. You thought it was repaired properly?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Have you seen the letter the supervisor of the area wrote on September 19, which we just referred to?

Mr. MADRID. No, sir.

Senator DOMENICI. I have so many questions, but I will just take a couple more.

Mr. Madrid, how was P. & P. selected for this job when the original contract called for Stoddard Construction Co.?

Mr. MADRID. Stoddard was building a home and could not get out there. Mrs. Maestas asked me if I could get another contractor out there, so I asked P. & P. to go talk to her.

Senator DOMENICI. Was P. & P. already doing rehabilitation work up there when you sent them to Mrs. Maestas?

Mr. MADRID. Yes, sir.

Senator DOMENICI. As a matter of fact, a number of houses that Internal Audit has looked at, were done by P. & P., and most of them have not been done correctly, isn't that right?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Why did you send a contractor who was not doing quality work up there to fix her house?

Mr. MADRID. Sir, at the time all those houses, to me, looked pretty good.

Senator DOMENICI. What was your training in inspecting homes to see if they complied with codes and contracts?

Mr. MADRID. I just trained out in the field, just to look at construction.

Senator DOMENICI. On many of these homes, you were the one who made the final inspections and signed off on the checks, isn't that right?

Mr. MADRID. I make the inspections, but I did not sign off on the checks.

Senator DOMENICI. But you had to give the final word on whether they were done right or not?

Mr. MADRID. Yes, sir.

Senator DOMENICI. It is your testimony before this committee that the ones you inspected were done properly, according to the development plan?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Is P. & P. Construction Co., owned by somebody that is related to you?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Who is that?

Mr. MADRID. Pete Gallegos.

Senator DOMENICI. How is he related to you?

Mr. MADRID. He is a cousin.

Senator DOMENICI. Is he a licensed contractor?

Mr. MADRID. Yes, sir.

Senator DOMENICI. What is the name of his license?

Mr. MADRID. It is P. & P. Construction.

Senator DOMENICI. P. & P. Construction doesn't exist anymore, does it?

Mr. MADRID. No, sir, to my understanding, no.

Senator DOMENICI. Why not?

Mr. MADRID. I think the license was changed.

Senator DOMENICI. Was the license changed or was it revoked?

Mr. MADRID. It is changed. I don't know if it was revoked or not, sir.

Senator DOMENICI. Did Farmers Home recently disbar P. & P. from doing construction work?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Do you think they were disbarred for doing good work?

Mr. MADRID. No, sir.

Senator DOMENICI. Why do you think they were?

Mr. MADRID. Shoddy work, sir.

Senator DOMENICI. And you were inspecting their work as it proceeded, weren't you?

Mr. MADRID. Yes, sir.

Senator DOMENICI. So apparently you thought it was good work but when State inspectors finally got around to looking at it, they disbarred them because of poor work; isn't that correct?

Mr. MADRID. Yes, sir.

Senator DOMENICI. How did you decide who was to get grants up there in those counties? That was part of your job, wasn't it?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Was in on a first-come-first-served basis?

Mr. MADRID. We would have a work organization meeting at the end of the month and we would go through the applications.

Senator DOMENICI. That didn't answer my question. The regulations said these were to be done on a first-come-first-served basis. The first applicant in, if they qualified, got the grant.

Now I am asking you whether or not you followed that procedure, or did you select people of your own choosing to get grants?

Mr. MADRID. No, sir, I didn't select anybody. As people came in, a lot of people came in and talked to me about processing their grants.

Senator DOMENICI. How many homes are there in the little village of Villanueva, N. Mex.?

Mr. MADRID. I would say, maybe, about 200.

Senator DOMENICI. How many are there in the rural homes, in the counties of San Miguel and Mora? Do you have a guess?

Mr. MADRID. No, sir, I have no guess.

Senator DOMENICI. Was it a coincidence that four of your relatives got grants in Villanueva? How did that happen?

Mr. MADRID. They applied, sir, for grants.

Senator DOMENICI. This was on a first-come-first-served basis, that they happened to get them, is that right?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Why didn't they use a contractor?

Mr. MADRID. They wanted their sons to do the work, or do it themselves.

Senator DOMENICI. Did you inspect their work?

Mr. MADRID. Some of it, sir.

Senator DOMENICI. Did you think it was done differently than those homes done by P. & P. Construction Co.?

Mr. MADRID. Yes, sir.

Senator DOMENICI. How was it different?

Mr. MADRID. There is no labor involved in any of these houses, any labor paid out.

Senator DOMENICI. I don't mean the cost. I mean the quality of the work.

Are you telling this committee the quality of the work that P. & P. did was the same as the work you saw on four relatives' homes?

Mr. MADRID. Yes, sir.

Senator DOMENICI. And you say that, in spite of the pictures we've seen here today?

Mr. MADRID. No, sir.

Senator DOMENICI. Which is it?

Mr. MADRID. I guess the pictures we've seen, it was shoddy work, sir.

Senator DOMENICI. I don't have anything additional for the time being, Mr. Chairman.

Senator MELCHER. Mr. Handy, what are you paid?

Mr. HANDY. Right now?

Senator MELCHER. Yes.

Mr. HANDY. GS-11.

Senator MELCHER. What is that per year?

Mr. HANDY. \$20,000.

Senator MELCHER. \$20,000.

Mr. HANDY. Yes.

Senator MELCHER. You are not qualified to make these inspections?

Mr. HANDY. I am now.

Senator MELCHER. You are now. How did you get qualified?

Mr. HANDY. By looking at all of these, on-the-job training.

Senator MELCHER. \$20,000 for on-the-job training?

Mr. HANDY. I wasn't paid \$20,000 at that time. It has been very recent.

Senator MELCHER. Are you a county supervisor now?

Mr. HANDY. Yes.

Senator MELCHER. Which county are you in now?—

Mr. HANDY. McKinley.

Senator MELCHER. Do you have any 504?

Mr. HANDY. Yes.

Senator MELCHER. Mr. Madrid, you say that you made these inspections and you said they were all right at the time, but now you think they are shoddy?

Mr. MADRID. Yes, sir.

Senator MELCHER. How much are you paid?

Mr. MADRID. \$1,188 a month.

Senator MELCHER. \$1,200 a month, roughly?

Mr. MADRID. Yes, sir.

Senator MELCHER. And P. & P., one of the owners of P. & P., is your cousin?

Mr. MADRID. Yes, sir.

Senator MELCHER. You are under oath?

Mr. MADRID. Yes, sir.

Senator MELCHER. It appears that the amount of money spent in this home, for labor and materials, might have been one-fifth of the amount, roughly. Do you agree with that now?

Mr. MADRID. Yes, sir.

Senator MELCHER. You do agree.

What happened to the other \$4,000 then?

Mr. MADRID. I don't know, sir.

Senator MELCHER. Do you know what happened to it, Mr. Handy?

Mr. HANDY. No, sir.

Senator MELCHER. You don't know.

Did either one of you profit from it in any way?

Mr. MADRID. No, sir.

Senator MELCHER. Something happened to it. It was paid out. Mr. Handy started to check. What happened to that money?

Mr. MADRID. I don't know, sir.

Senator MELCHER. You don't know.

Neither one of you, you are both under oath, neither one of you profited from it?

Mr. MADRID. No, sir.

Mr. HANDY. No, sir.

Senator MELCHER. Well, what happened—are you both P. & P.?

Mr. PACHECO. Yes.

[Subsequent to the hearing, Mr. Pacheco, in reviewing his testimony, stated the following: "Incorrect. I am not. P. & P. wasn't even a legal partner when houses in question were being remodeled. Check with Construction Industries Division in Santa Fe."]

Mr. GALLEGOS. That's correct.

Senator MELCHER. Do you agree that it was shoddy work or not?

Mr. PACHECO. No; I don't.

Mr. GALLEGOS. Not at all.

Senator MELCHER. All right.

Well, let's identify each of you. Which is which?

Mr. GALLEGOS. I'm Pete.

Senator MELCHER. You're Pete and you're Lee?

Mr. PACHECO. That's correct.

Senator MELCHER. Let's use first names.

It wasn't shoddy work. Was it \$5,000 worth of work?

Mr. GALLEGOS. I would say so.

Senator MELCHER. How much material was in the project?

Mr. PACHECO. I can't tell you exactly what it ran to, but I can say it ran 50 percent of the prognosis.

Before we go any further into that let me correct that proposal. That wasn't P. & P.'s proposal.

Senator MELCHER. What do you mean by that?

Mr. PACHECO. The proposed work that you have in the letter.

Senator MELCHER. I don't understand you.

Senator CHILES. There was a mixup between whether or not it was another contractor's proposal and then changed over to P. & P. He is saying it was a P. & P. proposal.

Senator DOMENICI. There is no change noted in the file.

Senator CHILES. Do you have a copy of your proposal that you made?

Mr. PACHECO. FmHA should have them and whoever supplied the record.

Senator CHILES. Well, the file does not show any change. We will show you that file. I am asking you if you had any office copy that would show that it was your proposal?

Mr. GALLEGOS. No; we didn't have a copy of the proposals.

Senator CHILES. Do you have any—

Mr. GALLEGOS. A copy of the proposal that we had, we have moved three times in the time that I did this work and we lost part of our proposals. The rest, Farmers Home had them and we were denied copies of them.

Senator CHILES. Well, do you have any copies of your invoices or your charges to come up with what Mr. Pacheco says, that you spent 50 percent of this money for materials, at least, 50 percent of the money.

Mr. GALLEGOS. Excuse me. At this time I would like for my attorney to make a statement, before we proceed.

Mr. BLACKBURN. My name is Billy Blackburn, and I represent P. & P. Construction.

We have just been informed, as of this morning, what the allegations were against these people involved here.

They have had all their records subpoenaed before the Federal grand jury in Albuquerque. I would like to state to the committee at this time that we might have to invoke a fifth amendment privilege.

All of the records are to be turned over to Tom Udall in Albuquerque, and the rest of the records are in Farmers Home Administration in Las Vegas.

Senator CHILES. Counselor, let me just tell you, that your clients would have had the right to invoke fifth amendment privilege and this committee would recognize that right. Your clients have now elected to testify. They have been testifying, and this is not a criminal investigation. We have sworn them, so the testimony they give before this committee is certainly under the provisions of perjury. But I am not sure that they haven't waived their rights now, in that they have already been testifying. As far as invoking the fifth amendment right now, I don't think we recognize it, because of the fact that they have elected to testify and have so testified.

Senator DOMENICI. Mr. Chairman, you mean as to what they have already said in sworn testimony?

Senator CHILES. That's right, or any of the areas that we are talking about now.

Senator MELCHER. I have no further questions at this time, Mr. Chairman.

Senator CHILES. Can you tell me, Mr. Gallegos, why you didn't put the entire roof on, as the proposal called for?

Mr. GALLEGOS. Because we didn't bid the entire roof when we gave them our proposal. We said we would pay them part of the roof, and a new roof on part of the house. That's the reason I wanted my proposal, so I would know exactly what I had proposed to do to that house. That is not the proposal that we wrote. That is their development plan, and that doesn't even tell you what we proposed.

Senator CHILES. So you are saying that you had another proposal, different from the development plan?

Mr. GALLEGOS. That is correct.

Senator CHILES. But you don't have a copy of that?

Mr. GALLEGOS. We don't have a copy. We were denied the copy.

Senator CHILES. And the file doesn't show that Farmers Home has any copy of any new proposal.

Do you know anything about this, Mr. Maese?

Mr. MAESE. No, sir.

I couldn't locate a copy of the proposal.

Senator CHILES. Mr. Madrid, Mr. Handy, can you shed any light on that?

Mr. MADRID. No, sir.

Senator CHILES. Mrs. Maestas, let me ask you a few questions, if I may.

How did you first find out about these Farmers Home grants?

Mrs. MAESTAS. I went to Sierra y Llanos when they were in Tilden, they had their office there. Then I went, my husband and I, went in and applied for helping us with our house. He is very sick, and my house was already collapsing, the ceiling. So Josie Christina said we could go, well, she made the application. So she sent it in and we were qualified, but then after we had to go and get the money from FmHA.

Senator CHILES. Did anybody, did FmHA tell you that you had to use a certain contractor in order to get the money?

Mrs. MAESTAS. We had Mr. Stoddard to do the work, but then when Mr. Stoddard couldn't do the work, Mr. Madrid suggested that he had another contractor that could do it. Since my husband's room was collapsing too, I thought it would be best to have it done.

Senator CHILES. Did anybody tell you that, when they changed contractors on you, that they were going to change the amount of work they were going to do to your house?

Mrs. MAESTAS. No.

Senator CHILES. You were never told that?

Mrs. MAESTAS. They never said nothing.

Senator CHILES. Did you think your roof was going to be replaced? Did you think you were going to get a new roof?

Mrs. MAESTAS. Well, Mr. Stoddard said that it could have been done.

Senator CHILES. He said he could give you a new roof for the amount of money?

Mrs. MAESTAS. Yes.

Senator CHILES. What about the vent on your water heater?

Mrs. MAESTAS. It is still tilted. I do not have a vent on my heater. The way they put on the plywood, they pushed the vent to the side and took it off of the heater.

Senator CHILES. Did anyone tell you it wasn't hooked up?

Mrs. MAESTAS. I saw it, myself, but it was too late.

Senator CHILES. Too late, it was after they had gone?

Mrs. MAESTAS. Yes.

Senator CHILES. Was there any other work that was supposed to be done on your house that was under the grant that wasn't done?

Mrs. MAESTAS. My bathroom had to be tiled. It had to have the tile on the floor. My living room had to have a panel in the floor—

Senator CHILES. Did anybody tell you why that wasn't done?

Mrs. MAESTAS. Yes, sir, Pete Gallegos told me that I had to choose either the doors or the paneling, so I thought I would rather have the doors instead of the paneling, because the paneling wouldn't hold the wind from the outside.

Senator CHILES. But you were supposed to get both?

Mrs. MAESTAS. Yes, sir.

Senator CHILES. What about the bathroom floor?

Mrs. MAESTAS. I didn't have anything done in the bathroom.

Senator CHILES. No one told you why you didn't get that?

Mrs. MAESTAS. He said there wasn't enough money for it.

Senator CHILES. I just wanted to ask you. Do you feel like this program has helped you out any?

Mrs. MAESTAS. Well, in a way, yes. It stopped the leaking in my husband's room where he was lying there.

Senator CHILES. Because the roof had already collapsed?

Mrs. MAESTAS. Had already collapsed. Well, the ceiling. The kitchen, it collapsed at 3 o'clock in the morning.

Senator CHILES. The door fell off?

Mrs. MAESTAS. The ceiling. It was before they had done the work and, then, after the work was done my pipes from my heater, that I have to heat my husband's room. I have it, oh, from here to the other

table where the committee is, so that heat would go to his room. Those pipes collapsed on me too, they fell. I saw the roofing that it was already starting to break, so I had to go to Chilimar and have them to come and put the pipes on, a tricot pipe.

Senator CHILES. Do you have any questions?

Senator DOMENICI. Mr. Chairman, I know we have a number of witnesses, but I think Lee Pacheco, Pete Gallegos, Handy, and Madrid, are common to all of them, so I will take a little time, since I won't go into detail with them later.

Let me ask both Pete Gallegos and Lee Pacheco.

You received a subpoena from this committee to produce the records with reference to the rehabilitation jobs that we are talking about here, didn't you?

Mr. GALLEGOS. That's correct.

Senator DOMENICI. And you supplied the records to the committee, didn't you?

Mr. GALLEGOS. We supplied the records that I had at that time. Now I have supplied everything to the grand jury.

Senator DOMENICI. So you are telling us that you gave us what we asked for in the subpoena. We don't have any new development plan for Mrs. Maestas' house in this batch of records.

Are you telling us that you didn't have them then, but you have found more recent records?

Mr. GALLEGOS. That is correct.

Senator DOMENICI. Where were the records that you couldn't find when the committee subpoenaed you?

Mr. GALLEGOS. There were some at the bookkeepers and some in boxes that we had and hadn't emptied.

Senator DOMENICI. So you found more records when you were issued a grand jury subpoena than you did when this committee subpoenaed you, is that what you are telling us?

Mr. GALLEGOS. Yes; well, the grand jury never subpoenaed the records until afterward.

Senator DOMENICI. I understand. It was later.

Mr. GALLEGOS. Yes.

Senator DOMENICI. Now, let me move over for just 1 minute to Mr. Handy.

Did you cosign the checks which were in the bank, to pay off the \$5,000 belonging to Mrs. Maestas?

Mr. HANDY. I'm not sure, but probably.

Senator DOMENICI. Not sure, but probably?

Mr. HANDY. Yes.

Senator DOMENICI. What was your usual way of having a check endorsed? Did you go tell the homeowner the work is all done, will you sign this check over? How did you do it?

Mr. HANDY. Lots of times the check was brought to me, signed already.

Senator DOMENICI. By whom?

Mr. HANDY. By the homeowner.

Senator DOMENICI. Is that the case in this one?

Mr. HANDY. I don't remember.

Senator DOMENICI. Was it the homeowner or was it the contractor who would bring you the check?

Mr. HANDY. Sometimes the contractor brought it.

Senator DOMENICI. Did you ever go to the homeowner and tell them they ought to sign the check?

Mr. HANDY. Yes.

Senator DOMENICI. This would mean to the homeowner you were satisfied the work was done right?

Mr. HANDY. As long as they had no complaints.

Senator DOMENICI. So now you are saying it is based on the homeowner's complaints whether or not you will cosign the check, is that your testimony to this committee? If the contractor said, "I'm finished, I've done my work," you go to the homeowner with a check or they have it there and you are going to cosign it, would you then say, "I'm cosigning it, you had better sign too, because the contractor says he is finished." Is that what you are telling us?

Mr. HANDY. If the work was in compliance with what they were supposed to do, yes.

Senator DOMENICI. But you didn't have enough experience to know whether it was or wasn't?

Mr. HANDY. In many cases that was true.

Senator DOMENICI. Mr. Gallegos, do you have a contractor's license?

Mr. GALLEGOS. Yes, sir.

Senator DOMENICI. What kind of a license do you have?

Mr. GALLEGOS. GB-98.

Senator DOMENICI. What's that?

Mr. GALLEGOS. It is a general contractor's license.

Senator DOMENICI. What does it cover?

Mr. GALLEGOS. It covers everything.

Senator DOMENICI. So you are telling us you are licensed to do plumbing and electrical work?

Mr. GALLEGOS. We have to hire subcontractors to do that.

Senator DOMENICI. So you are not licensed to do plumbing and electrical work?

Mr. GALLEGOS. No.

Senator DOMENICI. Did you actually do the work on the Maestas home?

Mr. GALLEGOS. Yes.

Senator DOMENICI. Did you do all of the work or most of it yourself?

Mr. GALLEGOS. We did most of it ourselves, right.

Senator DOMENICI. Who are yourselves?

Mr. GALLEGOS. Me and Lee.

Senator DOMENICI. Did you hire anyone to work on this project?

Mr. GALLEGOS. We had two people hired on this project.

Senator DOMENICI. How many?

Mr. GALLEGOS. Two other people.

Senator DOMENICI. What are they?

Mr. GALLEGOS. Laborers.

Senator DOMENICI. Are they experts in any kind of construction, or specialists?

Mr. GALLEGOS. No.

Senator DOMENICI. How much were you paid for the work on that home?

Mr. GALLEGOS. \$5,000.

Senator DOMENICI. You don't know how much materials were?

Mr. GALLEGOS. Not really. I would say, at least, 50 percent of it.

Senator DOMENICI. Who approved this change of plans you are telling us about?

Mr. GALLEGOS. They have to be approved by the Farmers Home Office and the owner.

Senator DOMENICI. Did you approve of the change in the plans, Mrs. Maestas?

Mrs. MAESTAS. I wasn't told anything about changing the plans.

Senator DOMENICI. Did Farmers Home approve a change of plans?

Mr. MAESE. No, sir, I did not, because I did not know that the contractors had been changed.

Senator DOMENICI. You didn't even know the contract had been changed?

Mr. MAESE. No.

Senator DOMENICI. How about you, Mr. Madrid, did you know it?

Mr. MADRID. That the contract had been changed, yes, sir.

Senator DOMENICI. Did you know the development plan had been changed?

Mr. MADRID. I knew the proposals had been changed.

Senator DOMENICI. Did you approve the changes?

Mr. MADRID. I accepted the proposal.

Senator DOMENICI. If you have to keep records, how would you note that the plan had been changed? What would you do?

Mr. MADRID. It should have been documented.

Senator DOMENICI. I don't want to take a lot of time, but here is a record. It isn't documented. Do you have any explanation for this? There isn't information in here about the change.

Mr. MADRID. At that time I was working on quite a few 504 grants, two counties, and a lot of our documentation wasn't put in.

Senator DOMENICI. Let me return to Pete Gallegos.

Have you had your license revoked?

Mr. GALLEGOS. No.

Senator DOMENICI. Have you been disbarred from Farmers Home Administration work?

Mr. GALLEGOS. That's right. They disbarred us before we were found guilty of anything.

Senator DOMENICI. I don't know if they were trying to find anyone guilty. I understand FmHA disbars people because they find their work is unsatisfactory.

Did they tell you your work was unsatisfactory?

Mr. GALLEGOS. Yes; by letter and on one house only.

Senator DOMENICI. When did they tell you this?

Mr. GALLEGOS. It was in a letter a couple of months ago.

Senator DOMENICI. Do you have to have a building permit for a 504 grant, rehabilitation?

Mr. GALLEGOS. Yes.

Senator DOMENICI. So you are telling the committee that on all of the homes you rehabilitate with Federal dollars, you get building permits also, is that correct?

Mr. GALLEGOS. I'm not positive we did on all of them.

Senator DOMENICI. Was this work inspected by building inspectors from the State or county?

Mr. GALLEGOS. Most of them, they were.

Senator DOMENICI. Are you telling us Mrs. Maestas' home was inspected, and your work was approved by the building inspectors of the State of New Mexico?

Mr. GALLEGOS. I don't think the Maestas house was.

Senator DOMENICI. Why wasn't it?

Mr. GALLEGOS. I don't know. The inspector just never showed up.

Senator DOMENICI. Were any other homes that you rehabilitated not inspected or cleared by the State?

Mr. GALLEGOS. Yes; we had some.

Senator DOMENICI. So this isn't the only one. You had others where you received full payment without a final inspection by the State?

Mr. GALLEGOS. That is correct.

Senator DOMENICI. Did you get a building permit on the Maestas house?

Mr. GALLEGOS. Yes.

Senator DOMENICI. Do you have a record of that building permit?

Mr. GALLEGOS. I couldn't find it.

Senator DOMENICI. You have already said you got building permits on all the 504's. Am I interpreting it correctly? Let me ask the question another way.

Did you receive building permits on all 504 homes that you bid?

Mr. GALLEGOS. I don't think so. I think we missed two of them.

Senator DOMENICI. How could you, as a licensed contractor, operate where the law requires that you have a building permit, if you didn't have one?

Mr. GALLEGOS. We just didn't get one.

Senator DOMENICI. You just didn't get one.

Mr. Madrid and Mr. Handy, when you cosigned these checks for final payments did you do so in any instances knowing that there was not a final inspection by the State of New Mexico, as to the quality of work?

Mr. HANDY. I assumed that they had gotten a building permit and that the State had inspected the house.

Senator DOMENICI. You assumed it?

Mr. HANDY. Yes.

Senator DOMENICI. You didn't require evidence that it had been inspected before you signed money to the contractors?

Mr. HANDY. No.

Senator DOMENICI. How about you?

Mr. MADRID. No, sir.

Senator DOMENICI. Were you required to have proof of an inspection under your rules?

Mr. MADRID. We never had no State inspectors, never made an inspection with us, or never tell us anything about a building, check on a building.

Senator DOMENICI. How about building permits? Did you require a building permit?

Mr. MADRID. They were required, sir.

Senator DOMENICI. They were required?

Mr. MADRID. Well, on contracts sometimes the permits were not issued.

Senator DOMENICI. How about you, Mr. Handy?

Mr. HANDY. What was the question?

Senator DOMENICI. Did you first require a State building permit before you would cosign checks?

Mr. HANDY. No.

Senator DOMENICI. You did not?

Do you know whether there is a regulation in existence at this time requiring a State building permit be issued?

Mr. HANDY. I'm not sure.

Senator DOMENICI. You're not sure?

Mr. HANDY. No.

Senator DOMENICI. Is P. & P. Construction still a partnership and is it still licensed?

Mr. GALLEGOS. No, sir; it is not a partnership. It is still licensed, yes.

Senator DOMENICI. Is it the same license?

Mr. GALLEGOS. Yes; the same license. The same number, the name has been changed.

Senator DOMENICI. What's the new name?

Mr. GALLEGOS. J. & P.

Senator DOMENICI. Why was the name changed?

Mr. GALLEGOS. To include my wife in the license.

Senator DOMENICI. I have just been handed, Mr. Handy, Mr. Madrid, Mr. Maese, a copy of the requirements for Farmers Home for this type of home improvement. It says, "All improvements will conform to applicable laws, ordinances, codes, regulations that relate to safety and sanitation of buildings." Were you aware of that?

Mr. MAESE. Yes.

Senator DOMENICI. Mr. Maese, don't you think this means you must have a building permit?

Mr. MAESE. Yes, sir, and no. All contractors are required to get one when they bid on the job. The State inspector follows up on those.

Senator DOMENICI. Should a State inspector clear the home before you disburse the money, Mr. Maese?

Mr. MAESE. They have, in many instances, but not all the time.

Senator DOMENICI. My question is, What are the rules? Should they be the same in all instances or not?

Mr. MAESE. According to regulations, yes.

Senator DOMENICI. According to regulations, yes. Why didn't they in all cases, then?

Mr. MAESE. We don't get a building inspector up in our area that often, and many times he will come by our office and let us know about some possible problems in another area, or a lot of times he will come by and tell us that the job is OK. On many of these he didn't.

Senator CHILES. It appears here that the attempt of these regulations, and everything we are talking about here, is to give some protection to the homeowner. We are determining that we are dealing with a homeowner that is not a sophisticated builder, and so for that reason we require somebody to cosign the checks. Now, that cosigning is supposed to be for some form of protection, is it not?

Mr. MAESE. That is correct.

Senator CHILES. What kind of protection did Mrs. Maestas get here, if no one determined that there was a valid contract? No one determined if there was a building permit? No one did any real inspection on the job, and no one was qualified, or at least Mr. Handy says he was not qualified to do the inspection of the job. What kind of protection did she get?

Mr. MAESE. I don't think she got any.

Senator CHILES. That's exactly right. She didn't get a lick.

Senator MELCHER. Mr. Chairman, I would like to pursue with Pete and Lee one aspect of this.

Setting aside your assertions that you were not operating under the proposal, which was still for \$5,000, and assuming that there was another proposal, which isn't in evidence, but assuming there was another proposal which was for much less work, it is still for the same amount of money, \$5,000. You have testified, I think both of you have, I think you agree on this, that roughly half of the \$5,000 was spent on materials, is that correct?

Mr. PACHECO. That's right.

Senator MELCHER. Both of you testified to that?

Mr. PACHECO. That is right.

Senator MELCHER. What do you have to show that that's the case?

Mr. GALLEGOS. If we could get our proposals, we could put the bills together and prove to you that we had that amount of money put in that house.

Senator MELCHER. You are saying that you have bills for materials from what, a building supply?

Mr. GALLEGOS. That is correct.

Senator MELCHER. And you can show that?

Mr. GALLEGOS. That's right.

Senator MELCHER. Therefore, \$2,500 worth of materials you are claiming was purchased. How did you get your money for that \$2,500 for materials?

Mr. GALLEGOS. We probably bought it, charged it, and then paid it after we got paid.

Senator MELCHER. Did you show Mr. Handy the bills?

Mr. GALLEGOS. No.

Senator MELCHER. Did you see the bills, Mr. Handy?

Mr. HANDY. I don't recall, sir.

Senator MELCHER. Did you see the bills, Mrs. Maestas?

Mrs. MAESTAS. No, sir.

Senator MELCHER. So you, Mr. Handy, you asked Mrs. Maestas to cosign the check, and you cosigned the check for \$2,500 worth of materials that you never saw bills for? Is that correct?

Mr. HANDY. Yes.

Senator MELCHER. Now, can you identify in that structure now, those materials that would cost \$2,500, from wherever you buy these materials?

Mr. GALLEGOS. I probably could.

Senator MELCHER. What do you mean probably?

Mr. GALLEGOS. If I looked—I don't know if I can from the picture.

Senator MELCHER. You've got two estimates that that isn't possible—that building supplies and labor, materials and labor, totaled around \$1,000—but you are testifying to us, under oath, that you could identify in that structure \$2,500 worth of materials?

Mr. GALLEGOS. That is correct.

Senator MELCHER. You don't believe that, do you, Mr. Handy?

Mr. HANDY. No comment on that.

Senator MELCHER. Do you believe it or not, Mr. Handy?

Mr. HANDY. Repeat the question, please.

Senator MELCHER. Do you believe that they could identify \$2,500 worth of materials that they put into that structure?

Mr. HANDY. I don't know.

Senator MELCHER. You don't believe it, do you, Mrs. Maestas?

Mrs. MAESTAS. No, sir.

Senator MELCHER. I don't believe it either.

Thank you, Mr. Chairman.

Senator DOMENICI. Well, let me ask, Mr. Maese, Mr. Madrid, and Mr. Handy. Do you think this house is safe now?

Mr. HANDY. I don't.

Senator DOMENICI. Do you?

Mr. MADRID. No, sir.

Senator DOMENICI. Well, what can be done to complete the work, to make this house safe for her? Do you have any suggestions?

Yes, you first.

Mr. MAESE. About the only thing that I could suggest right now, Senator Domenici, to see if the possibility of making a small subgrant loan under our present regulations, if there is no recourse on the contractor at this time.

Senator DOMENICI. So your only suggestion is that she might be entitled to a loan, which she would have to pay back to get the work she already thought was going to be done, with money she previously received from the Government, is that correct?

Mr. MAESE. If there is no other way to do it; yes, sir.

Senator DOMENICI. Do either of you two have any suggestions?

Mr. HANDY. In Gallup, where I work now, there is a program that will provide up to \$15,000 in grants. I don't know how Gallup got it, but I am sure it is available in other areas.

Senator DOMENICI. How about you?

Mr. MADRID. I would say to pursue, try to get a grant to do this work.

Senator DOMENICI. Let me ask you, all three of you.

In a sense you are custodians of Federal and State money, do you believe we should now look for additional money to do the work that was already supposed to have been done, through HUD, or other sources? Is this the way we should handle these problems?

Mr. MADRID. No; I think maybe the contractor should be asked to go back.

Senator DOMENICI. What do you think, Mr. Maese? You are the county supervisor?

Mr. MAESE. This has been our prime concern, that we should make these contractors go back and complete these jobs.

Senator DOMENICI. Have you ever recommended to Farmers Home that they try to make these contractors do the work previously agreed upon?

Mr. MAESE. Yes, sir, I did. In this case, it wasn't on the Maestas case, it was on another case, we come in and we said, we tried to make amends, tried to get the contractor to go back and do the work.

Senator DOMENICI. Let me ask Robert Madrid. You started, at one point, early in my questioning, to tell us how grants were approved in terms of applicants. You said we had a little meeting and we looked over the applicants. Then, you changed the subject.

Who attended those meetings? What was the purpose of those meetings?

Mr. MADRID. The whole county staff of the Farmers Home Office were in a meeting. It was an office meeting, a monthly meeting.

Senator DOMENICI. A monthly meeting to determine who should get the grants?

Mr. MADRID. No; just to, say, break the work among three of us.

Senator DOMENICI. How, then, were the applicants approved? Can you tell us? How did you decide who would get the grants?

Mr. MADRID. The people would come in and talk to me.

Senator DOMENICI. You made the decision as to who got them?

Mr. MADRID. No, sir.

Senator DOMENICI. Who did?

Mr. MADRID. I would work up, I would process a loan and give them to Mr. Maese for approval.

Senator DOMENICI. So Mr. Maese determined who got them?

Mr. MADRID. He approved the loans, the grants.

Senator DOMENICI. He approved the grants?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Mr. Maese, when you got these proposals to approve the grants, did you get a number of them from which you had to choose, or did you approve each one as it came in?

Mr. MAESE. We approved each one as they came in. The whole staff was instructed, since we were running short of money, that we had to work on the ones that were most complete, where we could spend the money, and try to leave it in the county, rather than lose it, and it would be given to some other county. My instructions were to process by date order.

Senator DOMENICI. So whomever was packaging or making the preliminary determinations, was really making the final decision, because you approved them all, is that correct?

Mr. MAESE. They were recommending them.

Senator DOMENICI. But you accepted them?

Mr. MAESE. Yes, sir.

Senator DOMENICI. Each one. No selection by you, no determination of who should get it or who shouldn't?

Mr. MAESE. No, sir.

Senator DOMENICI. It was decided prior to the time that it came to you?

Mr. MAESE. Yes, sir.

Senator DOMENICI. Mr. Madrid, how many of these grants did you approve in the counties of Mora and San Miguel?

Mr. MADRID. I'm not sure. Quite a few, sir.

Senator DOMENICI. How many homes were you in charge of inspecting?

Mr. MADRID. I'm not sure. I had quite a few. I had the whole program. Senator DOMENICI. You had the whole program?

Mr. MADRID. Yes, sir, inspecting.

Senator DOMENICI. So between the two of you, you were to inspect all of them; is that correct?

Mr. MADRID. Yes, sir.

Senator DOMENICI. And no one else? There was no one else to help you?

Mr. MADRID. No, sir.

Senator DOMENICI. I have the record which indicates that you packaged 70 applications, of the 120 grants. You made 270 of the 323 inspections in San Miguel and Mora Counties. I am not asking you to remember those specifically, but does that sound right?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Did you have enough time to do this work thoroughly?

Mr. MADRID. No, sir.

Senator DOMENICI. Did you ever complain about being overworked?

Mr. MADRID. No, sir.

Senator DOMENICI. Just one last question about Villanueva. I am not sure why your relatives got your grants there and I am not making any accusations. I just want you to tell the committee how it happened in this small town, four of your relatives received grants to fix their homes. Can you explain that to us?

Mr. MADRID. They all applied for grants.

Senator DOMENICI. You didn't go out and tell them they should?

Mr. MADRID. No, sir.

Senator DOMENICI. You didn't give them any preferential treatment?

Mr. MADRID. No, sir.

Senator DOMENICI. Would you tell us why they did their own work while to most of the others you recommended contractors?

Mr. MADRID. They wanted to do their own work.

Senator DOMENICI. As you saw the work being done, didn't it seem to you they were doing a much better job on their own than the contractors were?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Do you know why? Could you tell the committee, in your opinion, why, when they did it themselves, it was better than when licensed contractors did it?

Mr. MADRID. We had a number of people who were doing it the self-help way. There was no labor involved and they worked at their own pace. No hard labor and they had no deadlines.

Senator DOMENICI. So you would say this is a better way to do it than using licensed contractors?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Mr. Chairman, I have no further questions.

Senator MELCHER. Well, I noted one oversight when I was asking my questions about whether or not there was \$2,500 worth of materials in Mrs. Maestas' house.

Mr. Maese, your testimony, as I understand it, was to the effect that there was about \$1,000 worth of materials and labor in the Maestas' house?

Mr. MAESE. No, sir, I estimated for materials only for Mr. Horton and Mr. Moore.

Senator MELCHER. Only materials?

Mr. MAESE. Yes, sir.

Senator MELCHER. And you estimated what?

Mr. MAESE. \$800.

Senator MELCHER. \$800 worth of materials?

Mr. MAESE. Yes, sir.

Senator MELCHER. So, along with Mrs. Maestas and myself, you do not believe there could be \$2,500 of materials there?

Mr. MAESE. No; it would be hard for me to—

Senator DOMENICI. I asked those who worked for the Government if they had any suggestions on how we could fix up this home. Now, I will ask the contractors.

Will you go back and finish any shoddy work that is incomplete on the Maestas' house?

Mr. GALLEGOS. We gave all the people 1 year's warranty on all of our work. Nothing came out until after the year's warranty was up.

Senator DOMENICI. So your answer is, "No?"

Mr. GALLEGOS. No.

Senator DOMENICI. Where is the warranty? Is it in writing?

Mr. GALLEGOS. It is in the proposal itself and it is 1 year's warranty on all the work we do.

Senator DOMENICI. So you are telling us, you gave Mrs. Maestas a written 1-year warranty?

Mr. GALLEGOS. It would have to be at Farmers Home. The proposals have to go to Farmers Home, because we never started a job unless we gave them a proposal and the figures.

Senator DOMENICI. Mrs. Maestas, did you ever get a copy of a warranty for 1 year—

Mrs. MAESTAS. No, sir.

Senator DOMENICI. So, Mr. Gallegos, you say the warranty was given to Farmers Home?

Mr. GALLEGOS. I say the proposal itself is a warranty, on account of State law.

Senator DOMENICI. So State law requires this, but you say the warranty period has expired, so you are not going to go back and do anything?

Mr. GALLEGOS. No, sir.

Senator DOMENICI. I have no other questions, Mr. Chairman.

Senator MELCHER. I have no further questions.

Thank you.

The next panel includes Mrs. Tafoya, Charles Knoop, and Mario Baca.

Dr. LAVOR. Mr. Chairman, I will be very brief with this one. This home was chosen simply because it is from Rio Arriba County. This is a home that was done several years ago. It will show similar workmanship. This is a home that was simply picked at random. I simply pointed to a chart and we went to it. I will read the development plan.

The development plan will consist of repairing old plumbing, installing a new septic tank and drain field, repair bathroom, repair walls, repair walls in two bedrooms, repair steps and build a ramp for a wheelchair, hook up to community system.

The total for this contract was \$5,000.

I should point out, Mr. Chairman, the final inspection for this was made by Mr. Knoop, county supervisor, on November 9, 1978. He said, "The items on development plan, dated October 27, 1978, not planned," those are his words, "all work now completed in B and family happy with work."

I would like to briefly go through the slides to show you what was done. These pictures were taken about 3 weeks ago.

This is a picture of the front of the house. These [indicating] are the type of steps they have.

This is a long shot of the front of her house. You will notice there is no ramp there 2½ years after the work was done.

Where this man is standing is where the septic tank was placed. The septic tank was placed too close to the house to be in compliance with State law.

Today, 3 weeks ago, we noticed that the septic tank was percolating and the odor from the septic tank was extensive.

Also, over here [indicating] the ground is collapsing on top of the septic tank because when it was installed it wasn't compacted. The whole area is beginning to deteriorate right over the septic tank.

This is the septic drain field which is backing up. The septic drain field goes right through a vegetable garden area that they had. It is backing up quite bad.

There was stuccoing done to the side of the house. The stuccoing was not detailed in the original development plan. Some work was done by the builder which was not reflected on the plan and is not reflected in the official files.

This is the bathroom. In the bathroom, Contac paper was put over the wall and it was totally shredded when we were there. There was some calking, we were told, put around the bathtub, but that has just about disappeared now.

Mr. Chairman, I will conclude the introduction to this by reading the estimator's evaluation. "Quality of material and workmanship: Roof, fair. Repair of interior walls, fair. Window replacement, good. Concrete terraces, fair. Septic tank and leach line, poor. Stucco application, good." Then he wrote a note, "The official development plan indicates that a wheelchair ramp was to be installed." Our inspection revealed no permanent type ramp installed. Raw sewage is percolating around the ground approximately 30 feet from the north side of the house. This is a short distance from the septic tank. These conditions indicate that possibly one leach line instead of an adequate drain field was installed to carry liquid to a small rock-filled pit. One partial strip of roofing has been torn off, apparently as a result of winds.

That completes the introduction to this panel.

Senator MELCHER. Senator Domenici.

Senator DOMENICI. Mrs. Tafoya, are you satisfied with the work which was done on your house?

Mrs. TAFOYA. Not very good.

Senator DOMENICI. What are the major problems that have to be corrected?

Mrs. TAFOYA. Whatever they used on the restroom peeled off. It is no good.

Senator DOMENICI. What about the septic tank?

Mrs. TAFOYA. It is leaking out and the odor is very excessive.

Senator DOMENICI. Did you expect a ramp installed to help with the wheelchair? Was that part of the agreement, and did you get it?

Mrs. TAFOYA. They didn't do it as I wanted them to.

Senator DOMENICI. Has anybody tried to correct the situation for you?

Mrs. TAFOYA. They didn't put in a ramp, just a slab of concrete there by the entrance.

Senator DOMENICI. Has anything been done to correct or complete the work? Has anybody tried to correct it?

Mrs. TAFOYA. There was no warranty on the work.

Senator DOMENICI. So no efforts have been made to fix the things you have described or to put in the ramp?

Mrs. TAFOYA. No.

Senator DOMENICI. Mr. Baca, are you a licensed contractor?

Mr. BACA. I am working under my brother's license, who is a licensed contractor.

Senator DOMENICI. Where is your brother's contracting business located?

Mr. BACA. Baca Plumbing Co. in Albuquerque.

Senator DOMENICI. And you are authorized to work under his license in Rio Arriba?

Mr. BACA. The State of New Mexico, yes.

Senator DOMENICI. What kind of license is that?

Mr. BACA. He has a CB-98, MM-1, and MM-2, general contracting, plumbing, and gasfitting.

Senator DOMENICI. So he has those. Are you an expert in these, or do you just use his license?

Mr. BACA. I am an expert in those, particularly the plumbing.

Senator DOMENICI. Do you have to take out a license or do you use his license which permits you to do the work?

Mr. BACA. I do the work under him. He takes out the permits.

Senator DOMENICI. He gets the permits?

Mr. BACA. Yes.

Senator DOMENICI. Do you apply for a building permit on this kind of work in Rio Arriba County?

Mr. BACA. I didn't do any building, so I understand there is no permit required.

Senator DOMENICI. So you didn't get a permit on her house?

Mr. BACA. I didn't get any permit at all since she had her own permit on the septic tank.

Senator DOMENICI. She had a septic tank permit and you got no others?

Mr. BACA. I did not install the drainage field. Someone else did that.

Senator DOMENICI. Is it your testimony that on other homes on which you have done work of this type, you did not need a building permit?

Mr. BACA. Only when there was an addition or some major alterations, not for repairing cracks and minor repairs such as that.

Senator DOMENICI. Weren't most of the grants close to \$5,000?

Mr. BACA. Yes.

Senator DOMENICI. And \$5,000 is not major work requiring a permit?

Mr. BACA. The FmHA never advised me to get one. They only wanted a permit on plumbing and wiring, as I understood it.

Senator DOMENICI. Some of the items in the development plan for the Tafoya home weren't done, such as repairing the steps, and building the wheelchair ramp. Other items such as the roof, and one coat of stucco were done. Was there a change in this plan?

Mr. BACA. There were a lot of changes in this plan.

Senator DOMENICI. Who made the changes?

Mr. BACA. The FmHA and the property owner, I suppose.

Senator DOMENICI. So you are telling us that somebody else made the changes, but authorized you to execute them?

Mr. BACA. Yes; I put in a bid in October 1977, and did the work, I think, close to 1 year later. Meanwhile they had to have a drainage system installed, because what they had wasn't working. So they revised my bid from septic tank and drainage field to septic tank only. I installed this septic tank according to regulations by the Mechanical Board, which is part of the Construction Industries Division, so far as I know.

Senator DOMENICI. Was it inspected by the State plumbing inspector?

Mr. BACA. I don't think so.

Senator DOMENICI. Isn't that normal?

Mr. BACA. Well, as I said, they had their own permit on the drainage system. I thought they had their plumbing permit also.

Senator DOMENICI. Mr. Knoop, were you the county supervisor for Rio Arriba when the work was done on this home?

Mr. KNOOP. Yes, sir.

Senator DOMENICI. Can you tell us what role you played as a county supervisor? We are particularly interested in inspections that you conducted on this home.

Mr. KNOOP. Yes; I made the final inspection. Notes on the final inspection said that the items in question "there was additional work done that was not planned on the original bid, such as the plastering work." At the time the final inspection was made, Mr. Baca, Mrs. Tafoya, and her daughter were present, myself. On the ramp, as far as the ramp is concerned, the 6-by-14 sidewalk that was added by Mr. Baca was shown to me to be the ramp. We went through each detail of the bid with the daughter and Mr. Baca present, and at that time they were satisfied with the work. I don't have the inspection report before me. I signed the final inspection report. Mrs. Tafoya signed the final inspection report and the check to Mr. Baca for final payment.

Regarding changes in the development plan, the original bid was in 1977. There was a delay in funding of the money. Costs had increased. Some of the work that had to be done was done by the family. So there were changes made in the bid. There was a revised bid given and discussed with the family, and approved before work started.

Senator DOMENICI. Was it your role as the headman to make final inspection before final payment was made?

Mr. KNOOP. That is correct.

Senator DOMENICI. So that was the rule in your county?

Mr. KNOOP. Most often it was. I made one inspection as the work was proceeding. If other people had made inspections, I reviewed their inspections, and they reviewed them with me. If there were any problems, they discussed them with me at the time they came back from inspection.

Senator DOMENICI. The USDA audit would indicate that there were a number of cases in your county of shoddy and incomplete work. Are you aware of those audits?

Mr. KNOOP. I am.

Senator DOMENICI. On June 30, 1980, Mr. Meyette, an inspector from Farmers Home, stated that "while in Rio Arriba County I visited several other 504 and State grant developments. The workmanship on all State and Federal grants is as poor as those already described." Are you aware of that report?

Mr. KNOOP. I did see a copy of it; yes.

Senator DOMENICI. How do you account for your inspecting and approving procedures? Was this the ordinary way you conducted your supervision, by approving payments until someone comes along later and finds poor and shoddy work?

Mr. KNOOP. That comment relates to the northern part of Rio Arriba County. In that part of the county, we had done quite a few borrower method types of construction with relatives and people doing the work themselves, hiring relatives or hiring people that were unlicensed. Because of that, some of the work was unacceptable. Some of the people have not been paid completely for the work on these jobs until they are corrected. That comment is on development that still is in process and final payment has not been made.

Senator DOMENICI. Are you telling us so far, as your internal audits turned up shoddy work, none of those projects have been paid in full?

Mr. KNOOP. As I recall, the ones we have in process now that are shoddy work, there are still some funds left in the supervised bank account until work is corrected.

Senator DOMENICI. That is your best recollection?

Mr. KNOOP. That is what I recollect, yes, sir.

Senator DOMENICI. Mr. Chairman, I have further questions, but I yield.

Senator MELCHER. Mr. Baca, you are not responsible for the septic tank, is that correct?

Mr. BACA. I am for the tank itself, not the drainage field.

Senator MELCHER. Does the development plan include the tank?

Mr. BACA. The first one did.

Senator MELCHER. What was the final one?

Mr. BACA. They had problems apparently with their drainage system, so they had to get someone to do a good job on it so they could use their plumbing.

Senator MELCHER. Was this you?

Mr. BACA. No; I don't know who did it.

Senator MELCHER. Was it part of the \$5,000?

Mr. BACA. It wasn't part of it. We transferred some of that money to other things. I don't have the second bid I gave them or the revised, whatever form they have at FmHA.

Senator MELCHER. It is not clear about the ramp. Would you clarify it?

Mr. BACA. I would like to see the slide, if I may.

Senator MELCHER. I think we can do that.

Mr. BACA. I think there is one that shows the whole works. As you can see, that slab that we poured there, is on very hilly terrain. When we poured that slab, the end of it, this [indicating] end of it, was even with the ground surrounding it. That house is on a very steep hill. The ground is eroding constantly. They told me what they wanted there and I did it.

Senator MELCHER. What you are telling us is at the time of completion the end of that slab was level with the ground?

Mr. BACA. They could have negotiated the chair from the end of that slab onto—wherever they wanted to go.

Senator MELCHER. Do you agree with that, Mrs. Tafoya?

Mrs. TAFOYA. No.

Senator MELCHER. Mr. Knoop, what can you tell us about this, you signed off on it. You must have seen it, and you must have been aware of it.

Mr. KNOOP. Well, as I remember it, as far as I can recollect, that was so that they could get the wheelchair on there. There was also, as you see on the end of that slab, there is a board that he also did build there.

Mr. BACA. No; there was no board there.

Mr. KNOOP. This was the slab that Mr. Baca showed me when I made the final inspection.

Mr. BACA. Yes.

Senator MELCHER. I have no further questions.

Senator CHILES. Thank you. We will excuse this panel.

Our next panel will be the recipients of multiple grants. If they will, please come forward.

Senator DOMENICI. Dave, could we make sure the committee knows where we are at this point. Where is Georgia Ortega?

Mr. RUST. We are going to Mr. Casados first because of the wheelchair problem.

Senator DOMENICI. All right.

Mr. RUST. We'll have Mr. Casados and his son, Mr. Abeyta, and Mr. Maese.

Senator CHILES. I would like to swear each of them.

Do you swear the testimony you're about to give before the committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mrs. ORTEGA. I do.

Mrs. SALAZAR. I do.

Mr. CASADOS. I do.

Mrs. MARES. I do.

Mr. ABEYTA. I do.

Senator DOMENICI. Will you swear them in Spanish, please.

Mr. LOVATO. Yes.

Senator CHILES. They understood that?

Mr. LOVATO. Yes.

Senator CHILES. All right, thank you.

Dr. LA VOR. Will you shut that light out, please. Mr. Chairman, this is Mr. Casados house. He lives on the left side of the house and this side is not occupied.

This panel will be made up of people who received more than one grant from more than one agency. Mr. Casados' case, he received one

grant from the Department of Energy to install two windows, one door, and they gave him six pieces of sheetrock, and the amount is unknown.

He received a second loan, a section 502 loan from the Farmers Home Administration for \$2,400, to install a new roof. He received a third Federal grant, or a second Federal grant, section 504 loan for \$2,600, to install all bathroom facilities, and add one room which will be used for a bathroom.

He received a second grant at the same time from the State Housing Authority for \$1,800, to do the same work for the same development plan I just read for Farmers Home. The total he received from those three grants and one loan was \$7,360.

Recently, in the last few months, the Housing Authority of Mora County has awarded him a new grant designed to repair the work done by the Farmers Home grant and the State Housing Authority grant. The total officially, so far, on this house is \$10,860. I was told the other day they may have to spend another \$1,500, which would bring the total close to \$12,000.

If we can go through these slides very fast, we can get to Mr. Casados. As you will note, these pictures were taken in June. This is the front step to get into the house, and as you can also note, Mr. Casados is in a wheelchair and his son uses crutches. So here is the front step and there is a step here.

This is from the inside of the house. There is a step down. This was the condition of the floor. You turn to the right and there is a step and another step to get into the kitchen.

They put in a bathroom for Mr. Casados and they did it by dividing an existing room. This is the existing adobe wall. You can see it. It is totally unfinished and this line is not straight. It's not a result of the camera. That is the way the wall is.

This area here is a result of having to put the wiring in after the sheetrock wall was put up, but that again remained rough. This is looking straight ahead, and this is looking up. They didn't finish the ceiling.

The marlite around the bathroom was popping off, and there is a problem with this house. They installed a hot water heater, and had they used 1 more inch of pipe when they first did it, the heater would have sat firmly on the ground, but it was too short, so it swung. When they use the tub, the water goes from cold to scalding hot while they are in it.

Mr. Rust. You will notice there are no railings.

Dr. La Vor. There are no railings around here for him at all.

Even if the bathroom was done right, the problem is the door is too narrow for him to get his wheelchair in, and even if he could get it in, the sink is placed too high for the wheelchair, but even if the sink was placed properly, he couldn't get the wheelchair through here [indicating] because the commode blocks the door.

This is the kitchen, the dark walls, and there is the heater. This is what is being done by the new grant from HUD. As you can see, they totally replaced the wall in the bathroom and the floor. We only have a few pictures. These were taken by the inspector.

They have done some work, as you can see there is paint now in the house, and they have taken a wall out, and put in some closets, and made the room larger. Here is a closet, there is the bathroom, here is a closet, so there is an awful lot of work that is being done.

I will just complete this by reading what the estimator found last week. He said:

The quality of materials and workmanship, roof, good.

That was part of the 502 loan.

Exterior wire mesh construction, good. Windows and doors, good; septic tank and leach line underground, unable to inspect, but no apparent problems observed. Plywood subfloor, fair; interior walls enclosing bathroom and closet, fair.

That's the new work.

Paint, stain and varnish, good. Bath fixtures and wainscott over tub, fair. Porch, good except for exposed, untreated wood. Kitchen cabinets, poor. Resilient floor covering, poor and unacceptable from the standpoint of insulation.

Wheelchair ramp from the kitchen to the lower level bedroom is acceptable, but in the absence of handrails can cause a safety hazard.

I was there inspecting the house, Mr. Chairman, and there were no ramps going into the house and there were no ramps going from door to door.

When I asked Mr. Madrid about that, he said Mr. Casados had told him he preferred to drag himself around from room to room and not use the wheelchair, which didn't make much—

Senator DOMENICI. That's all right. If that's what he said, we'll ask him.

Dr. LA VOR. That's what he said. Then the last part, and this is pertaining to the new work that is being done now. "When the wall in the living room area was removed, the flue for the wood stove apparatus was also removed, thus eliminating adequate heating of this portion of the house."

The estimator said for all of the work, of approximately \$12,000, labor and materials, \$6,950, and that includes the roof and the stuccoing.

Senator DOMENICI. Well, Mr. Chairman, I think we have a problem understanding these wrapup estimates, because they have to do with first work, and then they also have to do with work that's been redone.

Senator CHILES. That's right.

Senator DOMENICI. I would like to start with these questions. If you could be very specific with us, do you have an original development plan for the 504? Do we know what is now being done with the new grant? Can you tell us specifically what items appear to be duplications?

Dr. LA VOR. Are you Mr. Abeyta?

Mr. ABEYTA. Yes.

Dr. LA VOR. Mr. Abeyta was asked specifically to provide that.

Senator DOMENICI. Mr. Abeyta, you are the director of the Mora County community block grant program?

Mr. ABEYTA. Yes, sir.

Senator DOMENICI. So we will understand, that's not part of Farmers Home?

Mr. ABEYTA. No.

Senator DOMENICI. You run that yourself?

Mr. ABEYTA. Yes.

Senator DOMENICI. Can you tell us then, what you are doing to the Casados' house that was part of the previous development plan for which a grant was approved?

Mr. ABEYTA. OK, I did consult with Dr. Martin La Vor and he told me in the bathroom there was a duplication, if I would do it. However, even though it is a duplication, the contractor agreed to do it on his own, not to charge for it. So it wouldn't be a duplicate. He is doing the work free on several things.

On changing the door so it will open to the outside, so they would come in; changing the commode bowl 10 inches to the right in the bathtub area, that way they could go in, but he did that on his own.

Senator DOMENICI. You are saying there is no duplication?

Mr. ABEYTA. No duplication. I do have the sketch that we are reading out in new pictures as the work is progressing. There's a lot more being done now than what the pictures show there. I do have the pictures.

Senator DOMENICI. Who was the original contractor, do you know?

Mr. ABEYTA. Well, FmHA or—

Senator DOMENICI. FmHA. Does the staff know? Harry Nolan? Who is the contractor that you contracted with?

Mr. ABEYTA. Richard Atkinson.

Senator DOMENICI. Even though the specifications for yours say some of the plumbing has to be done so the bathtub can be used—

Mr. ABEYTA. Those were corrected before we even went in.

Senator DOMENICI. Who corrected them?

Mr. ABEYTA. From our understanding another plumber went in and did the work. I don't know if he charged them.

Senator DOMENICI. All right.

Mr. ABEYTA. He didn't charge them. The reason they were having problems, and I think they are going to continue having problems, is that the waterline comes from a spring high up in the mountains, and the pressure on those lines is very high. If you will turn on the faucet, you will get all the water in your face. The pressure is very, very high.

I imagine until they put a reducing valve outside on those lines, they will always have problems with the water.

Senator DOMENICI. Let me ask you, how do you perform your inspections? Do you require building permits?

Mr. ABEYTA. I have three inspectors helping our program.

Senator DOMENICI. That's at present?

Mr. ABEYTA. That's since I started.

Senator DOMENICI. How long ago did you start?

Mr. ABEYTA. Six months ago.

Senator DOMENICI. So you are telling the committee that the State building inspector approves this work before you pay the contractor?

Mr. ABEYTA. Yes; I even have a form, where he goes, and has the State inspector, the plumbing inspector, and the electrician sign.

Senator DOMENICI. Do you find you can get State inspectors to come and do the inspecting you require?

Mr. ABEYTA. In my area, yes.

Senator DOMENICI. That's in Mora County?

Mr. ABEYTA. Yes.

Senator DOMENICI. Do you think it's any different in San Miguel?

Mr. ABEYTA. I don't think in San Miguel it would be any different because the State inspectors are real close by. One lives in San Miguel and two in Mora.

Senator DOMENICI. How do you approve a payment to contractors who do work under your block grant HUD program?

Mr. ABEYTA. We approve 40 percent after the work is completed. First we allow 50 percent for materials, and then we hold 10 percent. That's after it has been completed, here we hold it for 30 days, and during that time we get the State inspectors to do their work.

Senator DOMENICI. Who contacted you about going up to Mr. Casados and fixing his house?

Mr. ABEYTA. Our county manager said he had received a letter from you, Senator Domenici, that these people needed help, and we do have a committee that approves all applications. It's not approved by me. There is a committee of four of the people from Mora County. They are advised on all applications and we do have a point system and applications are based on the point system.

Senator DOMENICI. So you found in your application procedure this house was entitled to help?

Mr. ABEYTA. It was in pretty bad shape, yes.

Senator DOMENICI. Did Robert Madrid ever contact you and ask you to go up and see if you could help?

Mr. ABEYTA. No; before me there was another director. He contacted Robert to see what he could do about that picture that you showed on the bathtub, because the marlite was coming loose and he wrote notes here that the grant was already closed, that it was 100 percent completed and that they couldn't do anything about it. I do have the notes.

Senator DOMENICI. Have you been present here today to hear testimony?

Mr. ABEYTA. Yes.

Senator DOMENICI. Do you have any problems in your program with shoddy and incomplete work which you have already finished paying for in total? Has this happened in your program?

Mr. ABEYTA. We do have problems, but not of shoddy work, because we do not pay until we get the final inspection from the State inspector, and the problems are, that some contractors are quitting.

But we are running a strong program. We have some people back here, in fact some of the committee that contacted you some time back. After I came in they liked the work we were doing.

Senator DOMENICI. Do you feel confident you could get the work done and still inspect properly?

Mr. ABEYTA. I think so.

Senator DOMENICI. Do you have any trouble finding contractors?

Mr. ABEYTA. We have about four left, but I think we will finish by November. Our office deadline is November 15, and we should be through around that time. The total of the houses that will be remodeled will be about 90.

Senator DOMENICI. When you first visited the Maestas' house—the Casados' house, were you aware of the previous loan and grants that had been spent on it?

Mr. ABEYTA. Yes; in fact, I got copies from them of all the work that had been done previously.

Senator DOMENICI. Do you think the work was done thoroughly?

Mr. ABEYTA. On the roof part, it was OK. The cement part was OK. The bathroom part was bad.

Senator DOMENICI. Would you have approved this project for final payment under your program?

Mr. ABEYTA. No, sir. I got the pictures and there was no way we could approve it. In fact, in these pictures that are shown there, we are still progressing with a lot more work on our grant, and you can see some of the pictures that were taken yesterday.

However, on that contract, they are supposed to put the railings for the ramp, because he cannot get up on the ramp that we already did. You can see that on the pictures, if you would like to see them.

Senator DOMENICI. Maybe we can talk with Mr. Casados for just a minute. I know it's very difficult for him. Let's just have him talk with us a little bit.

[Mr. Casados testified through interpreter R. A. Lovato.]

Senator DOMENICI. Mr. Casados, are you satisfied with the work that has been done on your house?

Mr. CASADOS. They haven't finished.

Senator DOMENICI. I know this gets confusing, but before Mr. Abeyta came in, were you satisfied with the work that had been done before he started with his new grant?

Mr. CASADOS. Not on the part where the piping was put for the bathroom and now they have to install a new facility to make it right.

Senator DOMENICI. Does he also remember he borrowed money and got a loan to repair his house?

Mr. CASADOS. Yes.

Senator DOMENICI. How much was that for?

Mr. CASADOS. I—

Mr. ABEYTA. Here is his copy.

Senator DOMENICI. Could you state for the record how much it is, Mr. Abeyta.

Mr. ABEYTA. \$2,400.

Senator DOMENICI. \$2,400. Is anything due on this and has he been able to pay it?

Mr. ABEYTA. The loan was made in 1974 and it's a 10-year loan at 1 percent.

Senator DOMENICI. I have no further questions, Mr. Chairman.

Senator CHILES. Mr. Abeyta, do you have any reservations about using the funds appropriated for HUD programs to correct the shortcomings for work done by Farmers Home?

Mr. ABEYTA. We were going to do it before and we didn't know exactly how much work was done, but then when I talked to Mr. La Vor, he sort of commented not to duplicate, or that is what I understood, so at that point, even though I knew he needed that commode bowl to be moved so he could go into the bathroom in the wheelchair, I talked

to the contractor, and he agreed to do a lot more extra work, so we wouldn't be duplicating the services.

Senator CHILES. Did Robert Madrid contact you about this case and ask you to provide additional funding to correct the work that had been done?

Mr. ABEYTA. No.

Senator CHILES. You didn't have any conversations with Robert?

Mr. ABEYTA. I did talk to him about another grant.

Senator CHILES. Not about this one?

Mr. ABEYTA. No; there were people coming in for assistance and we had too many applications. We had 145 applicants, and we only had money for 90, plus another 90 that came in late, so at that point we knew he—Robert Madrid—had a grant for approximately \$33,000, so we were referring people to him, just referring.

Senator CHILES. All right, thank you, Mr. Casados. I think we will now move on.

Dr. LA VOR. Ms. Ortega and her daughter will be next.

Mr. ABEYTA. I would like to make a comment. I think Mr. La Vor misunderstood that we would be using more money and he quoted the figure \$1,500. Just for the record it will be \$690.

Senator DOMENICI. \$690?

Mr. ABEYTA. Yes; that was to install the railings, make the ramps bigger. We took a committee of people up there, County Commissioner William Gandert said we needed a few minor changes because he could not go up in the wheelchair even though we had built a ramp.

In fact, I wish you could see some of the pictures that are being done now.

Senator DOMENICI. Could we see those?

Mr. ABEYTA. Yes; you can see the before and after and that's how the house looked before we had these pictures.

Senator CHILES. Thank you, sir.

Senator DOMENICI. Do we need Mr. Abeyta to stay?

Senator CHILES. No.

Dr. LA VOR. No.

Senator DOMENICI. Thank you very much.

Dr. LA VOR. Thank you very much.

Senator CHILES. Mr. Casados, we thank you very much for coming and testifying before the committee.

Dr. LA VOR. Mr. Chairman, this next home is owned by Mrs. Ortega. She has received several grants. The first was from the weatherization program for doors, weather stripping—for storms, weather stripping, storm windows, and cement work and it is unclear as to how much was spent, but it can't exceed \$560.

The second was a Farmers Home 504 grant and I will read you the actual language: "The grant will be used to install bathroom, repair ceiling, roof, and porch deck." That was for \$5,000.

She received a second grant from the State Housing Authority to do the following and I will read you the official file. "Grant will be used to repair bedroom and kitchen ceilings and install new electrical box and new decking on porch." This is a repeat of the other. That grant was for \$3,500.

The total was \$8,500 spent on her house when the first report was written. Since that time the State Housing Authority has awarded another \$3,100 which they call an emergency grant for a total of \$11,600.

Mrs. SALAZAR. Excuse me, Mr. Chairman, it's \$3,500.

Dr. LA VOR. Mr. Chairman, \$3,500, so it is a total of \$11,900. If I can briefly go through the slides, I will show you what exists. This is the house from the side. This is one of the windows that was installed under the weatherization program, and I believe this is another one that then was installed under the weatherization program. The porch that was put on, is this porch, and you will note the distance between the top of the porch and the steps.

As you will see, for an older person, it is too far to step down and there are no handrailings and you must hold on to go down. This is a slide taken by the estimator last week. This gives you a better idea of it, and this is the porch.

This house had electrical work done and it was red tagged by the building inspectors on three different occasions. It is still red tagged. The last time the building inspector red tagged it was May 14. This new emergency grant is now correcting that. I don't know if it is finished yet.

Since the first report, however, I understand the house was red tagged by the plumbing inspector, because the septic system was put in improperly. This is an example of some of the electrical work, the outlets, I saw.

Senator DOMENICI. Who was the prime contractor?

Dr. LA VOR. P. & P.

Mrs. SALAZAR. P. & P.

Senator DOMENICI. All right.

Dr. LA VOR. They built the bathroom by taking an existing, I believe it is about an 8- by 8-foot room and simply put up a partition down the center of the room and this is the bathroom. It looks larger, because I was using a wide-angle lens. That's only 4 feet and they put in, instead of a new tub, an old tub. But when the work was done, there was no ventilation in the room, and so complaints were made to the builder, so he came back and put that window in. The window goes clear through to the other room.

This was taken by the estimator just last week. It shows the water heater and you will note there is no flue, which is a total violation of all of the codes. It makes the house very unsafe. This is, again, by the estimator last week. This shows the new electrical work being done in the house. I should point out when I was there the first time, when you put a plug into the outlet, sparks came out. There were burn marks around the ceiling light fixture. So, as you can see they are correcting it.

Is this a new door they are putting in?

Mrs. SALAZAR. Yes.

Dr. LA VOR. They are putting in a door, so a lot of work is being done now.

I will then conclude, Mr. Chairman, with the estimator's report. It said—

The quality of materials and workmanship, porch step and roof, good; lowered ceilings, fair; roofing, fair; electrical work, poor, unacceptable, red-tagged; doors and partition wall, fair; bathroom window, good; plumbing, good; except septic tank, which is not properly functioning, apparently due to inadequate drain field; and then water heater, poor, not vented, safety and health hazard.

Out of \$11,900, that includes the work that is being done now. The estimator said this was worth about \$5,075.

Senator CHILES. Mrs. Ortega, are you satisfied with the work that has been done on your house?

Mrs. ORTEGA. No.

Senator CHILES. What is the status of your electric bill—

Mrs. SALAZAR [interrupting]. Mr. Chairman, excuse me. I have been elected spokesperson for my mother.

Her electrical bill, since this wiring has been installed, has been running my mother \$68 a month.

Senator CHILES. What was it before?

Mrs. SALAZAR. I think about \$12 to \$17.

Senator CHILES. What is the accumulated bill she has now?

Mrs. SALAZAR. The last one my mother turned in to Mr. Madrid, Robert Madrid, was for \$128.

Senator CHILES. Has any agency indicated a willingness to help pay the bill?

Mrs. SALAZAR. Mr. Chairman, at the time before this all happened, I had a meeting with Mr. Gallegos. He had agreed that my mother's high bills were due to the electrical system they had installed. He agreed to go back and pay my mother for all the money she had been putting out, and as of today, he has not done anything.

Senator CHILES. Do you think the high bill is as a result of the work that has been done?

Mrs. SALAZAR. Yes, sir, it was.

Senator CHILES. What is causing it?

Mrs. SALAZAR. I talked to the electrical power collector, which is Fernandos Gallegos, from Las Vegas. I talked to him over the weekend. He told me all of the wires had been connected together. There were no separate outlets, they were all hooked together.

He didn't understand how that house hadn't caught on fire.

Senator CHILES. Mr. Maese, did FmHA countersign the \$5,000 check in the Ortega case 1 day after it was deposited?

Mr. MAESE. Yes, sir. I didn't know that at the time, but it was brought to my attention when we met with the people.

Senator CHILES. Is that a common procedure to write out the whole amount the day after it is put in there?

Mr. MAESE. No, sir.

Senator CHILES. Isn't the procedure normally that as the contractor brings in some bills and asks for a partial payment, that you then make a partial payment?

Mr. MAESE. Yes, sir.

Senator CHILES. Do you know whether at the time the \$5,000 was paid out in one lump sum, whether the work had been completed at the time the \$5,000 was paid out, or was it just in advance?

Mr. MAESE. I do not know, sir, because I had not inspected the house prior to the complaints coming in.

Senator CHILES. Who countersigned that check?

Mr. MAESE. According to the records, Steve Handy.

Senator CHILES. You don't know whether the work was done before the grant was approved or not?

Mr. MAESE. No, sir, I don't.

Senator CHILES. Why did Farmers Home pay to install a septic tank for a home that could be served by the city sewer system?

Mr. MAESE. I believe at the original time of the bid, we did not know the city sewer system was coming through. The city sewer system came in there about 5 to 6 months after that job was completed.

Senator CHILES. After the job was completed?

Mr. MAESE. Yes, sir.

Senator CHILES. Senator Domenici.

Senator DOMENICI. Thank you, Mr. Chairman.

Let me see if I understand. Mr. Maese, when a \$5,000 grant is approved, the \$5,000 is made available immediately to be deposited in the bank?

Mr. MAESE. Yes, sir.

Senator DOMENICI. In this case, I understand the \$5,000 was deposited in the bank, and someone went to Ms. Ortega the same day or the next day, which is it?

Mr. MAESE. I think it was the next day.

Senator DOMENICI. The next day then, and had her sign a \$5,000 check for the contractor, and the Farmers Home representative co-signed that check?

Mr. MAESE. Yes.

Senator DOMENICI. Let me ask you, was the work started before you ever had an agreement or did they just advance \$5,000 to this contractor?

Mr. MAESE. Not to my knowledge, Senator.

Senator DOMENICI. Which is it?

Mr. MAESE. I don't think it had been started.

Senator DOMENICI. If this is the case, in this instance, the contractor was given \$5,000 before he started working, is that right?

Mr. MAESE. Yes, sir, according to the records. May I—

Senator DOMENICI. Please.

Mr. MAESE. In previous conversations with the Housing Authority people, we were going to work two grants and it was my understanding at the time that they were going to process the State grant first and then ours. Whether the work was started prior to that, I cannot verify that for sure.

Senator DOMENICI. The inspection reports, Mr. Maese, would indicate this work had started before the money went in the bank. The inspector's report, by Mr. Handy, stated, "Fifty percent completed on February 14, 1979," and final completion February 23, 1979, when the money was deposited. How could that be?

Mr. MAESE. The only way it could have happened is somebody had to authorize to start construction prior to that.

Senator DOMENICI. So in this case, somebody authorized the contractor to start work on her house before she even had a grant, is that correct?

Mr. MAESE. As far as I can understand, yes.

Senator DOMENICI. Well, you are the supervisor. Was that done or not?

Mr. MAESE. As far as the work starting, I cannot tell you. As far as loan approved, the grant approved, I don't believe it was started prior to the grant being approved.

Senator DOMENICI. How can we find out when the grant was approved?

Mr. MAESE. If you will look over at position No. 1 of that document, you will find a 440-1.

Senator DOMENICI. What date is that?

Mr. MAESE. January 30, 1979.

Senator DOMENICI. Why would it take so long to get the money in the bank?

Mr. MAESE. Because we do not have the money here. We have to send for it in St. Louis, to the finance office, and it will vary from 10 days to 3 or 4 months.

Senator DOMENICI. In this case your records would reflect that before you had the money in the bank, work was progressing?

Mr. MAESE. It should be noted in there. It should be documented.

Mrs. SALAZAR. Excuse me, Mr. Chairman. I just spoke to my mother and she said work had not been started yet.

Senator DOMENICI. All right, we will let the file speak for itself on those dates.

Now let me ask you: Do you remember signing the check for \$5,000?

Mrs. ORTEGA. Yes, I signed.

Senator DOMENICI. When you signed it, had they already started to work?

Mrs. SALAZAR. She just went to the bank. One of the secretaries from Mr. Maese's office took my mother to the bank to deposit the money in the bank. Mr. Gallegos and Bobby Madrid went with them.

Senator DOMENICI. I want to be very specific on this, and please tell your mother to think very carefully. The money was put in the account for her and she signed a \$5,000 check. Had they started work or not on that day?

Mrs. ORTEGA. No, the next day.

Mrs. SALAZAR. Not that day, the next day, she said.

Senator DOMENICI. Did they tell her anything about why she would be paying the whole \$5,000 all at one time?

Mrs. SALAZAR. No.

Senator DOMENICI. Why did she think she was signing the check? What did she think she was doing in signing the check?

Mrs. SALAZAR. She just thought they were going to put the money in the bank at that particular time, until the work was completed, and then a check was supposed to be have been issued, but it wasn't.

Senator DOMENICI. So she was taken down to the bank where she signed the check, in the presence of Robert Madrid and Pete Gallegos?

Mrs. SALAZAR. No; Lorraine Lujan, the secretary, Mr. Maese's secretary, was the one who went to the bank with my mother, when they took the check.

Senator DOMENICI. [Spanish spoken.]

Mrs. ORTEGA. [Spanish spoken.]

Senator DOMENICI. Would you interpret that?

Mrs. ORTEGA. Si.

Senator DOMENICI. I will do that. When she went with Pete Gallegos and Robert Madrid, they took her to his secretary and they went to the bank. The secretary went to the bank with her, and at the bank she signed the check.

Now can I ask you, do you know whether the signature of Mr. Handy was on that check when you signed it? Was that signature on it when you signed it at the bank?

Mrs. ORTEGA. Si.

Senator DOMENICI. Mr. Chairman, she says she thinks that Handy's signature was on it when she signed it at the bank. That would be her testimony.

Now one more time, ask her why she was signing a check for \$5,000. What did she understand?

Mrs. SALAZAR. Because they told her to sign it.

Senator DOMENICI. For what?

Mrs. ORTEGA. [Spanish spoken.]

Senator DOMENICI. To fix your house?

Mrs. ORTEGA. Si.

Senator DOMENICI. I wonder, Mr. Chairman, if we might put that check in the record.¹

Senator CHILES. Yes.

Senator DOMENICI. What is the present situation with reference to the house? Can you quickly explain to us what or how things are now and where things stand?

Mrs. SALAZAR. Mr. Chairman, they have started. Like I said, Fernandos Gallegos, he's the electrical contractor. He has started to work on the house for the electrical part and he's just not finished with it. Willie Roybal has started construction on the house all over again. He has patched up the outside by the porch, and they are in the process of putting in new stairs, and they are in the process of redoing some of the walls in the kitchen, and also in the bathroom.

Senator DOMENICI. Mollie, did you have something to ask?

Mrs. SALAZAR. No, I think it has been answered.

Senator DOMENICI. All right.

Mrs. SALAZAR. Thank you.

Senator CHILES. Thank you very much for your appearance here today.

Senator DOMENICI. Mr. Chairman, I wonder if you would just permit me—I think they can be excused.

Mrs. SALAZAR. Mr. Chairman, I think there is another question she would like to ask.

There was another check that was brought to my mother's house, by Mr. Handy, at one particular time and she doesn't know exactly what it was for. It was for \$2,000, and she didn't know what it was for or anything, and the way he handled that was just very improper.

Dr. LA VOR. It was a Housing Authority check for \$2,000, I believe.

Senator DOMENICI. Well, what happened? Another check was brought to her?

Mrs. SALAZAR. Yes, to the house for apparently \$2,000. Now, she really doesn't know for what amount it was. She doesn't know whether

¹ Retained in committee files.

it was for \$2,000, \$200, or what it was for. Steve Handy went over to my mother's house and told my mother, here, sign this check, I want you to sign this check over to me.

Senator DOMENICI. I think it was for \$2,000.

Dr. LA VOR. We thought it was that original check that she said she signed and she explained this morning, so the only other check that we know of that Handy cosigned was the Housing Authority grant.

Senator CHILES. Who brought the check to her?

Mrs. SALAZAR. Steve.

Senator CHILES. Did he explain to you what the check was for?

Mrs. SALAZAR. No; he didn't.

Senator CHILES. Did he explain to her the amount of the check?

Mrs. SALAZAR. No; he didn't either.

Senator CHILES. So she doesn't know what the amount was. Was it before or after she signed the other check?

Mrs. SALAZAR. It was after.

Senator CHILES. Does she know how long after?

Mrs. SALAZAR. Two or three months, I think.

Senator CHILES. I see. Thank you very much.

Senator DOMENICI. Mr. Chairman, for the record, I am looking at a list of items that were furnished me by our committee investigators, including some photographs, just as comparisons. Here is a \$5,000 grant on a house in your State, and it includes 10 items, new bathroom, new septic system, new roof, new hot water heaters, new kitchen base and sink, complete plumbing, new ceiling, new siding on outside, new windows, floors repaired as needed, at a total cost of \$5,000. Sir, we have pictures of these, and for our record I would like them included.

Senator CHILES. I think we will put them in at an appropriate place. This is in comparison with some of the pictures that you have in these northern New Mexico counties.

Senator DOMENICI. We have one, just by coincidence, which is much more than \$5,000 by up front piggybacking, not after the fact, where they replaced the roof and siding of an entire house, including a new front door, new gutters and downspouts, for \$9,400. I would like the record to reflect what that looks like, in comparison.

Senator CHILES. That's from Pennsylvania?

Senator DOMENICI. This one is from Pennsylvania.

Senator CHILES. We will place those in the record.¹

Senator DOMENICI. Thank you, Mr. Chairman.

Senator CHILES. All right. Mr. Castillos, would you raise your right hand?

Senator DOMENICI. Senor Castillos.

Senator CHILES. Would you raise your hand, Mr. Castillos.

Do you swear the testimony you are about to give before the committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. RUST. He understands no English, Mr. Chairman.

Mr. CASTILLOS. Yes.

Senator DOMENICI. Thank you.

¹ Retained in committee files.

Senator CHILES. Thank you.

Dr. LA VOR. Mr. Chairman, in the interest of time I will, then, do both of these cases together and I will present them at one time.

The first house belongs to Mrs. Mares, and she received a \$4,800 grant from Farmers Home to replace two doors that were in bad shape, replace rotted-out kitchen linoleum and living room floor, and to cover wood floors, and replace frames in kitchen and living room, and replace six windows. That was \$4,800.

She received the second grant from the State highway authority to repair soffits and install electrical wiring, install new windows, and paint interior. That was for \$3,500, for a total of \$8,300. The building inspector didn't go to her house because she wasn't home at the time. Let me just quickly run through and show you what was done to this house.

These are the windows that she had originally in her house. They were supposed to be replaced. This is what she's got. They were smaller windows, because this is what the builder had in stock, so he simply framed it in and filled in that area. These are the windows in the front of the house. The door was not replaced, and those are the framed-in windows. This is what was supposed to have been replaced, it was not. This is the back door that was supposed to have been replaced, it wasn't replaced either. This is the roof in the kitchen, and it is a single wall and it is supposed to be a triple wall. I'm not sure of my terms, but this is improper, and if you will notice on the top it is not completely filled in and the roof leaks just above it.

This is the linoleum that was put in the bathroom, and you will notice there are three layers of linoleum. When I was at the house the first time Mrs. Mares picked up a piece of linoleum and went like that. That is when I took that picture. Instead of replacing or removing the rotted-out floors, they left the rotted-out floors, put some fiberboard over it, and covered it with this inexpensive tile.

Now, the next house, the one of Mr. Castillos. Mr. Castillos received a grant from Farmers Home to do the following: Repair roof, ceilings, floors, install kitchen cabinet, install new doors, install new floor coverings on all floors. That was \$2,900.

He received a second grant for \$3,500 to, repair walls in two bedrooms, install new electrical wiring in dwelling, repair kitchen ceiling, and paint interior.

As you can see, Mr. Chairman, the roof, it was not done. On the side of the house there is a hole in the attic which wasn't corrected, and there is a crack in the wall that wasn't fixed.

Senator DOMENICI. Who is the contractor on this?

Dr. LA VOR. P. & P.

Senator DOMENICI. On both of them?

Dr. LA VOR. I'm not sure if it was—yes, it was on both of them.

This was, there was some work done in the bathroom and this was the condition of the bathroom in June.

This is the kitchen and you can see there was some patching done. This is the electrical wiring and you can see it is outside the wall, there are wires outside the wall which is a code violation. You will also notice that the wall with the patches is beginning to crack again.

This is the same picture, but it shows the floor. The next picture, please, this is the condition of the floor less than 1 year later. This is the new floor.

This is another picture of the side wall. This flue is not legal. It should be a straight flue. The flue must be straight up and it is improperly vented.

This is the overall room. These are the cabinets that were installed, and you have some idea of what is there. I think that is the last slide.

Mr. Chairman, the estimator said, roof repair, poor; electrical service, good; subfloor and floor covering, poor; kitchen cabinets, good; he estimated labor and materials a maximum of \$3,025 out of the \$6,400.

Senator CHILES. Mrs. Mares, are you satisfied with the work that you had done?

Mrs. MARES. No.

Senator CHILES. Why not?

Mrs. MARES. Because the first job they made over there, they went and put in. They made other frames and put them over the other ones. They never done anything else.

Senator CHILES. So you ended up with less window than you had to start with.

Mrs. MARES. So when they give me other money, the next time, they hire another man to do the job and that's when they build the windows. There are supposed to be four windows.

Senator CHILES. Do you know why Albert Garcia was unable to do the work on your house, as was originally planned?

Mrs. MARES. He said he was too busy, because I want him to go and do the job, you know.

Senator CHILES. Did you select P. & P. Construction Co.?

Mrs. MARES. No.

Senator CHILES. This house, Mrs. Mares, appears to be in fairly good condition, as compared to some of the others we have seen today. Why would it take almost \$9,000 to do the work if it had been done by—

Mrs. MARES. They were supposed to fix the roof because it was leaking, and they say they checked the roof and couldn't find any leaks, but it was leaking, I told them it was leaking, but they didn't fix the roof or anything. They were supposed to fix the bath, but they didn't do it because they said they were going to go back and do the work, and they never did went back.

Senator CHILES. Thank you.

Mr. Maese, I was asking why would it take \$9,000 to do what should have been able to be done for less than \$5,000?

Mr. MAESE. If this was part of the development inspection, like originally planned, this house is pretty good sized, bigger than most, it is better maintained than most of them. If you look at the work that was done, it was not part of the development work.

Senator CHILES. They did not follow the development plan?

Mr. MAESE. No, sir.

Mrs. MARES. It wasn't working.

Senator CHILES. Who inspected this house?

Mr. MAESE. Without looking at the file I couldn't tell you, right away, but she tells me that Robert Madrid did most of the inspecting on this house.

Senator CHILES. We will hand you the file and while we are doing that let me go to Mr. Castillos.

Mr. Castillos, the pictures that we have seen make it appear that an awful lot of work needs to be done to your house. Are you satisfied with the work that has been done?

Mr. CASTILLOS. He said that there was a lot of work that was done that was absolutely unnecessary or very poor and that some of the things come up that I can't remember.

Senator CHILES. Did he select P. & P. Construction Co.?

Mr. CASTILLOS. Yes; I think that's the same man, P. & P.

Senator DOMENICI. The question was, did he select P. & P., or who did?

Mr. CASTILLOS. No; Madrid, that's the same man, P. & P.

Senator CHILES. Did he say Mr. Madrid?

Mr. CASTILLOS. Did he say Mr. Madrid? Yes.

Senator DOMENICI. Mr. Maese, who inspected the Castillos house?

Mr. MAESE. Robert Madrid.

Senator DOMENICI. Robert Madrid?

Mr. MAESE. Yes, sir.

Senator CHILES. We thank you very much for your testimony.

We are going to recess the hearings now for an hour for lunch. We will start back promptly at 1:30.

Senator DOMENICI. I am going to have to catch a plane to go back to Washington. I want to ask you and Senator Melcher to continue the hearing, if you will.

Senator DOMENICI. Thank you very much, Mr. Chairman, we'll complete them this afternoon.

[Whereupon, the committee recessed at 12:30 p.m., to reconvene at 1:30 p.m.]

AFTER RECESS

Senator MELCHER. The hearing will come to order.

This afternoon our first witness will be Drew Cloud, State director, Farmers Home Administration. He will be accompanied by Frank Glover, Roberto Maese, Charles Knoop, John Handy, and Robert Madrid.

Mr. Cloud, we understand that you have given some testimony to the grand jury. We will respect those particular points and not intrude into the grand jury investigation.

Did you give any testimony, Mr. Glover, to the grand jury?

Mr. GLOVER. No.

Senator MELCHER. I don't believe any of the rest of you have, just Mr. Cloud.

Please proceed.

STATEMENT OF DREW CLOUD, ALBUQUERQUE, N. MEX., STATE DIRECTOR, FARMERS HOME ADMINISTRATION

Mr. CLOUD. Mr. Chairman and Senator Domenici, I have a short statement I would like to read to the committee.

I am Drew Cloud, State director for the Farmers Home Administration in New Mexico. Be assured that this agency will cooperate fully with the Senate Special Committee on Aging, and have been cooperating with your special committee.

It has been my pleasure to serve as State director on two separate occasions; first from 1961 to 1968, and beginning in March 1979 until the present time.

You will recall that the 1960's ushered in massive social, economic, and technological programs, the New Frontier, Rural Development, the space program, the war on poverty, food stamps, and many others. It was a time of dramatic action, a time of intensive effort to provide low-income people with basic necessities of life, including adequate income, safe, decent, sanitary housing, and proper nutrition.

These were the conditions in 1964 when Farmers Home Administration activated a concerted effort to improve housing conditions in rural America, principally through the 502 homeownership and the 504 home improvement programs.

FmHA's authority for making home improvement loans and/or grants was originally provided in section 504, title V, of the Housing Act of 1949. During the 1950's and early 1960's, funding and program activity for 504 assistance were minimal.

There is in my statement a table showing the 504 loans and grants made in the State of New Mexico since 1964 until the present. You will note in that graph, Mr. Chairman, that approximately 82.1 percent of all the grants made by the Farmers Home Administration have been in this four-county area of San Miguel, Mora, Rio Arriba, and Taos Counties.

We reflect that we have had a total of 3,030 people helped during this period of time. These figures are reflected in the graph also.

Many of these people receiving the 504 grants had no indoor plumbing, their roofs leaked continuously, drafts turned the house into a refrigerator in the winter, walls were covered with newspaper, windows and doors had no screens to keep out disease-bearing insects. The comforts of home taken for granted by millions of Americans were only dreams for thousands of rural New Mexicans before the 504 program was available to help them.

The 15-year figures record tremendous growth in the 504 program in New Mexico, from 1 loan and 47 grants in 1964 totaling \$45,010, to 83 loans and 211 grants amounting to \$1,000,420 in fiscal year 1979. In 1964 the grant and loan funds were scarce. Maximum loan or grant or a combination of both was \$1,000.

We have another graph that will indicate the growth of our problem versus the growth of our personnel. This is one of our problems. Between 1966 and 1976 we received no grant funds whatsoever. Funds for 504 grants to the elderly were made available in 1977. Loan authority was increased from \$1,000 to \$2,500, to \$3,500, to \$5,000, then to the current combination of grant and loans of \$7,500. The maximum loan repayment period is 20 years, commensurate with the borrower's ability to pay. Interest is 1 percent.

Two important statistics deserve special attention—total program volume and number of full-time FmHA personnel. Total program volume in 1964 was \$6.3 million. The total number of full-time personnel was 79. The figures for 1979 were \$110.1 million and 93 permanent full-time personnel respectively. An increase of over 900 percent in program volume compared with a 17 percent increase in personnel. Attached to my statement is an illustration of the ratio between pro-

gram volume and available personnel FmHA-NM for fiscal years 1971-75, a peak period for 504 loans. Program volume jumped from \$13.2 to \$38.4 million, while total available personnel, full time and part time, actually decreased from 96 to 92. The facts speak for themselves.

During the 1970's a number of innovations were introduced to cope with tremendous program growth, including participation with private lenders, and other funding agencies, to stretch available FmHA dollars and use of gratuitous employees to alleviate excessive work loads.

In March 1978, a memorandum of understanding was entered into between FmHA and the New Mexico State Housing Authority whereby home loan processors were assigned to 10 FmHA county offices to assist in our rural housing program. County offices involved were Espanola, Taos, Las Vegas, Estancia, Los Lunas, Socorro, Albuquerque, Silver City, Roswell, and Gallup.

In 1978 the New Mexico State Legislature appropriated \$200,000 which funded a rural housing grant program to assist rural elderly 62 years of age or older.

Home loan processors were responsible for assisting in the administration of regular FmHA housing programs, processing side-by-side State grants for housing projects cofunded by FmHA and processing State-only home improvement grants. Maximum for grant is \$5,000.

The State program was not refunded by the State legislature in 1979. Instead the Community Services Administration provided \$200,000 for continuation of the grant program.

Home loan processors at all times have been employees of the State of New Mexico, subject to applicable State laws and administrative procedure. The New Mexico State Housing Authority administers this housing assistance program.

The concept of this mutual assistance agreement between Federal and State governments is good. As has been the case in similar undertakings, actual operation of the joint assistance program has clearly defined the difference between rhetoric and reality.

It has been my policy while serving as State Director for Farmers Home Administration to act as soon as possible to institute corrective measures when I become aware of specific problems. When I learned of deficiencies that occurred following some 504 grants, I reviewed the problems with the district director and county supervisor.

Senator DOMENICI. Drew, the State program was not refunded in 1979. Do you know why, of your own knowledge?

Mr. CLOUD. Senator Dunn was the chairman of the Senate Appropriations Committee. He did not look on the program with favor.

Senator DOMENICI. Was this program discontinued as a general matter of principle or did they think it wasn't being run well?

Mr. CLOUD. In my brief discussions with Senator Dunn, he just told me it was a matter of principle.

Senator DOMENICI. Thank you, Mr. Chairman.

Mr. CLOUD. I directed the construction analyst for the State office to review conditions at each home and provide me with a detailed report. I then assigned him to work on remedying the problems.

When I became aware of the problems concerning administration of the 504 program in San Miguel County, I requested an audit be conducted by the USDA's Office of Audit in Temple, Tex. This action was initiated, but is being held in abeyance pending the outcome of the Senate review. Results of the audit verified the need for administrative action.

In retrospect, it is my sincere opinion that the 504 housing program has brought much good to New Mexico. Without a doubt, it has improved living conditions and brought hope and better health to thousands of elderly people in our State. The ratio of problem cases to good loans or grants is probably 150 to 1. We do not deny our mistakes made in administering the 504 program, but we are very proud of the role that Farmers Home Administration has played in helping low income, elderly, rural New Mexicans acquire decent housing, decent and sanitary housing.

Thank you, Senator, and I will be happy to respond to any questions.

ADDITIONAL STATEMENT OF DREW CLOUD

Mr. Chairman, I wish to thank you and the other members of this committee for the opportunity to provide additional testimony on the section 504 housing program in New Mexico.

Farmers Home Administration is very concerned about the plight of our Nation's elderly. Most of Farmers Home involvement in rural areas is with the low-income resident. We see firsthand the struggles facing a person or family on a fixed income.

The section 504 housing program was designed for less fortunate citizens, to make their homes safe and sanitary.

Across the Nation, the 504 program has been extremely successful. Our financing has replaced roofs and kitchens, built bathrooms, and provided for proper ventilation and weatherization from Alaska to the Virgin Islands and Maine to Hawaii. It is a good program.

As you are aware, our legal lending limits are \$5,000 for a loan or grant, with a limit of \$7,500 for a combination of both. I'm sure we are all very much aware of exactly how far \$5,000 goes these days in the construction industry. Not very far.

New Mexico was not as fortunate as some other States like Florida and Pennsylvania to have CETA employees assigned to the rehabilitation jobs. Actions like these make these all-too-few dollars go so much further.

I am not here to provide excuses for what Mr. La Vor uncovered in New Mexico. Some persons connected with Farmers Home and the 504 program may have used poor judgment in carrying out their duties. There have been problems, but full and complete investigations, audits, and the courts will decide what action needs to be taken.

But these problems are not representative of the 504 program in New Mexico as well as the rest of the Nation. There are some more widespread documentation problems in New Mexico, which we are addressing.

If this committee were to investigate the more than 3,600 loans and grants made in New Mexico under this program, the committee would find, by and large, many satisfied borrowers and recipients. But, alas, you would find some who are not.

Many recipients don't fully understand our mandate of "safe and sanitary" housing. They often have visions of their modest home converted to a beautiful house. We are often hampered by language difficulties, a situation even recognized by Senator Domenici in his opening remarks. But the most important fact is inflation. Rising costs have taken their toll on the 504 program. We often can't do all the work needed with \$5,000.

As I mentioned in earlier testimony, the increased workload on FmHA employees has been enormous. In this program alone, our growth from 1 loan and 47 grants in fiscal year 1964 totaling \$45,010, to 83 loans and 211 grants totaling \$1,006,420 in fiscal year 1979 has placed a tremendous amount of pressure on

our employees. You must realize that our total program volume has grown from \$6 million to \$110.1 million in the same amount of time. Since 1964, our staff has only grown by 14 employees. That is a 900-percent increase in program volume and a 17-percent increase in personnel, resulting sometimes in less than desirable servicing practices.

In the 1970's, as we were experiencing such rapid growth, several innovations were introduced to FmHA. These included participation from funding agencies to stretch FmHA funds and using gratuitous employees to alleviate excessive workloads. To the average county supervisor this assistance was a godsend.

It should be pointed out for the record, that testimony regarding FmHA's New Mexico 504 housing program at the Santa Fe hearing on October 8 was limited, by the Special Committee, to the period after I, Drew Cloud, returned as State Director on March 17, 1979. There was no discussion whatsoever of the critical period of time when the problems originated.

Operation of our 504 program in north-central New Mexico counties changed substantially after March 1978, when a memorandum of understanding was entered into between FmHA-NM and the New Mexico Planning Office. "Home Loan Processors" were assigned to FmHA county offices. Although these individuals were involved in processing housing applications that included FmHA grants and loans as well as State grants, their allegiance was to the New Mexico State Planning Office, which supervised and directed their activities, not the Farmers Home Administration. An in-depth inquiry into the 12-month time frame, March 1978 to March 1979, would have provided a much clearer picture of this entire matter.

Also during that year the New Mexico State Legislature appropriated \$200,000 for rural housing grants to the elderly, with a maximum grant of \$5,000.

In 1979, Community Services Administration provided \$200,000 for the continuation of the legislatures' project.

Soon after my appointment as State Director of FmHA in New Mexico, I became aware of deficiencies that were occurring in 504 grants. Action was taken to have a construction analyst review the problem projects and provide me with a detailed report. I then assigned him to work on remedying these problems.

When I became aware of the problems in San Miguel County, I promptly requested an official audit by FmHA. This action has been initiated but is being held in abeyance pending the outcome of this committee's actions.

A number of firm actions have been taken since the October 8 hearing. County Supervisor Roberto Maese has been relocated from Las Vegas to Estancia, N. Mex., as an Assistant County Supervisor. Tom Ramsey, County Supervisor at Taos is being transferred to and placed in charge of the county office in Las Vegas. Mr. Ramsey is a seasoned, experienced FmHA Supervisor with an outstanding record of accomplishments in program administration.

Results of the audit will determine the administrative action necessary. We will abide by civil service regulations in this regard.

There has been criticism by this committee of promotions given to persons connected with Farmers Home. One promotion was granted before I became FmHA State Director and the other promotion was granted under the merit promotion program, before the seriousness of the charges were known.

I thank you for the opportunity to provide this additional testimony. I appreciate your concern and look forward to the conclusions that will be drawn from this body.

Senator MELCHER. Mr. Cloud, I have got a personal question first. You were in this capacity during what I take to be the Kennedy-Johnson years?

Mr. CLOUD. Yes, sir.

Senator MELCHER. Then you were reappointed as of March 1979. What were you doing between the time Jimmy Carter became President in 1977 and March 1979? Were you with Farmers Home?

Mr. CLOUD. No, sir.

Senator MELCHER. You accepted the post in March 1979?

Mr. CLOUD. Yes.

Senator MELCHER. So whatever has happened in the last year, year and a half with this program, was your direct responsibility?

Mr. CLOUD. Yes, sir.

Senator MELCHER. Nobody else's?

Mr. CLOUD. Right.

Senator MELCHER. You are the "top dog" here in New Mexico in Farmers Home?

Mr. CLOUD. Yes.

Senator MELCHER. You know, I have worked with Farmers Home in establishing programs and funding for them ever since I came to Congress. I don't know whether you were here this morning for my opening remarks, but I stressed the fact that Pete and I, and others in Congress, who come from States where agriculture is so important, really go to bat and hope that we can do some good for the Farmers Home Administration programs because they do so much for the entire community in so many areas.

Now, 504 is a relatively small program. I know the problems the FmHA has had in getting personnel. I went up and down that hill through the Nixon administration, the Ford administration, the Carter administration, and have had only limited success with any of them. It doesn't seem to make any difference that I am a Democrat and President Carter is a Democrat. I don't seem to have any more success in getting help for Farmers Home Administration on personnel or soil conservation service than I had with President Ford and President Nixon. We have really gone to bat and we have done some good for you. You show that modest increase that you listed in your testimony.

I want to zero in on this program. I don't know anything about the rest of the Farmers Home Administration programs in New Mexico, but I know this one isn't in very good shape, 504. You are responsible.

Now, you have got three people here who are, I guess, county supervisors, is that right?

Mr. CLOUD. Yes.

Senator MELCHER. Does that mean there are three counties involved in the 504 program?

Mr. CLOUD. No, sir.

Senator MELCHER. Tell me about this, then, how many counties are we talking about with the 504 program?

Mr. CLOUD. We have 504 programs in all counties, but the bulk of the problem is there.

Senator MELCHER. Are we talking about 90 percent?

Mr. CLOUD. It is 82.1 percent.

Senator MELCHER. Eighty-two percent is in three counties. Let's talk about the personnel in those three counties, because if you don't have enough personnel for the 504 program, it is obvious we have to do something. I understood you to say this morning that you had two people under you who assist in these programs, a whole range of programs, is that right?

Mr. CLOUD. Yes, sir.

Senator MELCHER. Are there just three of you for all the Farmers Home Administration programs, or three of you just for housing programs?

Mr. MAESE. There are two of us for all the Farmers Home programs and one was for assisting in housing also, two clerks.

Senator MELCHER. All right. I don't know how many 504 program grants you had in the past year and you think you had enough personnel to handle them?

Mr. MAESE. We had five grants in the past year.

Senator MELCHER. And you had enough personnel to handle it?

Mr. MAESE. Yes.

Senator MELCHER. How about 1979?

Mr. MAESE. I think we had enough.

Senator MELCHER. So let's lay to rest the personnel problem. Let's zero in on why the personnel did not perform. Is it because it was out of hand when you got there in March 1979, and you just never caught up with it?

Mr. CLOUD. Senator, if I just back up a step. You are aware that the 504 program was reduced this past year and it was reduced even more in fiscal year 1981. Our records, that I picked up this morning, show that the Las Vegas office made six 504 grants last year, fiscal year 1980, but it made 50 in Las Vegas in fiscal year 1979, 75 in 1978.

Senator MELCHER. We aren't going to talk about 1978 because we can't hold you accountable for it. We will discuss 1979 with you. You had people working with these programs. I think it could have been done. It is a question of why they weren't qualified. Mr. Handy testified that he was not qualified and he was in that office then.

Mr. CLOUD. I heard Mr. Handy testify, his testimony. Senator, I can't understand. Anybody that comes to work with us received extensive training in our program. We have an ongoing full-time training program in Kansas City that we send our supervisors to. We have from two to four training sessions a year in-State, and we have a week set up in November for training on housing.

Senator MELCHER. I don't mean you need these training programs, and obviously they don't work, unless you have got somebody out there that is doing a job. That is your responsibility to know whether they are doing the job. I don't think you were doing your job. That is your main responsibility, to know that these people are out there using up these Federal dollars, know at the time what they are doing with them. My goodness, with all your experience with the Farmers Home Administration and all this process of having the money tied up, so that the person who is getting the grant has to sign, and the supervisor has to sign, this is a time-tested procedure for Farmers Home Administration. You are well aware of why it is done and the whole principle behind it. You know how effective it can be as long as there is somebody that is cosigning that, that knows what they are doing.

Now, I am not going to get into the question of fraud with you people, particularly because of the ongoing grand jury investigation. There is no question under this procedure when the supervisor, or the supervisor's deputy, has to sign that check, along with the recipient of the check, there is only one reason, dereliction of duty if it isn't done right, as in some instances we saw this morning. Your testimony this afternoon, that only 1 loan out of 150 went sour, doesn't seem to be the case in 504, I am sorry to say. I hope that is the general case through-

out the country. That isn't too bad. It doesn't seem to be the case here in 504.

I am not going to ask you any more questions at this time because I think Senator Domenici will get more pertinent questions into the record. I may want to followup after that.

Senator Domenici.

Senator DOMENICI. May I say also that I don't know if in your statement the 151 figure was intended to mean that you really believed only 1 in 150 of the section 504 \$5,000 grant programs were mishandled. I hope you didn't say that. You did say probably.

Mr. CLOUD. We figure that since this program was originated in 1964 we have helped 3,000 people. It is just elementary if we broke it down—if you would look at those loans you were checking this morning, most of those were made before I came on as State director. It is what I have been doing since I came on that I would like to defend.

Senator DOMENICI. I also want to say, Drew, I know you have a problem right now with a grand jury investigation. I am not going to pull out all these audits we have reviewed after we became involved in this investigation. I am going to tell you, as honestly as I can, that I don't think very much was being done to clean it up until very recently. I really can't believe those two gentlemen who testified here this morning, both of whom have been up there for a long time. Now one has been promoted and is in Gallup. He is not there any more. I can't believe any real effort was made until very, very recently to get inspectors in the field who were doing the job right. I hope to get it done now. I would like before you leave, to the extent that you can, for you to tell us, and I don't want it now, but shortly, just what is being done. I think Senator Melcher has made the right point. We want to be able to convince ourselves that management decisions have been made which are going to make this kind of thing very, very minimal, if ever. Then, we can go to Congress and push for program increases.

I want to say to you also that I asked you about the \$200,000 at the State level, because I want you to know I have told the people in State housing that I personally think the program, if run right, will succeed. I am going to Pennsylvania, and I am going to Florida, and look at it, because what I have seen is tremendous in terms of coordination. If I were to show you some of the pictures of what has happened to a home by proper piggybacking, and what has gotten done with \$9,000 versus what we have seen here in 20 homes, I think you will agree with me. If we can move in this direction we ought to do it. I told them I would testify before the State legislature, to ask that they put money in for the State to make the requisite add-ons to get a good job done, but I am sure we are not going to get much sympathy there. We are not going to get any in the Congress either until we can tell them this program has been straightened up.

Having said that, let me just ask you what are you doing right now to straighten up this program?

Mr. CLOUD. Senator, I asked our audit section to audit this program in those areas. I have now asked them to expand that audit to cover all programs, not just 504. There is an ongoing investigation—now,

this is the audit section—there is an ongoing investigation by the investigation division to see if there are any indictments that can be brought. I have been advised by counsel and by the Department's Farmers Home Administration to not make any personnel changes or any administrative decisions until all of the evidence is in. This is why we are treading water until the investigation is complete.

In the meantime, I sent in a team of an assistant district director, a housing inspector, and three long-time career county supervisors into that office. I said that I wanted them to go over every loan there, every 504 loan, then go to the contractors and tell them that they have not fulfilled their obligations. This was done. The contractors have been less than cooperative. We plan on taking other decisions when the grant jury brings its findings. Then we will make the necessary personnel changes. We are kind of stuck with the situation we are in until the investigation is complete.

Senator DOMENICI. There have been no personnel changes at this point?

Mr. CLOUD. That is right.

Senator DOMENICI. And that is on the advice of whom?

Mr. CLOUD. The housing chief in Washington and our own counsel.

Senator DOMENICI. Mr. Maese testified this morning that he left the work in the field completely up to Handy and Madrid. They testified they weren't properly trained in that respect. There is evidence that some of these homes were issued permits, others weren't. There is evidence some were inspected by building inspectors and some weren't. This was over a long period of time. Let me ask you, why, in your opinion, does it take so long to find out those things?

Mr. CLOUD. Senator, this was called to my attention in 1979. The rural housing chief and I went and met with Ernest Coriz, the director of the Construction Industries Commission. We agreed with him at that time—there had been some problems within the Construction Industries Commission. Mr. Coriz was also new. He agreed that he would inspect every house from that point forward. We sent a bulletin to the field and told all of our employees, from this point on you are going to have licensed contractors, licensed plumbers, licensed electricians, and you are going to get State inspections. Now, it wasn't true before this.

Senator DOMENICI. My point is, as I read your own regulations, all of those were required before you did that. All you did was restate the law, restate the regulations.

Mr. CLOUD. Yes, sir; I did it as the State director.

Senator DOMENICI. My question is how can it get that bad for that long and we not find out about it. The State law says contractors have to be licensed. We have evidence that some aren't licensed. I understand the State law says any construction work over \$500 must have the proper permit. I understand the inspectors are required on numerous phases, such as electrical, plumbing. We have seen examples of supervisors both signing the checks and disbursing the money under circumstances where some or all of those inspections were not complied with. Isn't there within the bureaucracy a system which would catch this very easily? If so, who should have caught it? Is it the guy

who runs the office in Las Vegas or Mora County or Rio Arriba who should have caught it? Is it the county supervisor?

Mr. CLOUD. Senator, I think the buck stops at the State director. I did catch it. Mr. Coriz came on new to correct the problems in the Construction Industries Commission and I came on new to correct them for the Farmers Home Administration. We are working to correct them right now.

Senator DOMENICI. Well, you know, I really don't like to say this, but I don't believe you. What is the date today and what year?

Mr. CLOUD. The date is the 8th of October.

Senator DOMENICI. 1980?

Mr. CLOUD. Yes.

Senator DOMENICI. There hasn't been one personnel change other than Mr. Handy going from an inspector in the field, where he tells us he didn't know how to inspect. He has been made director of the office in McKinley County. To my knowledge at this point, there have been absolutely no other changes that I am aware of, of any substance. I have seen the indepth audits that you have in your possession. You have had them in your possession for a long time. This is October. Don't you think that aside from technical rules, personnel changes are in order, Drew?

Mr. CLOUD. Yes; I do.

Senator DOMENICI. That hasn't been done yet?

Mr. CLOUD. I have been directed not to do it until the investigations are complete. There has been a great change that isn't visible here. The conflict—and there was a conflict—between the State employees and the Federal employees to where apparently our employees were told that the State employees would go out and pretty well run the 504 program. This is indicated in the records. Now that I am State director, we don't have those gratuitous employees. I have gone back to the Federal employees and said, look, this is your responsibility. There is nobody else that you can pass this on to. You have got to make the loan, you have got to inspect the loan or grant. It is absolutely your responsibility and you are going to have to be responsible for it.

Senator DOMENICI. You debarred P. & P. Construction?

Mr. CLOUD. Yes, sir.

Senator DOMENICI. Now it is J. & P. Construction?

Mr. CLOUD. The debarment still stands.

Senator DOMENICI. J. & P. debarred?

Mr. CLOUD. Yes, sir.

Senator DOMENICI. Let me, Mr. Chairman, move to the other witnesses, if you will.

Senator MELCHER. Certainly.

Senator DOMENICI. Mr. Handy, how long did you work in the Farmers Home Office in Las Vegas?

Mr. HANDY. About 2 years.

Senator DOMENICI. Would you describe the training that you received to prepare you for this job?

Mr. HANDY. The lack of training that I referred to was in the rehabilitation, not in new housing or anything else. I am not aware of any

programs that we have for strictly rehab, which, I believe, is probably necessary because it is quite a bit different from new construction and from anything else that we do.

Senator DOMENICI. So you stand by your statement this morning that you were not properly trained to do this kind of inspection?

Mr. HANDY. Yes, sir. I had not worked on 504 at all before I came to Las Vegas.

Senator DOMENICI. Well, Mr. Handy, we are trying to find out this afternoon how we can improve this program, how we can make it work. Why do we have the problems we have in this program, in your opinion?

Mr. HANDY. The program is limited in the amount of funds it can supply. A great number of the houses I have seen 504 used on could not be brought up to a totally safe and sanitary condition with the amount of funds that are available, \$5,000 or \$7,500. What we do in Gallup, HUD can come in there and grant up to \$15,000. They can make low interest loans. We can augment their funds. Some of those houses can receive \$24,000, \$25,000 in grants alone. That way the houses can be brought up completely to standards.

The people there, that work on those, are natives of the area, the guy that does the work has been in construction all his life and that is what he is doing. I have learned a great deal from him.

Senator DOMENICI. I understand. One of the thoughts going through my mind is, it is awfully difficult to repair some of these houses, and certainly awfully difficult with only \$5,000. I read the regulations very carefully. They sent them down to the offices, the field offices, the Washington office. There is one which says, right out, that you don't approve a grant unless at the time you are finished with it, the house is sanitary and healthy. Right from the beginning grants were being made apparently to homes that didn't meet this criterion. That is true, isn't it?

Mr. HANDY. That is true.

Senator DOMENICI. There are plenty of homes which need help in the area, aren't there?

Mr. HANDY. Yes, sir.

Senator DOMENICI. If you didn't pick one, you could find five others, couldn't you, that are looking for help?

Mr. HANDY. Yes.

Senator DOMENICI. Our staff working on this matter indicated to us you often helped Robert Madrid when he was very busy. What kinds of things did Robert Madrid ask you to do for him?

Mr. HANDY. Inspections mostly.

Senator DOMENICI. Did you ever tell him, or your supervisor, that you felt inadequate in doing inspections of this type?

Mr. HANDY. I don't know whether I specifically told them, but Bobby and I both felt that we weren't qualified on rehabs.

Senator DOMENICI. Well, when you talked with our people, you said a lot of the things you were asked to do by Robert Madrid you now think were a mistake. What did you mean by that? What is a "mistake" about the things you were asked to do and did?

Mr. HANDY. Well, what we are here for right now, having to explain all these things we did.

Senator DOMENICI. Do you mean such as doing inspections for him when you shouldn't have?

Mr. HANDY. Right.

Senator DOMENICI. What else?

Mr. HANDY. That is the main thing right there, the inspections.

Senator DOMENICI. What was mistaken about that? I don't understand.

Mr. HANDY. I should not have kept doing them if I knew I wasn't qualified.

Senator DOMENICI. So you shouldn't have done your own, and you compounded it by helping him out by doing some for him?

Mr. HANDY. The ones I did were 502, new houses, where I feel, I am well qualified.

Senator DOMENICI. Your own job you felt qualified in, and when you went and helped on this you didn't. What you mean by a mistake?

Mr. HANDY. Right.

Senator DOMENICI. Do we have a document here we wanted him to look at?

We will give you these two. Look at the signatures. I want you to tell me about them.

You have a bank signature card there in front of you and two checks. The checks appear to be signed by different people, is that right?

Mr. HANDY. Yes, it appears that way.

Senator DOMENICI. Look at all three signatures there in front of you. Did you sign Juanita Madrid's signature on the bank card or on either of the checks?

Mr. HANDY. No, sir, I did not.

Senator DOMENICI. Would you look at them. I will ask you the same question. Did you sign Juanita Madrid's signature on the bank card?

Mr. HANDY. No, sir.

Senator DOMENICI. And on either of the checks?

Mr. HANDY. No, sir.

Senator DOMENICI. Mr. Knoop, how many contractors have you debarred in Rio Arriba County?

Mr. KNOOP. We never have went to a debarment proceeding on any.

Senator DOMENICI. How do you discipline contractors that do shoddy work up there?

Mr. KNOOP. Well, the one that we have had the worst trouble with is no longer in the construction business. As far as I am concerned, he will never do any more work.

Senator DOMENICI. You can correct me if I am wrong, but in reviewing our file of the Senate committee, I detect the problem cases which have been discovered in Rio Arriba County have been discovered either by auditors, or internal auditors, after the fact, many times months after. In your county, these cases were reported in the newspapers. If this is correct, and maybe you will want to challenge my statement, tell me why they weren't found by you in your office?

Mr. KNOOP. I don't believe that is correct. We were very much aware of this problem up north before the newspapers ever got a hold of it. A contractor was terminated on these jobs. One of the jobs, the contractor wasn't even allowed to start the job. This contractor was ter-

minated on all four jobs and he was never allowed to complete any of the four contracts he had.

Senator DOMENICI. Who was that?

Mr. KNOOP. He ran under the license of L. & W. Construction Co.

Senator DOMENICI. Is this the one who left the State?

Mr. KNOOP. Yes; the other instances we have had trouble with contractors, some of them were unlicensed, and we are not allowing any unlicensed contractors to complete any work at this time.

Senator DOMENICI. Then you must have allowed them at some time if you don't let them now. Why did you ever let them?

Mr. KNOOP. In certain areas, it was very difficult to find a good licensed contractor to do the work, so these are members or friends of the family that do construction work that aren't licensed, who completed the work. They are very difficult to find.

Senator DOMENICI. Mr. Knoop and Mr. Maese, have either of you received any new directives or tightened procedures since these problems were revealed in the audits and the investigation? You answer first, Mr. Knoop.

Mr. KNOOP. I believe we have, from the standpoint of requiring a licensed contractor. Also, signing our construction contracts whereby 40 percent of the funds are withheld until the job is completed, final, and the family is satisfied with the work, and FmHA has signed out finally on the work, 40 percent of the person's funds are withheld.

We did recently have a licensed contractor, who was licensed, that balked at that requirement, and he was doing shoddy work, and he is no longer going to fulfill that type of contract, because he can't live with the 40 percent withholdment of funds until he gets done.

Senator DOMENICI. Mr. Maese?

Mr. MAESE. Yes, sir, we have had some tightening up instruction from both the District Director and the State office, including touching base with our building contractors in our area and it has helped.

Senator DOMENICI. Could you tell me why you think you have so many problems with 504 program?

Mr. MAESE. At the time I was transferred back to Las Vegas, there were 107 applications, and there was another batch of applications that had been approved since the year before, and the grants had been awarded and they were still under construction.

I didn't know the extent of what training the people had. The only thing I knew is that they had been in our office longer than, since I had been gone and, also, there was a lot of construction going on.

At that point, I talked to my district office and discussed the possibility of getting additional help, and a lot of these problems that were going on at the time were already under construction when I moved in.

The other reason I wasn't aware of a lot of the problems is that the people never complained to me in my office. According to the instruction, if we do not hear a complaint, we take it for granted the people are satisfied.

Senator DOMENICI. Are you charged with the responsibility of keeping a file on each of these 504's in your office in the county?

Mr. MAESE. Yes, sir.

Senator DOMENICI. Some of them didn't even have a signed contract with the contractor, isn't that right?

Mr. MAESE. I don't think any of them did.

Senator DOMENICI. How do you expect anyone to enforce anything against a contractor without a contract?

Mr. MAESE. We discussed that on one of the audits in 1979, because there was an ongoing one when I was transferred in and we discussed that with the auditor. They said on a proposal, if it's accepted, once you make \$1 payment, it is considered a contract.

Besides that, most of these 504's, Senator, according to the regulation, they bring in their own people to do the work, and they have a choice to either to contract method or borrower method.

Senator DOMENICI. I understand. The files clearly reflect whether they had a contractor or whether they were doing it themselves. I am only concerned that we can't get these homes repaired. One of the reasons is, the contractor is telling us he doesn't have a contract with anyone. Certainly he doesn't have one with Farmers Home, isn't that correct, at least not an open contract?

There might be some implied commitment, but he doesn't have one with the owners, unless it's the way you say.

Mr. MAESE. The agreement is done between the owner and the man doing the work, be he a contractor or otherwise.

Senator DOMENICI. I understand.

Mr. MAESE. We are not part of the contract.

Senator DOMENICI. Wait a minute now. You live up there. You have seen the kind of people we are trying to help. You saw some right here today. Don't you think you have a responsibility to help these people, many of whom can't read English? They don't know about signing a contract or not signing one.

You are saying that's not your responsibility?

Mr. MAESE. No, sir, I didn't say that. Like I said before, a lot of these were closed and under construction prior to me being transferred in.

My instruction has always been in my office and any office I have been in, to have a preconstruction conference with the owner and the contractor or the men doing the work under the borrower method and agree on what is going to be done.

When I was transferred into that office, I didn't find any on the cases I remember. The two cases that came to me and asked if they could do the work and change it from the contract method to the borrower method, I did revise the development plan and I did have a preconstruction conference.

Senator DOMENICI. How long have you been in charge of the office?

Mr. MAESE. I was transferred back to Las Vegas in October 1978.

Senator DOMENICI. October 1978?

Mr. MAESE. Yes, sir.

Senator DOMENICI. Are you telling the committee from that time to this, on all of these 504's, you actually had preconstruction conferences with Farmers Home personnel, contractor, and owner in attendance?

Mr. MAESE. I said there was just a few.

Senator DOMENICI. What happened to the rest of them?

Mr. MAESE. I don't know, sir. I wasn't there.

Senator DOMENICI. So it would be prior to that, you are saying?

Mr. MAESE. Yes, sir.

Senator DOMENICI. Mr. Glover, what do you do for Farmer's Home?

Mr. GLOVER. I am District Director for the northern district.

Senator DOMENICI. What does that mean?

Mr. GLOVER. I have supervisory capacity over nine county supervisors, in the northern part of the State and eastern part.

Senator DOMENICI. In laymen's language, then, in between Mr. Cloud and field offices such as the one Mr. Maese runs in the county, you are the next boss up and you have nine such counties; is that correct?

Mr. GLOVER. Yes, sir.

Senator DOMENICI. Are these three, San Miguel, Rio Arriba, and Mora under your supervision?

Mr. GLOVER. Yes, sir, that's two county offices involved.

Senator DOMENICI. How long have you been in that job?

Mr. GLOVER. Since November 5, 1979.

Senator DOMENICI. Where were you before that?

Mr. GLOVER. Las Cruces.

Senator DOMENICI. What was your job there?

Mr. GLOVER. I was assistant district director.

Senator DOMENICI. Are you aware of, or have you received any new authority, directions, or procedures, designed to tighten up this system since you have been in charge?

Mr. GLOVER. Yes, sir.

Senator DOMENICI. What are they?

Mr. GLOVER. Before I went into the job, I made a trip to northern Rio Arriba County with the State Director and the housing people, the county supervisor, a construction analyst, and an O.I.G. auditor and reviewed the problems that were there.

We discussed at that time that there was a need for tighter development plans, more detail on the development plans, and some kind of drawing to show what work was planned to be done, and that inspections should be made based on that development plan and those drawings, where anybody that was inspecting it would have enough in the file to look at the development plan, and any bids that then were there, and determine what work was to be done.

We also discussed at that time the need for written contracts with contractors. Subsequently, the audit was completed in Rio Arriba County. The State Director requested my comments on the audit.

One of my comments, which he passed on to the audit division, was that we would meet with the construction industries division to determine their procedures and try to get ours in line with theirs. In the meeting he spoke of awhile ago, meeting with Mr. Coriz, I was in on that meeting.

After the meeting we did get out a State instruction which, you all were saying awhile ago, restated the instruction. It does more than restate the instruction.

Senator DOMENICI. Tell us.

Mr. GLOVER. Our Farmers Home instruction says that work can be done by the contract method or by the borrower method. The State in-

struction that was put out by Mr. Cloud says that work can be done by the contract method or by the borrower method if the borrower himself does the work in accordance with what Mr. Coriz told us, the State of New Mexico required, or there had to be a variance issued by the Construction Industries Commission prior to any other work being done in any other manner.

Senator DOMENICI. That last one seems to me, from the little bit I've seen, to be totally unnecessary. The only good ones we've seen are where they did it themselves. Now we are making it more difficult because we don't want unlicensed people doing the work.

Mr. GLOVER. For myself and, I think, for Farmers Home administration, I agree with you. However, when we talked to Mr. Coriz, his interpretation of the State law is that unless the person, himself, qualified for the homeowner's permit, and could do the work himself, the homeowner's permit could not be issued.

Mr. Cloud asked Mr. Coriz a question at that meeting of a case where a grandmother had a grandson that would do the work, could she do it under a homeowner's permit, and Mr. Coriz's answer was "No."

Senator DOMENICI. Well, that won't get better work done from what I've seen.

Mr. GLOVER. No, sir.

Senator DOMENICI. Who was running the Las Vegas office before Mr. Maese went there?

Mr. GLOVER. Joe Gurule.

Senator DOMENICI. Where is he now?

Mr. GLOVER. He's in our State office in the farmer program section.

Senator DOMENICI. So if Mr. Maese says he came there and inherited all this, the person just ahead of him was the gentleman we just referred to, is that correct?

Mr. GLOVER. Yes, sir.

Senator DOMENICI. Has he been promoted upward? Is that what happened to him?

Mr. GLOVER. Yes, sir.

Senator DOMENICI. Did you ask him, Drew, what happened in that office when he was in charge of terms of inspections and the kinds of things you are ordering now?

Mr. CLOUD. Yes; I have, sir, and he was moved there, of course, before I was on board. The orders of the day were to get those loans made and this is why we have had to come back in and tighten them back up.

Senator DOMENICI. Robert, let me just ask you a couple questions. Who is Edward Madrid?

Mr. MADRID. He is my brother.

Senator DOMENICI. Is he a contractor of any type?

Mr. MADRID. He's a journeyman electrician.

Senator DOMENICI. So he is not a licensed contractor, but he is an electrician?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Has he ever done any of the work on any projects which you've been involved in?

Mr. MADRID. He did one of the jobs for P. & P.

Senator DOMENICI. Do you remember which one?

Mr. MADRID. Georgia Ortega.

Senator DOMENICI. Did he do all the wiring on that home?

Mr. MADRID. I don't think so. I don't remember.

Senator DOMENICI. We have evidence here. There is a receipt for \$125. Do you know what it is for?

Mr. MADRID. Well—

Senator DOMENICI. Is that the bill to do the Ortega work?

Mr. MADRID. I suppose so, sir.

Senator DOMENICI. Do you know? If you don't know, you can tell us you don't know.

Mr. MADRID. I don't. He dealt with P. & P. on this.

Senator DOMENICI. So if he had an arrangement to do work, it would have been with P. & P. on that job, is that what you are saying?

Mr. MADRID. Yes, sir.

Senator DOMENICI. There is one more here for some material charged to P. & P. Would you look at it and just tell us, if you can, what that's all about?

Mr. MADRID. Yes, sir; P. & P. asked me to pick up some paint. I picked it up for him.

Senator DOMENICI. So the contractor asked you to get some paint for him and that's the receipt in front of you?

Mr. MADRID. Yes, sir.

Senator DOMENICI. You signed for it?

Mr. MADRID. Yes, sir.

Senator DOMENICI. What did you do with that?

Mr. MADRID. I gave it to P. & P.

Senator DOMENICI. Is that for one of these jobs?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Do you remember which one?

Mr. MADRID. No, sir.

Senator DOMENICI. Was this something you did regularly for contractors, as an employee of the State and Farmers Home?

Mr. MADRID. No, sir.

Senator DOMENICI. This was an exceptional situation?

Mr. MADRID. I just did it this time. He asked me to do it for him.

Senator DOMENICI. Thank you, Mr. Chairman.

Senator MELCHER. Mr. Madrid, there are a number of questions regarding your participation in this which we need to have answered.

As I understand from what you told us this morning, you have, for a number of years, been a housing specialist for the State housing and rural development authority?

Mr. MADRID. Yes, sir.

Senator MELCHER. Is that about 3 years?

Mr. MADRID. Yes, sir.

Senator MELCHER. Would you tell us the nature of and extent of your training? This morning, I don't recall whether you did or not.

Mr. MADRID. No, sir.

Senator MELCHER. What is it?

Mr. MADRID. I went to training in Rio Arriba County, I don't know how many months it was, maybe 2.

Senator MELCHER. Two months?

Mr. MADRID. Yes, and we were taught how to process all housing applications through the Farmers Home.

Senator MELCHER. Does that have anything to do with recognizing building flaws and quality of work?

Mr. MADRID. No, sir. We never got to—I never got to see construction.

Senator MELCHER. Have you ever worked on construction or building?

Mr. MADRID. No, sir.

Senator MELCHER. So other than training in the paperwork, how to handle the forms, you weren't trained to recognize whether or not the construction was done in a proper manner?

Mr. MADRID. No, sir.

Senator MELCHER. I assume you are still handling home rehabilitation grant for the State housing and rural development authority; is that correct?

Mr. MADRID. Yes, sir.

Senator MELCHER. You told us this morning, I believe, and correct me if I am wrong, that your first cousin, is Pete Gallegos. Is that right?

Mr. MADRID. Yes, sir.

Senator MELCHER. Did you tell Mr. Maese at any time that you were not directly related to Pete Gallegos?

Mr. MADRID. No, sir.

Senator MELCHER. Did you tell him your wife was a distant relative of Pete Gallegos?

Mr. MADRID. No, sir.

Senator MELCHER. Is she?

Mr. MADRID. No, sir.

Senator MELCHER. Are you related to Juanita Madrid?

Mr. MADRID. Yes, sir.

Senator MELCHER. What is the relationship?

Mr. MADRID. She is my grandmother.

Senator MELCHER. Are you related to Jose Flores?

Mr. MADRID. No, sir.

Senator MELCHER. Are you related to Tobias Flores?

Mr. MADRID. Yes, sir.

Senator MELCHER. How?

Mr. MADRID. He's my uncle.

Senator MELCHER. Are you related to Maris Galiz?

Mr. MADRID. No, sir.

Senator MELCHER. Are you related to Modesta Galiz?

Mr. MADRID. Yes, sir, she is a great-aunt.

Senator MELCHER. Are you related to Aurelia Ortez?

Mr. MADRID. Yes, sir, she is a great-aunt.

Senator MELCHER. Are you related to Delfinio Pacheco?

Mr. MADRID. No, sir.

Senator MELCHER. Did you arrange grants for all of the above that I just named?

Mr. MADRID. Yes, sir.

Senator MELCHER. How did you arrange those grants?

Mr. MADRID. People applied for the grants and I processed them.

Senator MELCHER. You processed them?

Mr. MADRID. Yes, sir.

Senator MELCHER. You were not told, as part of your job, that processing grants for your relatives had anything wrong with it?

Mr. MADRID. I didn't think there was anything wrong with it, sir.

Senator MELCHER. You weren't told there was? Nobody has questioned that?

Mr. MADRID. No.

Senator MELCHER. You weren't warned that it may be improper?

Mr. MADRID. No, sir.

Senator MELCHER. Would anybody else have processed those grants if you did not?

Mr. MADRID. Excuse me, sir?

Senator MELCHER. Would there be anybody else to process those grants if you did not?

Mr. MADRID. Yes, sir.

Senator MELCHER. There would be?

Mr. MADRID. Yes, sir.

Senator MELCHER. Have all the elderly that have applied for this type of assistance been granted assistance and been able to get it?

Mr. MADRID. The majority of them, sir, have.

Senator MELCHER. The majority, but not all?

Mr. MADRID. No, sir.

Senator MELCHER. Did you direct any grants to Pete Gallegos, your cousin?

Mr. MADRID. Yes, sir.

Senator MELCHER. Why?

Mr. MADRID. People couldn't find contractors and we were pretty busy at the time, all the contractors were tied up and he asked me—they would ask me if there were any contractors, and I referred Pete to go talk to them.

Senator MELCHER. Did you ever tell a grant applicant that the grant would be likely to be approved if they selected P. & P. Construction Co.?

Mr. MADRID. No, sir.

Senator MELCHER. You never did that?

Mr. MADRID. No.

Senator MELCHER. Did you just send Pete Gallegos to the home of some of the recipients without even consulting them?

Mr. MADRID. They asked me if I could send a contractor over and I have done this with many contractors.

Senator MELCHER. My question wasn't exactly that, Mr. Madrid. Did you send Pete Gallegos over to the homes of some of the recipients without even consulting or talking to the recipients about sending Mr. Gallegos to see them?

Mr. MADRID. No, sir.

Senator MELCHER. You have never done that, all right. Did you actually make all the inspections, and I think we have 207 that are credited to you by the Las Vegas Farmers Home Administration Office?

Mr. MADRID. Yes, sir.

Senator MELCHER. Have you received any specialized training inspecting home improvement work? I think you have answered that previously by saying no, you had not?

Mr. MADRID. No, sir.

Senator MELCHER. OK.

Mr. MADRID. I've had training in the paper, you know.

Mr. MELCHER. Paperwork, but not actual rehabilitation?

Mr. MADRID. No, sir.

Senator MELCHER. Not the actual work that would be done in construction?

Mr. MADRID. No, sir. It was on-the-job training.

Senator MELCHER. If a recipient suggests a change in their development plan, what needs to be done to revise the work plan?

Mr. MADRID. The development should be revised.

Senator MELCHER. How do you do it? You say you've had on-the-job training in the construction part, but you were sent to school for the paperwork. I would assume that paperwork part would include how you change these job descriptions. Can you tell us how that is done?

Mr. MADRID. Any new development would have been written up and initialed by the contractor and the applicant and myself or a Farmers Home representative.

Senator MELCHER. Either yourself or Farmers Home, not necessarily both, correct?

Mr. MADRID. I would imagine Farmers Home would have to sign.

Senator MELCHER. We seem to have had some problems this morning finding that, any change in the development plan for the first home we looked at in the slide presentation, if you recall.

Mr. MADRID. Yes, sir.

Mr. MELCHER. Do you know what the regulations require, to make a change in the development plan? Are you familiar with those regulations?

Mr. MADRID. No, sir.

Senator MELCHER. That wasn't part of the paperwork training?

Mr. MADRID. I was aware if a development had to be changed, it had to be signed by all parties involved.

Senator MELCHER. When you participated in these changes, did you make an entry in the case file noting such a change and describing the change that we made?

Mr. MADRID. No, sir.

Senator MELCHER. You just initialed something?

Mr. MADRID. A proposal was issued on it and the development plan wasn't changed.

Senator MELCHER. I asked you this morning whether you ever profited from any of this, and this is a similar question, practically the same.

Have you ever been offered a kickback from a contractor who wanted to receive work? Have you ever been offered anything in the terms of a kickback or profit to you personally?

Mr. MADRID. No, sir.

Senator MELCHER. Mr. Handy, you said you are not qualified for rehabilitation work, but you are qualified for inspection on new homes. Is that what you told me?

Mr. HANDY. At that time.

Senator MELCHER. At that time.

Mr. HANDY. Yes.

Senator MELCHER. This puzzles me. You know construction well enough, you think, to approve new construction. What amounts of loans are you talking about there?

Mr. HANDY. On new construction?

Senator MELCHER. Yes.

Mr. HANDY. At that time, they ran \$30,000.

Senator MELCHER. You think you can tell good construction if it's new, but you can't tell good rehabilitation work?

Mr. HANDY. This rehabilitation is not the same type of construction as new construction. You have adobe, you have railroad ties, a great deal of different things involved.

Senator MELCHER. In the case of Mrs. Maestas, which we went through very thoroughly, because it was the first one we dealt with this morning, P. & P. said they spent \$2,500 for materials. What is there about your qualifications that couldn't verify whether or not they spent \$2,500 for materials?

Mr. HANDY. I don't suppose there is anything.

Senator MELCHER. You can do that, can't you?

Mr. HANDY. Yes, they could have brought me the receipts.

Senator MELCHER. They did not then?

Mr. HANDY. No.

Senator MELCHER. And you never requested them?

Mr. HANDY. No.

Senator MELCHER. What is there about qualifications that has anything to do with your lack of qualifications, that you don't demand to see what the materials are?

Mr. HANDY. Nothing.

Senator MELCHER. I think that's a copout, to say you are unqualified. I don't know if that is some sort of a defense for you or not. I don't know how you can give those checks without knowing what you are signing for.

There is no Farmers Home Administration program I am aware of that when any of their employees signs a check, they aren't liable and responsible for the expenditure of that fund being proper, according to your own regulations.

Are you going to tell me, you are going to testify to me that you are not qualified to properly sign those checks? Is that the extent of your testimony?

Mr. HANDY. No.

Senator MELCHER. You were qualified to make that judgment, were you not?

Mr. HANDY. Well, like I said, I didn't know how to look at a rehab house and know exactly whether it was done right or how much money should have been spent on it. I could have verified all the receipts, that's right, but I couldn't verify the labor.

Senator MELCHER. I am letting you off the hook on the labor, but I let P. & P. off the hook on the labor. I didn't even ask them what they charged. They volunteered that half of it was materials, so obviously the other half is labor.

Senator DOMENICI. Mr. Chairman, the regulations require documentation on labor.

Senator MELCHER. I am sure they do, but I am sure that Mr. Handy is a qualified person for Farmers Home Administration to look at the receipts for materials and to look to see where those materials are placed.

Mr. Cloud?

Mr. CLOUD. Yes, sir.

Senator MELCHER. You say you don't want to change personnel, that you are instructed not to change personnel. There is something about firing somebody until they are proven guilty. But there are also changes in personnel that have to do with the responsibility you can't avoid, on whether or not anybody that is signing one of these checks, in this instance for these 504 programs, whether or not they know what they are signing for.

You are not going to tell me that despite what any sort of onhigh, generalized recommendation to you is about personnel, that changes your responsibility to make sure that anybody that signs one of these checks knows exactly what they are signing for.

Mr. CLOUD. Senator, I just heard this today, myself, and the countersignature is on there to see the money is spent for the purposes it was intended. That's why we countersign.

Senator MELCHER. I would be more comfortable, Mr. Cloud, if you would drop this stuff about not having personnel changes and get right to the point of how you are going to make sure that when those checks are countersigned that they are for the proper purpose. How are you going to do that?

Mr. CLOUD. We have tightened it up. This is what our District Director—

Senator MELCHER. If you only heard about it today, at this hearing, how could it have gone on this long? You've got all this auditing stuff. You've got the Inspector General, the Office of the Inspector General, running around for months. You had newspaper stories. You've got knowledge this committee met, and that was in executive session on June 30, to review the memo we got on this whole episode.

You are aware that we, very politely I would say, and very nicely, very considerately, asked Farmers Home Administration after that meeting in a letter signed by the ranking member, Senator Domenici of the committee and the chairman, Senator Chiles of this committee, asking them to look into this, and that was the tail end of last June.

You are just going to tell us that you are only aware now that under the process of 504, which follows the same type of process as other Farmers Home Administration programs, that your employees are responsible for countersigning those checks with the recipient, the grantee—

Mr. CLOUD. I—

Senator MELCHER. I am not comfortable with your response.

Mr. CLOUD. I have two questions here. When this was called to my attention in 1979, I said at that point that we had to have receipts and those receipts had to be checked. But on Mrs. Maestas, today is the first time I was aware of it.

Senator MELCHER. All right, I'm glad to clarify that point. Just on her.

Mr. CLOUD. Yes.

Senator MELCHER. That still doesn't make me too comfortable, because I am not sure you are doing much about this.

Mr. CLOUD. We have tightened it up and Senator Domenici mentioned that we also had to account for labor. We weren't doing that then and we are doing that now. We are tightening it up both ways.

Senator MELCHER. All right, that's all I'm going to ask.

Senator Domenici.

Senator DOMENICI. Would you give John Handy those documents.

This morning we heard from Mrs. Ortega about this \$5,000 check. Will you look at it there, please?

Mr. HANDY. Yes.

Senator DOMENICI. When was that check signed?

Mr. HANDY. February 23.

Senator DOMENICI. Were you present when it was signed by Mrs. Ortega?

Mr. HANDY. Yes.

Senator DOMENICI. She said you took her to the bank and had her sign it?

Mr. HANDY. She did not say that. I didn't take her to the bank.

Senator DOMENICI. No, excuse me. She said she went to the bank with a secretary. Were you there at the bank?

Mr. HANDY. No.

Senator DOMENICI. I thought you just said you were present when she signed it.

Mr. HANDY. I thought she signed it at her house or in the office. I am not sure. I don't remember going to the bank and watching her sign it.

Senator DOMENICI. In any event, it seemed that she was saying to this committee that it was on your suggestion, your request, that she sign the check.

Mr. HANDY. Yes; the work was done on that day, 100 percent completed.

Senator DOMENICI. So you are saying that in this case there were no advances given to this contractor?

Mr. HANDY. That's what I am saying.

Senator DOMENICI. He did all the work and then you gave him the full \$5,000?

Mr. HANDY. Yes.

Senator DOMENICI. That wasn't very customary, was it?

Mr. HANDY. What?

Senator DOMENICI. That you pay it all at once? They drew down on their jobs, didn't they?

Mr. HANDY. What happened in this case, I believe the loan was approved on January 31, is that correct?

Senator DOMENICI. That is what seems to be in the record.

Mr. HANDY. Shortly thereafter we knew what day that check was going to arrive, so P. & P. started construction somewhere before the 14th of February, on the strength of knowing that check was going to be there on the 22d or whenever it was.

Senator DOMENICI. The 22d of what?

Mr. HANDY. February, or whenever this check was deposited. By the time that check was deposited the work was finished, according to

the development plan. You mentioned I had two inspection reports in there.

Senator DOMENICI. And you saw the house?

Mr. HANDY. Yes.

Senator DOMENICI. She mentioned also there was a \$2,000 check you signed?

Mr. HANDY. Yes.

Senator DOMENICI. What was that about? What was it for?

Mr. HANDY. I have no idea.

Senator DOMENICI. You are saying you didn't have anything to do with her signing that check?

Mr. HANDY. I didn't have any authority to sign any checks except for this Farmers Home.

Senator DOMENICI. You didn't countersign it, the \$2,000 check?

Mr. HANDY. I sure don't remember it. I didn't have any authority to, so why should I sign it?

Senator DOMENICI. Bob, do you know anything about it?

Mr. MADRID. I can't remember that, Senator.

Senator DOMENICI. Do we have it here?

Were you working with the State housing authority at that time?

Mr. MADRID. Yes.

Senator DOMENICI. Did you handle a block grant of moneys they were putting into homes?

Mr. MADRID. It was CSA money.

Senator DOMENICI. Through the State housing?

Mr. MADRID. Yes, sir.

Senator DOMENICI. If that is what the \$2,000 was, were you in charge of that?

Mr. MADRID. Yes, sir.

Senator DOMENICI. Would you have inspected the home for that, or would he have inspected the home for that?

Mr. MADRID. On occasions, I would inspect for Farmers Home on CSA grants and inspect those. Farmers Home personnel were allowed to inspect those.

Senator DOMENICI. I have nothing further, Mr. Chairman.

Senator MELCHER. Thank you all very much for your participation in this hearing. You are excused.

Ernest Coriz, director of Construction Industries Division, Department of Commerce and Industry, Santa Fe, State of New Mexico.

Mr. Coriz, will you raise your right hand.

Do you solemnly swear that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CORIZ. I do.

Senator DOMENICI. Mr. Coriz, do you have a prepared statement?

Mr. CORIZ. No, sir.

Senator DOMENICI. You just received a general subpoena to appear. I have some general questions.

Would you tell us your title, and very briefly what is the authority and jurisdiction of the agency or commission you are in charge of for New Mexico?

Mr. CORIZ. My name is Ernest Coriz. I work for the Commerce and Industry Department. I am the division director of the Construction Industries Division.

The Construction Industries Division in the State of New Mexico licensed approximately 13,000 contractors, 31,000 licensed specialty areas. We are charged, under the Construction Industries License Act to promote the general welfare of the people of New Mexico by providing for the protection of the lives, property, economic well-being against substandard or hazardous construction, alteration, installation, connection, demolition, or repair work, and providing protection against physical irresponsibility of persons engaged in construction occupations or trades. We do that by licensing, examination, and inspection.

Senator DOMENICI. Can you clarify for us, under New Mexico law, when building permits are required for construction work in this State?

Mr. CORIZ. Yes, sir.

Mr. Chairman, under the State of New Mexico, Construction Industries Division, rules and regulations, in the area of general construction and the area of mechanical construction, our rules and regulations read:

Section 201 of the code requires that any person, desiring to construct, alter, repair, or demolition of any building which causes same to be done shall first obtain permit, except for the listed limitations. Exceptions, those being \$500 and under.

In the area—

Senator DOMENICI. Let's make sure we have that down pat.

This means all of the 504 grants for \$5,000 for rehabilitation of homes require a building permit under State law?

Mr. CORIZ. That is correct.

Senator DOMENICI. Now, is the permit process the only way a State inspector would have of knowing what there is to inspect?

Mr. CORIZ. In the permit application there are a number of documents that accompany this permit application.

One is a drawing or a description of the work. The permit is based upon the compliance of the uniform building codes, mechanical codes, electrical codes, rules and regulations. An individual who applies for a permit cannot receive a permit unless he specifies the type of work, and what the work to be done is, so we can check for compliance.

The obligation of obtaining a permit lies upon the general contractor of the job. We place full responsibility on that individual. The general contractor has complete obligation for the complete job. He also supervises any subcontractor which could be, in this case, mechanical or electrical, but the general contractor has that obligation under our laws and rules and regulations.

Senator DOMENICI. If that's the case, I assume the State of New Mexico follows up with appropriate inspections, as required under the law, when a permit is issued. Is that not correct?

Mr. CORIZ. That is correct. I would like to explain that.

Just because a permit is issued, we have many people who take out permits that take 1½ years to maybe construct something, because they do it at their pace. Under the uniform building code that obligation of inspections, that obligation of requiring inspections, falls upon the general contractor or the person performing the work. There are certain phases in the construction end that calls for inspections.

Footings inspections when concrete is being poured so they, in turn, have to notify us that they are ready to pour concrete so we are there. That obligation falls upon the contractor.

Senator DOMENICI. Your inspectors don't have any problem, to your knowledge, of knowing how to inspect rehabilitation, do they?

Mr. CORIZ. No, sir.

Senator DOMENICI. If they inspect some of these homes we have seen, and they don't meet specifications, what would they do?

Mr. CORIZ. Well, our inspectors couldn't—under the bid procedures, if you look at some of those documents and what was said this morning, the specifications of the job called for replace a roof, fix a bathroom. Well, my inspectors are not mindreaders. Are we talking about a new sink, an old sink, lavatory, urinal, what type of tile, size of the door, these are the things that go in the application for a permit, the specifications. It becomes very difficult for these individuals, for my inspectors to make those inspections, because we don't know whether we are talking about a 3-foot-wide door, 2-foot-6-inch hollow core, solid core. So from the inspection standpoint it becomes very difficult, because in the process there are no specifications, there are no drawings as to what has to be done. Everything is very difficult.

Senator DOMENICI. But what about some of the things you have heard?

Mr. CORIZ. If it was outright code violations, yes, we can pick those up.

Senator DOMENICI. You can pick those up?

Mr. CORIZ. Yes, sir.

Senator DOMENICI. So that to the extent those kinds of things were in existence, and full payment made, and, as a matter of fact, if inspectors from your office would have checked them out, there would have been an opportunity for Farmers Home to have actual knowledge they didn't meet code, or were unsafe, or didn't meet minimum standards?

Mr. CORIZ. If it didn't meet the standards we would have red tagged it, as shown on one of the slides there. There was a tag on an electrical box or meter that didn't meet the minimum national electrical code and our inspectors would tag those and notify the contractor not to proceed unless those corrections were made.

Senator DOMENICI. Now, if they have to get a permit for work of \$500 or more, under law, the permit would indicate the kinds of things that you would have to inspect, would it not?

Mr. CORIZ. The permit refers basically to about four documents, the national electrical code, the national plumbing code, the uniform building code, and the compliance with those codes in general. It doesn't have specific items that have to be checked. Our inspectors know what those items are.

Senator DOMENICI. How long have you been in this job?

Mr. CORIZ. Approximately 13 months.

Senator DOMENICI. Have you found a number of licensed contractors to be unqualified?

Mr. CORIZ. Yes, sir. In the review of our records, within the State of New Mexico, over the past 10 years, the prior administration probably revoked in the neighborhood of 10 licenses because of incom-

petency, physical responsibility, or deviations from codes and what not. The last year we have probably revoked about 70 licenses, and suspended maybe 60 licenses for noncompliance or deviation from codes.

Senator DOMENICI. Do you have sufficient inspectors for this job?

Mr. CORIZ. No, sir.

Senator DOMENICI. Is that improving or not?

Mr. CORIZ. We are trying to get additional inspectors and some new innovative programs that would allow our inspectors to perform most inspections. As it stands now we have general construction inspectors that just handle general construction. We have electrical inspectors that handle electrical. Mechanical inspectors, mechanical. Liquid petroleum gas inspectors, liquid petroleum gas. So what we are doing is trying to cross-train our inspectors to have mechanical check electrical, through proper training and examination and give us more inspectors. We have difficulty in staffing inspectors.

Senator DOMENICI. The audits and the investigations the committee has conducted continues to turn up additional homes where shoddy work has been done. Would it be possible for you to compile a master list of homes that have been rehabilitated by this program, in the State and, then, visit them over the next few months?

Mr. CORIZ. We would have no problem. As I understand it, most of these are in rural areas, outside the cities. We have, by joint powers agreement in the State of New Mexico, certain cities that perform the rural inspections by joint powers agreement with the State of New Mexico. If any of those locations fell within those communities, cities, or counties, by this joint powers agreement we could go in or have someone go in and, yes, inspect those units.

Senator DOMENICI. I wonder, Mr. Chairman, if the committee would want to discuss whether we want to officially request that this be done. I know one of your concerns is what are we going to do, if anything, to correct the situation. Not only in the future, as you have indicated in your questions, but also find some way to correct these past deficiencies. Perhaps we ought to defer this and determine what the committee thinks about how this might be done.

Senator MELCHER. I think we ought to consider it, because it might be very constructive to form, and beneficial to the people that have received the grants, the 504 grants. I am personally sympathetic to that suggestion.

Mr. CORIZ. Mr. Chairman, I have a letter here that is dated March 24, 1980, in which I wrote to Drew Cloud concerning a meeting we had, in setting up a system by which we could begin to look at some of these programs. Mr. Cloud came to my office, and members of his staff, and we were concerned with the quality of construction. The fact that, in many cases, unqualified contractors, unlicensed contractors, were performing work that could be considered hazardous to the occupant of that dwelling. We had an indepth conversation. I supplied that office with the rules and regulations, statutes, a list of our inspectors, the requirements of the law, and the use of contractors, subcontractors, and a program by which homeowners could do limited work on their dwellings by a system that we employ in the State of New Mexico. These are some of the documents that I supplied

the Farmers Home Administration in the hopes that we could begin to look at the problem of faulty construction.

I feel that we have a program that didn't get this way overnight and the solutions to the program will not be solved overnight. There are many areas that we are aware of where help is required, training is required, and money is required. In many cases, the Federal Government actually causes a lot of the problems. The weatherization program, the insulation program, they set up good programs, but the administration, the funding, the qualification, and the educational process of the people that administer the program are not there. They are no different from the State. I have looked at the State's program. I am an engineer, I have spent 15 years working for the fourth largest corporation in the world. I feel I am qualified and I understand construction. Construction is no different in New Mexico than it is in South Carolina or Montana. I have worked in Billings, Butte, I have worked under the labor programs there at Anaconda. I think I have a feel for it, but the Federal Government can assist us, not by just providing money, but there are a lot of programs where qualified people need to be hired. Now, you've got to have some programs that need to go further than funding. You look at the weatherization program. The Department of Energy is beginning to install energy conservation flues in chimneys. Who is qualified? How do we get the people to make those installations properly and safely? Who will inspect them? The dual programs that that program provides, I look at the State of New Mexico, we have a system to handle it, yet, because of bureaucracy, we create another inspection force. Why isn't that money given to us to train our people who already have that capability.

These are some of the things and we can go on and on. There are programs, and I think assistance that the Federal and the State government can give some of these agencies.

Senator DOMENICI. I guess it goes without saying that you will agree the inspectors on rehabilitation programs for Farmers Home ought to have the basic capacity to understand the questions that Senator Melcher is asking today.

Mr. CORIZ. There isn't one qualified employee in Farmers Home Administration to inspect construction. The law says that every inspector in the State of New Mexico must be certified by my agency. I may be wrong. Farmers Home, HUD, Bureau of Indian Affairs, and all those Federal programs that operate in the State of New Mexico, do not have certified inspectors. Under the laws of New Mexico and the rights of our State, the Federal Government has circumvented those laws by FHA, HUD inspectors, BIA inspectors that may not be qualified.

Through funding, just through funding.

Senator DOMENICI. I have no further questions.

Senator MELCHER. Do you know a former State building inspector named Sam England?

Mr. CORIZ. Yes, sir.

Senator MELCHER. Apparently he isn't a building inspector any more. Is there some reason for that?

Mr. CORIZ. Mr. England was an electrical inspector. He was employed prior to my taking over the division. After I took over the

division he became a multiple inspector. He was a qualified, this is the program I was talking about, he was an electrical inspector, and I promoted him to a multiple inspection program.

He became a mechanical inspector and an electrical inspector. Because of this tri-inspection ability he was transferred to an area, the surrounding area of Taos. After about 4 months on that assignment he came to me and told me that he just was not capable of performing the duties and he would like to resign. We accepted his resignation. He seemed to be a very intelligent individual, in the area of inspection. Electrical, mainly. He passed the examination for mechanical and general construction.

He resigned; he was not asked to resign, but he submitted his resignation.

Senator MELCHER. He was helpful to the committee investigator and indicated that someone in your division sent down instructions that he was to cease inspecting home rehabilitation projects submitted by Farmers Home Administration, State housing authority, and so forth. Do you know what actually happened and who in your division was responsible for this order?

Mr. CORIZ. I think, Mr. Chairman, the problem arose that there could have been some personal difference of opinion concerning him and a contractor. They were racial-oriented. The fact that the individual was a Mexican-American. Charges were made against my inspector that he could have been somewhat prejudiced. There were some bad feelings between a contractor and an individual.

To my knowledge, I know of no one who gave him those instructions—they didn't come from me.

Senator MELCHER. Do you think it came from a contractor?

Mr. CORIZ. I think, the accusations that I investigated, they were both ways, from the contractor to the inspector, to the inspector, to the contractor. We looked at it, and that was probably one of the reasons why we assigned him to the area north. He ran the area around Espanola and because of his multiple special capability we moved him to Taos, N. Mex.

We don't tolerate any contractor making threats against our inspectors or contractors. As a matter of fact, one of the findings on a contractor, we suspended his license because he bodily threw one of our inspectors off the jobsite. We took it to hearings, we suspended his license for 30 to 45 days because of that action and we don't tolerate that.

Senator MELCHER. Mr. Baca says he uses his brother's license. Is there anything wrong with that?

Mr. CORIZ. The specific rules and regulations do not require that. We intend to, I have notes here, and I intend to look into that. It is against our rules and regulations, the statutes of the State of New Mexico and I can quote directly, "A license is neither assignable or transferable or may be legally used by any entity to whom it is issued." That's a direct violation of the rules and regulations of the Construction Industries Licensing Act.

Senator DOMENICI. Mr. Chairman, I don't think we made the Construction Industries Division letter of March 24, 1980, from Mr. Coriz, a part of our record.

Senator MELCHER. We will make it a part of the record, right at this point.¹

Mr. CORIZ. I would like to add a few other documents to the record.

I have some documents here that are bid documents that are being sent out to contractors to perform bids. I would like to just read one of them.

It says, "Contractor to provide and install all materials to construct a new ceiling, living room,"—these are just some of the examples that I quoted, about writing specifications and requiring, it says, "plaster with consistent lathing wire mesh or scratch, one round coat and one other coat." Specifications in the building code calls for three coats on. So there are outright violations in the bid process that are in violation of the uniform building code. These were picked up in Espanola yesterday.

Dr. LA VOR. What are they under, HUD?

Mr. CORIZ. Yes; that's a HUD program, but I am sure if you look through the documents—not only, when I speak about these Federal agencies, I am speaking not only toward Farmers Home, but HUD, the Bureau of Indian Affairs, they are no different. I think there is a tremendous amount of help that needs to be done in these areas.

Senator MELCHER. These are under the HUD program?

Mr. CORIZ. That is my understanding, yes, sir.

Senator DOMENICI. Well, the point you are making, then, is the Federal Government is letting bids that are not in compliance.

Mr. CORIZ. That don't comply originally.

Senator DOMENICI. So that even if somebody does all of that—

Mr. CORIZ. It could be in violation.

Senator DOMENICI. Could be red tagged?

Mr. CORIZ. Yes, sir.

Senator MELCHER. Well, we want to make this a part of the record, along with your testimony, Mr. Coriz. The 504 program, the regulations for Farmers Home does require very specific procedures for the bids and the descriptions. We are not so sure that is being done. It doesn't seem like it, from some of the work we have reviewed, but nevertheless we are going to make them a part of the record with the understanding that they are probably referring to some HUD work.

Mr. CORIZ. Yes, sir.

Senator DOMENICI. Thank you very much, Mr. Coriz.

Mr. CORIZ. Thank you, Mr. Chairman.

Senator MELCHER. Noe Lara. He's been delayed?

Senator DOMENICI. He is en route.

Senator MELCHER. Mr. Morley, will you briefly compare what you found in a similar program in Pennsylvania and Florida, as compared to here in New Mexico?

Mr. MORLEY. Yes, sir.

Senator DOMENICI. I think he should tell us, for the record, who he is.

Senator MELCHER. Yes; would you do that, please?

We have sworn in every other witness so we will swear you in too, Mr. Morley.

¹ Retained in committee files.

Senator MELCHER. Would you raise your right hand, Mr. Morley.

Do you solemnly swear the testimony you are about to give the committee is the whole truth, and nothing but the truth, so help you God?

Mr. MORLEY. I do.

STATEMENT OF CHARLES H. MORLEY, WASHINGTON, D.C., CHIEF INVESTIGATOR, SENATE SPECIAL COMMITTEE ON AGING

Mr. MORLEY. My name is Chuck Morley. I am an investigator with the Senate Special Committee on Aging.

At the committee's request, several weeks ago, I very briefly visited two counties in Florida and two counties in Pennsylvania, for the purpose of reviewing their Farmers Home section 504 program. My review consisted of brief but I felt convincing steps. I interviewed the county supervisors in the counties I visited. I reviewed the Farmers Home files for compliance with the Farmers Home instructions. I physically inspected, I believe, 20 houses.

What I found in all four counties that I visited was that the county supervisors were very aggressively pursuing the 504 program. In all four counties they had, I won't say an adequate staff, but a staff that seemed to be very thoroughly familiar with the 504 program. I think they were understaffed, that's what they told me, for the amount of program they had.

The files were very thick. Any given file I looked at compared radically to the files we have seen in New Mexico. As a general rule, I think I can say the files had all the required documentation under the instructions, which is to say they had signed contracts, they had warranties, they had releases of liens, they had notifications to the applicants that the warranty periods were going to expire at the end of the year after the warranty period. They had all the required notes to be made by the Farmers Home employees. They had voluminous receipts and bills given by the contractors to Farmers Home, in order to get paid. They had statements of labor performed, as required by the instructions. They had very detailed estimates provided by the contractors that even went down to the details as to what type of lumber would be used in the construction, what grade of paint would be used, what grade of shingles, and what poundage they would be, et cetera.

Senator DOMENICI. Could I interrupt and ask a question? I really think I should have asked it throughout the day because it is very important.

As a matter of fact, without release of liens these houses could be built, reconstructed and remodeled, checks signed, contractor paid, and if the supplier wasn't paid, the lumberman wasn't paid, a subcontractor wasn't paid, they could come along and put a lien on the homeowner, who would be responsible.

Mr. MORLEY. Absolutely.

Without a release of the material lien, the lumber company could file a lien against the house.

Senator DOMENICI. That would have been an easy way to get a double bill?

Mr. MORLEY. Oh, certainly.

Senator DOMENICI. So you must have found bills for materials in those files from the other States?

Mr. MORLEY. Yes; I did. As I say, many of them. The files that I reviewed averaged half an inch to an inch thick. They were quite thick, any given file.

The workmanship on the houses was, in general, very good to excellent. They had several different programs, and maybe I should briefly discuss them, in both States that I visited.

We have been talking here about piggybacking and using other programs' funds. In Florida, the two counties that I visited made use of a tricounty redevelopment association. It was county funded, I believe through State and Federal funds. One county had a county employee detailed to Farmers Home, much like Mr. Madrid was. That county employee, who was paid by the county, under county supervision, had been given the primary responsibility for all 504 programs in that county in Florida. The county supervisor, however, was very familiar with that employee's work, went with him to the inspections until he was certain that he was doing a qualified job and, in general, monitored his activities very closely.

That county employee, in my opinion, did a tremendous job in that program and they are certainly in hopes that they can keep that county employee attached to Farmers Home. He did all the packaging. He helped the people obtain the contracts. He helped them with filling out the applications. He inspected their jobsites frequently. He insured that the county inspections—in Florida, they have county inspections—were all done before any checks were issued, and also insured that the applicants were very happy with the program.

In Florida, I believe I visited 12 homes. I interviewed 10 of the 12 people, simply because two people weren't home when I was there. They were all extremely delighted with the program. In essence, they couldn't say enough good about it. They were very happy with the Farmers Home employees. They were very happy with their homes. Many of them had never had inside plumbing of any sort. They now have inside plumbing. Some of them had never had electricity. They now have electricity. Some of their homes had no inside walls, virtually no roofs, and the wind would blow through. Now they have roofs, very excellent roofs. They not only have inside walls, they have new outside walls. In essence, the workmanship and the quality of the product provided to the people I saw in Florida and Pennsylvania was outstanding. They were very enthusiastic about the program.

Senator DOMENICI. You spent 3 days here, didn't you?

Mr. MORLEY. Yes, sir, I think it was in the very first part of September that I came here, that I saw four houses here, personally. Not just the slides, I visited the homes. There is a radical contrast.

I have exhibit files here and I took a substantial number of photographs in Florida, unfortunately they are not slides. I did not take as many in Pennsylvania, mainly because of the camera that I had and the fact that it was pouring down rain. You can see from these files that the workmanship is just tremendous.

I would like to mention another thing that they did in Florida, the tricounty development authority that they worked with supplied CETA labor to work on houses. So that Farmers Home would give \$5,000 to the applicant and that \$5,000 would go further than \$5,000 that you had to give to a contractor, for instance, because there was no labor involved, there was no overhead involved.

I saw homes that were literally rebuilt for \$5,000. If I can just take a second, what I am talking about is new roof, new outside walls, new inside walls, new floors inside, new ceilings inside, new electrical, new plumbing, new septic, all for \$5,000. It was all required, because I saw some before pictures of these houses and they were in terrible shape and they were virtually rebuilt. To me that is an example of what Farmers Home can really do for this program.

Another thing they did in all four counties that I visited was to make use of part-time CETA workers and part-time green thumb workers to assist in the office. This lightened the workload so that the professionals in Farmers Home could apply their time to professional work rather than to the clerical work.

Senator DOMENICI. So, in a nutshell, you are telling us that in the two States you visited at the request of the committee, you saw programs handled much differently, and the finished product was far superior to what you found here?

Mr. MORLEY. That is correct, yes, sir.

Senator DOMENICI. Mr. Chairman, I understand our next witness has not yet arrived. Perhaps, if it is the pleasure of the Chair, we could recess for a few minutes. I don't think we will take very long, once he has arrived. He had a meeting in Albuquerque and that accounts for his delay.

Senator MELCHER. I think your testimony, Chuck, is helpful for this hearing record. I want to express my appreciation for that.

We will stand in recess for 15 minutes.

[There followed a short recess.]

Senator MELCHER. The committee will come to order.

Our last scheduled witness today is Noe Lara, director, State Housing and Rural Development Authority, State of New Mexico.

Mr. Lara, will you stand and raise your right hand?

Do you solemnly swear the testimony you are about to give this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LARA. Yes, sir.

Senator MELCHER. Thank you. Please proceed.

STATEMENT OF NOE LARA, SANTA FE, N. MEX., DIRECTOR, NEW MEXICO STATE HOUSING AND RURAL DEVELOPMENT AUTHORITY

Mr. LARA. My name is Noe Lara, and I have been the director of the State housing and rural development authority since January 1979. Since that time, with limited staff and resources, we have made every effort to expand the activities of the authority in order to respond to the responsibilities assigned to us by both legislation and administration mandate.

General legislation and administrative policy mandate the State housing authority to develop and administer programs to increase housing opportunities, especially in rural areas and among citizens with low and moderate incomes. Priority efforts are directed to providing assistance in meeting the most pressing housing needs of the elderly, the handicapped, minorities, and farmworkers of the State,

and to assist the native American population with its efforts to secure decent housing.

Specifically, the State housing authority is mandated to carry out the following:

A—Coordinate and mobilize training and technical assistance.

B—Be responsible for data collection, planning, and research.

C—Carry out housing promotion activities and public information discrimination.

D—Administer Federal and other funds which are received, controlled, and disbursed.

The State housing authority was renamed the State housing and rural development authority and was charged with the additional task of coordinating the activities of the Governor's Rural Development Council and the advisory board to the council. The council was asked to develop and recommend to the Governor a State rural development policy, and an investment strategy to implement the policy.

The State housing and rural development authority's overall goal is to leverage State and Federal funds to the maximum extent possible to effect rural development while preserving our natural resources.

The State housing and rural development authority is technically under the State planning division of the department of finance and administration. Among our many responsibilities the State housing and rural development authority has experience in administering two home repair grant programs in northern New Mexico counties. One program, which was State funded, provided grant moneys of up to \$5,000 to elderly citizens. We defined elderly as 65 years and older. The \$200,000 appropriation provided 61 grants to the citizens of Santa Fe, Taos, and Rio Arriba Counties. To qualify for State grants we used Farmers Home eligibility criteria, except that the State defined elderly as 65, rather than 62. The program was administered by State paid staff, some which were assigned to the Farmers Home county office.

The State housing and rural development authority also administered a home repair program funded through a grant from the Community Services Administration. The \$200,000 grant provided approximately 70 grants to families who fell within CSA income guidelines and who resided in Taos, Rio Arriba, San Miguel, Santa Fe and Mora Counties.

Eligible dockets were rated on a needs priority basis for, first of all, elderly low income; second, handicapped; third, low-income needs and we had to state under that, safety hazards, new plumbing facilities, and weatherization.

A draft study on housing needs by our office found a minimum need of \$462 million of public housing assistance for low-income families alone. In contrast to this, the Farmers Home, the primary source of funding for these types of programs, if current funding levels continue, will invest a total of \$400 million during the same time period for all of its programs. Our data indicate the greatest need to be among low-income families in rural areas.

Furthermore, another study we have undertaken, showed that the need for just bathroom and plumbing facilities among rural families alone would cost a minimum of \$23,384,000. As these needs show, the

rural areas of New Mexico have specific and sometimes unique problems which can be addressed by State and Federal agencies.

We have applied and expect to receive a grant from CSA to assist with the rehabilitation of about 70 homes of low-income families. Because we are a State agency with statewide responsibilities we have been requested and intend to use these funds to leverage additional moneys for needy families. Additionally, we think the specific involvement of the State housing and rural development authority personnel in this program is appropriate because it provides opportunities to become directly involved with the people. It also provides a perspective which immediately informs our other responsibilities.

We have established specific procedures and guidelines for the disbursement of funds. These procedures include careful selection of appropriate recipients; careful monitoring of expenditures; and careful inspection of work, both in progress and completed.

Since we learned of the investigation, my office has been pleased to cooperate with Senator Domenici's office and the Senate Special Committee on Aging staff in any way requested.

I appreciate the opportunity to be able to briefly explain to you our programs and responsibilities.

I will now, and at any time in the future, be glad to answer any questions that you might have.

Senator MELCHER. Can you explain to me, are you getting any State funds, right now, for the program?

Mr. LARA. There are no State funds for the program now, sir.

Senator MELCHER. So whatever funds you are using is from Community Services Administration?

Mr. LARA. That is correct.

Senator MELCHER. The State program is getting Federal funds, almost entirely or entirely?

Mr. LARA. For this particular program, as I mentioned, Senator, we do a lot of other activities, other than administer home repair programs. We are funded by the State for staff. We did have a \$200,000 CSA grant, federally funded, which we don't have any money in that program any more. As I mentioned in my statement, we have applied to CSA, we have received approval, but have not had any money disbursed today.

Senator MELCHER. As of yet?

Mr. LARA. As of yet.

Senator MELCHER. But you received approval and that will be for up to 70 homes?

Mr. LARA. That is correct, sir.

Senator MELCHER. We received testimony today that makes it clearer. In a few cases your program is used to correct or redo shoddy work done under the 504 program. How do you account for this? Is that what you view the CSA funds for and, for that matter, the State funds?

Mr. LARA. No, sir, that is not an accurate statement. We leveraged our funds with both Farmers Home Administration moneys and, again, the statement was made and we are encouraged by the Federal Government to leverage funds, because we have found that many of these homes, it takes a lot more than \$3,500 to repair. We feel like

we are working together with the Federal Government, whether they were community development block grant program, whether it was the Farmers Home County, Farmers Home Office, we are able to assist the families much better.

Senator MELCHER. When you say leverage, do you mean add on to the \$5,000 grant for 504?

Mr. LARA. We use them in combination, sir.

Senator MELCHER. All right. In other words, instead of a \$5,000 grant from Farmers Home you would have what, \$2,000 additional State?

Mr. LARA. It could be \$2,000 up to \$3,500.

Senator MELCHER. CSA funds?

Mr. LARA. Yes, sir.

Senator MELCHER. How do you supervise your housing inspectors, such as Mr. Madrid?

Mr. LARA. I can tell you how we supervised him before, and the situation as it is now, Senator.

First of all, we were under an agreement with the Farmers Home Administration, under the gratuitous provision, to provide staff—maybe I should go into that a little bit more.

The State started a program which we called the assistant loan processors program. It was funded by CETA and it was a pilot program. It was pretty successful to the point where the legislature appropriated moneys to farm field people, to be assigned to the Farmers Home Office to help out. For many years we have had moneys into the Farmers Home, but we have never had them out in the field because Farmers Home, Congress, has never appropriated enough money for their staff. We felt like this was an area where the State and the Federal Government should cooperate and get us the needed money out in the field.

At that particular time the assistant loan processor was supervised by the county supervisor.

Presently, and because of the mood, I guess, of our legislature, the program was defunded, except in two particular counties and that was in Taos and in San Miguel Counties.

We found, because of the greater need for the Farmers Home program, that pretty soon all the grant moneys were gone from Farmers Home and our staff was there trying to administer some of our programs. We really were taking up space at Farmers Home so we elected to remove us from the office. We were not getting any more Farmers Home activity because the money had already been spent. So we moved from that office to another place.

Senator MELCHER. It appears though that Mr. Madrid had a pretty free hand in the sense of dispensing State Housing Authority grants.

Mr. LARA. No, sir, he did not.

Senator MELCHER. How did you supervise that then?

Mr. LARA. The CSA grant—let me just maybe go through the process. I am sure that he has done it, but let me do it one more time.

The process that we have is, No. 1, we have particular counties that we work in. We advertise, word of mouth, the CAP agencies, et cetera, tell the people that we do have a grant program through the Farmers Home Office. They tell them there is another resource other than Farmers Home. Then applications are taken, and again the criteria was that they had to be within CSA income guidelines.

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Those same families are brought to what we call a policy advisory committee, composed of people from each of the counties that are being serviced. The policy advisory committee, then, reviews these applications and then votes on whether they are going to approve the grants or not, if money is available. At that time we go through the process of taking it to the department of finance administration to issue the check and it goes out, in a joint supervised account, with signatures from the State personnel, as well as the client themselves.

Senator MELCHER. What standards did you set for contractors wishing to participate in this program?

Mr. LARA. We started using, more or less, what the Farmers Home people were using. They are more familiar with who the contractors are that are out there. Which ones have had proven records of working with them. At times, and especially when housing construction was pretty, there was a lot of activity into it, most of the contractors went for bigger jobs, Albuquerque or somewhere else, but there were some contractors at the local level and we felt like, the philosophy that we have had is to use contractors, local contractors, because we feel that not only are we providing a decent home for someone there, but we are also stimulating the economy. One contractor with four or five little grants could make a living for himself and his family.

Senator MELCHER. What action can you take or did you take against contractors who did unacceptable, shoddy work?

Mr. LARA. From the CSA grant, sir, we only had one person that really came to our State office and said, there is a problem with one of our contractors, houses, et cetera. We felt like we took the proper action, at the time. We had a meeting with the contractor, asked him to go back and do the work. Apparently the work was not done. We joined Farmers Home in requesting that he be debarred from doing work.

Senator MELCHER. Well, it appears to us that, not necessarily knowing all of the 504 grants, but from what we have reviewed it appears to us that there are a number of them, a high percentage of them, where the work wasn't really satisfactory, but the particular person involved, whose home it was, was unaware that there should be a process of telling your inspectors, and the Farmers Home Administration personnel, their inspectors, that indeed it wasn't good. It seems to be the breakdown that, since it was the impression of the homeowner, that since it was a grant program, that whatever came they had to accept. They didn't know anybody to complain to. So waiting for a complaint seems to have worked toward perpetuating a number, and it appears to me, at least, I will speak only for myself, as one member of the committee, a high percentage of 504 grants money resulting in very shoddy, unsatisfactory work and a disgrace to the program.

How do you respond to that? Mr. Madrid did not impress us as being capable of discerning what was shoddy work. In fact, he testified that he was incapable of doing it and all he knew about construction was on-the-job training, using his words. Those are not my words. Those are his words, on-the-job training, and yet he had 207 different grants that he handled. I understand what you told us and I understand your part in this. He was your employee and responsible to you and you are responsible for his actions. Have I spoken correctly on that?

Are you responsible for his actions, or lack of actions, or lack of knowledge, lack of capability?

Mr. LARA. Yes, sir, I am. I believe that Mr. Madrid underestimated himself though, in terms of his capabilities.

Senator MELCHER. In my judgment, in some of the 504 grants that we have reviewed, if he did have capability he did not exercise it and report that there was shoddy work, identify what was wrong. Tell the person whose home it was and, indeed, I can't get over the fact that it seems like these elderly people felt that they had no recourse. That it was a grant program, and what came to them was all there was supposed to be.

Of course, as taxpayers, and they are taxpayers, and we ought to remember that the elderly had contributed through longer years, participating and paying their taxes than we have at our age, I just don't believe what you have told us.

As demonstrated, an awareness of how bad off 504 programs were and to the extent that you participated in that with CSA funds or State funds, how bad off the whole kit and caboodle is.

Did you know and approve of the widespread use of piggybacking of your agency funds in homes that had received assistance?

Mr. LARA. Sure.

Senator MELCHER. You approved of that? Thought it was necessary?

Mr. LARA. That is correct, sir.

Senator MELCHER. I think I understand that, because the \$5,000 wasn't enough to correct the situation, isn't that right?

Mr. LARA. That is correct, sir.

Senator MELCHER. I can understand that and I can tell you that I agree with you, but I just am disappointed in the fact that I think there is a breakdown in the effectiveness of the 504 program here. To the extent that you participated, piggybacking and otherwise, I am disappointed in that too.

I hope that contrary to what I think is a rather discouraging situation here in New Mexico in the 504 program, I hope what we find throughout the rest of the country is more in the pattern of what we had been led to believe from staff investigations in Pennsylvania and Florida where it seems to be working rather well. I have not really checked my own State of Montana, which I will in the next few weeks, to see if it appears to have been successful there.

We want the program to work and I am sure you do too.

Senator Domenici.

Senator DOMENICI. Let me start at the latest and go backward.

Have you made some changes in the way you would administer rehabilitation funds, in light of what you have found out?

Mr. LARA. Yes, Senator.

Again, many of the cases of alleged shoddy work, et cetera, we learned in your press statement, sir. People never came forward to us. Like I said, just a few of them.

You mentioned some of the cases in your press statement a few months ago, and apparently there had been an investigation and you had been taking pictures and things like that, sir.

We may have been, and again I feel very responsible and I think Senator Melcher said, whether I was responsible for the actions or

the things that happened, I feel very responsible, sir, because I was administering the program.

We have amended our application forms, et cetera, so that they can be bilingual. We have forms that say, even if you have signed this completed work form you still have this telephone number that you can call. In other words, don't feel this is the end of the line because you have signed and approved, the last inspection on it. That was one thing that you were bringing up, maybe we erred in the fact that maybe a lot of the elderly people didn't know that they had recourse if shoddy work was done. We have corrected that. We have added more forms, a lot more bilingual forms. I think our people are a lot more attuned. We have had two workshops instructing them and we have had people from the construction industry division, et cetera, to come to us and tell us, here are the laws, here's what we want done, et cetera, and things are going to be a lot better administered.

Senator DOMENICI. I want to share this with you. Some of the recommendations found in the report are made by the GAO, who looked at all this and helped us. We'll give you those. I hope they will be helpful, but obviously, there is a total lack of exchange of information from Farmers Home to you. I am not blaming you. I am saying they knew about many more homes than anything we released when we started the investigation. Their audits show a number of them and the concern I have is similar to Senator Melcher's. You know, this is kind of rolling down hill. You rely on them so you piggyback after them because you assume they are doing right. We can tell you they didn't obtain any evidence that the material was actually bought, which is required by their own rules. I'm not saying it is required by your rules, but if you assumed somebody was doing that, it wasn't being done. If you assumed that they had labor costs that were in their regulations, some expert on your staff said they have a pretty good set of regulations, and so you put some more in. I can tell you, you were following a program which did not do what the regulations required. That seems to be the case in, at least, 20 examples. I don't know how many of them have received CSA or other State money, but I would assume some of them.

There is another matter I do think you ought to look at. I have gone out and checked how piggybacking is done and it is a good system, but basically it is all done in advance.

In other words, \$5,000 and \$2,000 is looked at together or \$3,000 and \$8,000 or \$7,000 will do a job, and the job is then contracted. Now we have evidence this is not the format. That first would go and be completed and money paid. In fact, we have them where the final check is drawn and it is cosigned, as you know. Then the \$2,000 comes. That is not piggybacking in the sense that you leverage, and that's not what your goal is, is it? It might have happened, but that's not the best way to do it, is it?

Mr. LARA. No, sir. We did it that way, again, we are talking about changes we have made. One of the things we are doing now is creating a plan for each applicant. If they require more than the money that we have available, then we will see what other resources are available. It could be that we will wind up with just one grant, again, for \$3,500 because Farmers Home doesn't have any more money in the grant

program and the people can't wait until next year, before the snow comes, to fix their roof or something like that. It could be that we'll do that and Farmers Home will come in whenever they get their money, but we are going to make every effort possible, from here on, to be able to look at a plan for the family and work in whatever resources are available.

Senator DOMENICI. Senator Melcher has properly stated what Robert Madrid said about his supervision and his cosigning of the checks, in terms of his inspection qualifications. In fact, he clearly indicated that he didn't think he was qualified to do them.

Was he directly responsible to you or, as you worked it, was he responsible to Farmers Home or responsible to both? How do you see that?

Mr. LARA. Probably to both would be more accurate.

Senator DOMENICI. Even if he was only signing and inspecting their program, was he still responsible to you?

Mr. LARA. When he was working on Farmers Home programs, both the county supervisor and myself approved, for example, sick leave, annual leave, administrative type of things, but he was on schedule with his calendar working for Farmers Home.

Senator DOMENICI. Now, I think you stated that you didn't remove Robert because of any audit finding but you removed him for some other reason?

Mr. LARA. That is correct, sir.

Senator DOMENICI. What was the exact reason he was removed? It seems to have come at the time the internal audits were reviewed.

Mr. LARA. I think I mentioned that Farmers Home no longer had any grant moneys. Consequently he wasn't working on any Farmers Home type of things and so we had him just working on CSA and assisting, again, the increased activity that I mentioned at the beginning, we were now getting into providing technical assistance, CDBG and other types of programs. We are trying to get him going into other areas, like Santa Rosa and other areas where he hasn't been before, to provide more services.

Senator DOMENICI. In your grant program you have described a very elaborate system of determining the applicant, from among many, that would get the grant. Were you aware that Farmers Home was not doing this, according to their own audits? They didn't have that and they weren't following the first come, first served. Somebody who worked for them, frequently Robert or others, selected them on their own?

Mr. LARA. I would be surprised if that happened. No, I was not aware.

Senator DOMENICI. In any event, you didn't do yours that way?

Mr. LARA. No, sir.

Senator DOMENICI. What if you followed up right behind Farmer Home. Would you just assume that they were entitled to it, or would you go through your process of evaluation?

Mr. LARA. The same process on every applicant.

Senator DOMENICI. Did the fact they had received a Farmers Home grant and the house wasn't totally repaired, for whatever reason, have any bearing on whether or not you would give the additional money?

Mr. LARA. I'm sorry, sir, would you repeat that?

Senator DOMENICI. I assume you would have a number of applicants for \$2,000 or \$3,000 grants. Did the fact that an applicant had a \$5,000 504 program already, and the house wasn't healthy and sanitary, have any bearing on whether they should get a priority from you for additional money?

Mr. LARA. No, sir.

Senator DOMENICI. That was just taken into account with other criteria?

Mr. LARA. Exactly.

Senator DOMENICI. I have no further questions.

Thank you very much.

Senator MELCHER. We had a discussion today about a \$2,000 check relating to Mrs. Ortega's home. Can you check your records? Are you aware of a \$2,000 check to Mrs. Ortega, for Mrs. Ortega's home?

Mr. LARA. Yes.

Senator MELCHER. In addition to a \$5,000 Farmers Home Administration 504 grant?

Mr. LARA. Mrs. Ortega did receive a grant, both from Farmers Home and from State Housing and Rural Development Authority, sir.

Senator MELCHER. Was it \$2,000?

Mr. LARA. It was \$3,500 spent on her and \$5,000, I think, for Farmers Home.

Senator MELCHER. Could you check your records and provide to this committee a copy of a \$2,000 check or \$3,500 check or a \$2,000 check and a \$1,500 check or any check that went to Mrs. Ortega? We would like a copy of it, front and back.

Mr. LARA. Yes, sir, I will do that.

Senator MELCHER. All right.

Senator DOMENICI. Let me ask a wrap-up question and get Mr. Lara's thoughts.

If there are a number of homes that were not repaired, pursuant to the program or the plan for rehabilitation, and these homes are in need of work because they are unsafe or there is something wrong with them, do you have any ideas on how we might, together, straighten out that situation and fix up those homes so they would be safe and not dangerous? Do you have any funding or any ideas of how we could collaborate, to go back through and fix some of this?

Mr. LARA. You are talking about some of the homes that have already been serviced, whether properly or improperly, by both Farmers Homes and State—

Senator DOMENICI. Not necessarily both. Primarily, Farmers Home, but in some cases the State.

Mr. LARA. I would say that if we identified those that, one of the things that we, let's just up front say it, some homes need \$25,000 to fix them up. Maybe the \$7,500 to Farmers Home is just not going to be enough. We have to establish at what level we want those homes to be. Do you want them to comply with minimum property standards? Do you want them to just do away with health or safety hazards, or at what level do we want them?

Senator DOMENICI. I will make it very precise, as precise as the evidence we have found. They will be brought up to acceptable build-

ing standards with reference to the items agreed upon in the original plan or contract between the contractor and an owner. We certainly know there have been some mistakes in judgment. Homes were picked that you couldn't get repaired, but we have 15 to 20 where there is a great deal of evidence the development plan was not agreed upon. We have seen some, maybe 4, 5, or 6, but I understand there are probably 20 we are aware of, with safety defects, problems with exhaust, those types of problems.

Mr. LARA. I will say probably the best solution to something like that is to get an organization, such as Siete del Norte, a housing corporation that has a good crew, that could probably offset some of the construction costs, the labor costs, et cetera. They would do it as a partnership, Federal Government, State government, try to do something to alleviate the problem. We could go back to the original contract, the work that was supposed to have been done, have it privately inspected by our staff, and maybe their contractors, find out what needs to be done, how much money, evaluate the situation. If they qualify for CSA programs we would take another application, take it to the policy advisory committee and see if they would consider it.

I don't know what the rules are in Farmers Home, maybe a little special appropriation or something like that to make good on those homes.

Senator DOMENICI. And the State housing office would be willing to work on that?

Mr. LARA. That is correct, sir, and we would also work toward State appropriation for a home repair program and we would take those as if they were new applicants for State funds.

Senator DOMENICI. Thank you very much.

Senator MELCHER. Thank you.

This completes our witness list at this hearing today. The hearing record will remain open for the next 30 days.

The committee is adjourned.

[Whereupon, at 4:15 p.m., the committee was adjourned.]

**POSSIBLE ABUSE AND MALADMINISTRATION OF HOME
REHABILITATION PROGRAMS FOR THE ELDERLY**

FRIDAY, DECEMBER 19, 1980

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The committee met, pursuant to notice, at 2:08 p.m., in room 457, Russell Senate Office Building, Senator Pete V. Domenici, chairman, presiding.

Present: Senators Domenici and Pryor.

Also present: John A. Edie, chief counsel; David A. Rust, minority staff director; Charles H. Morley, chief investigator; Martin La Vor, consultant/investigator; Kathleen L. Markis, minority office manager; and Eileen Bradner, clerical assistant.

OPENING STATEMENT BY SENATOR PETE V. DOMENICI, PRESIDING

Senator DOMENICI. The Senate Special Committee on Aging will come to order.

I note that Dr. La Vor is here. We have only three witnesses other than the staff and investigators. Is Thomas McBride, Inspector General from the Department of Agriculture, here?

Mr. McBRIDE. Yes, I am, Mr. Chairman.

Senator DOMENICI. Is Alex Mercure here?

Mr. MERCURE. Yes.

Senator DOMENICI. And Gordon Cavanaugh?

Mr. CAVANAUGH. Yes, sir.

Senator DOMENICI. I know this is a busy day for everyone. Hopefully, we can expedit this, and finish in about 2 hours. This is what I am hoping for, so I will not waste any time. Senator Pryor indicated an interest in being here. He said he would be late. He will be here in a few minutes. He cannot spend much of the afternoon with us. Senator Chiles is not in town. As you may recall, he was in New Mexico, for the hearings, along with Senator Melcher.

Let me give a quick summary and put into perspective why I asked the three people from the national offices of the Farmers Home Administration to be here today.

Last April, I chaired a hearing of the Special Committee on Aging in Las Vegas, N. Mex., designed to focus our attention on the special needs of the rural elderly. During that hearing and at the town forum which followed, several senior citizens raised questions about the

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operation of certain Federal programs in northern New Mexico. Many of their remarks focused on home rehabilitation. Allegations were made of favoritism and nepotism in selecting recipients. The committee staff pursued many of these allegations and found they had substance. Dr. Martin La Vor was secured to serve as the committee's investigator. He made a number of trips to New Mexico, visiting homes in three different counties, conferring with Federal, State, and local officials, and meeting with numerous senior citizens who felt they had been poorly served by some of these programs.

On October 8, 1980, the committee held additional hearings in Santa Fe, N. Mex., at which Senator Chiles, the chairman, from Florida, presided, and Senator Melcher was also in attendance. During this hearing, many of the charges stemming from our investigation were aired. Our witnesses included senior citizens whose homes had received incomplete or shoddy work under the Farmers Home Administration's section 504 program, which administers grants up to \$5,000. A number of contractors involved in these programs, and Federal, State, and local program administrators also testified. In late October, several staff members, at my direction, met with officials of the Farmers Home Administration here in Washington to explore the findings of our hearing and to pose several basic questions.

Mr. Cavanaugh, I think you are aware of the three basic questions asked by our staff and have responded to them. I will make the questions, dated October 28, a part of the record. I think you have a copy of those questions.

In summary, these questions are: What specific steps has Farmers Home Administration taken to insure (a) that this problem does not exist elsewhere in the program; (b) that this problem is remedied in northern New Mexico and won't occur again; and (c) that this problem does not arise again in New Mexico or elsewhere? We went on to inquire about what actions Farmers Home Administration would take to properly fix the homes that had received incomplete or shoddy work.

I am now going to insert the questions and answers you gave to me through David Rust dated December 3. I will make those a part of the record.

[The questions and Mr. Cavanaugh's response follow:]

QUESTIONS SUBMITTED TO FmHA BY STAFF INVESTIGATORS, OCTOBER 28, 1980

1. The committee in its hearing found that the management of the 504 grant in northern New Mexico was the main source of the problems with the program. What specific steps will FmHA take to: (a) Insure that this problem does not exist elsewhere in the program; (b) insure that this problem is remedied in northern New Mexico; (c) insure that this problem does not arise again in New Mexico or elsewhere?

2. The committee found in its hearing that certain homes were improperly repaired (if at all) under the 504 program. The committee would like to know; (a) Exactly what steps FmHA will take (if any) to properly fix up the homes in question; and (b) if FmHA ascertains that nothing can be done on the homes in question, what steps did FmHA take, and what inquiries did it make, to ascertain that fact?

3. The committee would like to know if FmHA has any suggestions as to how this "no win" proposition on the part of the grant recipients can be avoided in the future.

U.S. DEPARTMENT OF AGRICULTURE,
FARMERS HOME ADMINISTRATION,
Washington, D.C., December 3, 1980.

DAVID A. RUST,
U.S. Senate Special Committee on Aging,
Washington, D.C.

DEAR MR. RUST: During the meeting with you and Charles Morley, we were asked to respond to several questions relating to the section 504 rural housing grant program of the Farmers Home Administration (FmHA). We offer the following comments for your consideration:

1. The FmHA will take the following steps to correct present problems and prevent their future occurrence in the section 504 rural housing grant program:
 - An administrative notice will be sent to all offices alerting the staffs to the type of problems discovered in northern New Mexico. The notice will provide guidance on ways to prevent such problem situations from developing in the future.
 - The Department's Office of Inspector General will be asked to be sure to cover the section 504 grant program when making their routine audits of the FmHA county and State office operations.
 - The section 504 grant program will receive special attention at the next and subsequent training sessions held by the FmHA national office for all State office rural housing staff persons. A training session will be held early in 1981 calendar year.
 - The present FmHA regulations for the section 504 grant program are adequate, we believe. Staff from the Senate Special Committee on Aging expressed this opinion during meetings. The regulations will, however, be rewritten to make it even easier to follow. Some cross-references to other regulations will be removed and the complete information relative to the program included in the 504 regulation.
 - State Directors will have their District Directors monitor the section 504 grant programs in the local county offices.

2. The FmHA has no legal basis to provide additional assistance to persons whose homes were not properly repaired unless the amount of the 504 grant originally provided was less than the \$5,000 legal maximum or the family could now qualify for a 504 loan at 1 percent interest. Total grant assistance cannot exceed \$5,000 and total loan or combination loan and grant cannot be more than \$7,500.

The State Director has explored the possibility of obtaining the needed help to make the repairs from other sources. He has checked with the New Mexico State agencies to work out a solution to this part of the problem. In fact, he met with the State housing staff yesterday and was informed that funding for 1981 fiscal year has not yet been received from the Community Services Administration. There is also a possibility that the State legislature will provide some funds that could be used to make the needed repairs. The State housing staff persons expressed their willingness to help. If this effort is not successful, he will contact local representatives of other Federal agencies.

3. The "no win" situation, referred to in question 3 can be avoided only by proper administration of the 504 grant program by the FmHA. The regulations, if followed, will provide, as nearly as possible, the protection needed. The FmHA field staff has over 30 different programs to administer, which is a considerable load. Hopefully, they will be able to avoid the reoccurrence of situations such as developed in northern New Mexico. We understand from Charles Morley of your staff who visited other locations to check on the 504 grant program, that the program is providing much needed assistance for elderly low-income families. We believe the problem areas are few and assure you that applicable corrective action is being taken.

In New Mexico, the State Director has assigned another county supervisor to the office where the problem situation existed. He has directed the District Directors throughout the State to closely monitor the program. Furthermore, he is requiring that proper inspections of repair work be performed and this is being checked by the State office staff.

Sincerely,

GORDON CAVANAUGH, Administrator.

Senator DOMENICI. On December 8, I received and looked over that letter dated December 3, from Mr. Cavanaugh, Administrator of the Farmers Home Administration, which was in reply to the information we sought. I read the answers and feel that they were inadequate; in fact, they were so inadequate that my exercise of asking you the questions and having you respond was useless. The purpose of this hearing is to attempt to get some real answers from the highest level. I am still not sure that in communicating the events, that you all understand and feel what we, who have seen these houses, and have viewed this episode, feel. I thought you should come here and answer questions so that hopefully we can put this behind us once and for all. We also need to know that steps have been taken to see that this type of abuse will not reoccur.

I have to tell you that even though this is not a big program and there are not hundreds of homes that have been poorly renovated, I am concerned, because a number of my constituents have had their expectations dashed for an improved standard of living by what I consider to be poor management at the local level by those who administer your program. When a private citizen is clearly hurt by actions or inactions of a Federal agency, as has been the case with a number of my elderly constituents, then I think these people have a right to expect a redress of their grievances. To date, again I regret to say, Farmers Home has seemed strangely impotent in its efforts to locate resources needed to repair these homes.

In addition, the investigation raised some questions about the operation of the Inspector General's Office. USDA auditors located many of the same problems we turned up in our investigation. I want to repeat that. USDA auditors located many of the same problems we turned up later in our investigation. We found that when investigators from the Inspector General's Office were sent into the State they worked with real determination to rout out the problems. I am concerned, however, about how well the IG's Office functions under normal circumstances; that is, when you have audits revealing shortcomings, what triggers an IG investigation?

I know what triggered that one, complaints from us and others; but why does it not happen normally, or does it, and we just happen to have one that fell between the cracks. I want you to explain that to us. I think this has some generic significance about the IG's in the last years in routing out abuse, fraud, and waste. The auditors find and identify certain problems, but the system does not appear to be well attuned to responding to the kinds of widespread, petty fraud uncovered in this investigation.

Perhaps we need to review the operation of the Inspector General's Office to see if this could be corrected; maybe it already is and maybe this is just an accidental occurrence. So this hearing should culminate a process which began last April. I think it has done some good. I just feel that two or three issues remain, the most serious of which is what are we going to do to help those people whose homes were repaired improperly to get some redress from someone somewhere.

We are going to go very quickly with a slide presentation of a few of the homes which were inspected by Dr. La Vor. I know you are aware of them, but I am not sure you have seen them. It won't take long. It is just so you will have a feel for what this Senator and two

other Senators saw in New Mexico. We are going to do this very quickly.

Dr. La Vor, will you show examples of some of the homes.

Dr. LA VOR. Thank you, Mr. Chairman.

Senator DOMENICI. Senator Pryor, do you have anything you want to add?

STATEMENT BY SENATOR DAVID PRYOR

Senator PRYOR. Just let me add this, Senator Domenici. I am sorry that I will not be able to stay for the entire hearing today. I remember that this matter was discussed some months ago when you brought this situation to the attention of this committee. As you know, I share your concern for this particular program. Both you and our chairman, Senator Chiles, have studied this in far greater detail than I have. I am not certain that the problems that you have found are unique to New Mexico alone—it is certainly possible that these and other similar problems may be occurring in other States as well, if not nationwide. I think that you have performed a valuable service in this area, and would like to bring that to the attention of our witnesses today.

Senator DOMENICI. Thank you, Senator.

I just want to tell you the unique problem we have. I feel that eventually Farmers Home will cure the internal management problems that really were gross. I mean there were people who were not capable of doing the job. There were inspectors who said they did not know how to inspect. I think we will cure those. But now we have a situation where a few New Mexicans have homes that have \$5,000 in Federal Government money spent on them. They have not been repaired. There is no money left. In some instances, there is no signed contract. I don't know if Farmers Home knows this. In some of these, your field people did not even have the contractor sign a contract so the money has been dispensed, the home has been repaired in a really deplorable way. There is no money left. The citizen has no one to sue and we don't have any way to fix the homes that we already have spent our money on. This is one of the tough ones.

I hope that if Farmers Home can't come up with some resources, Senator Pryor, that early next year you will help me. I intend to find out roughly how much is needed and if FmHA doesn't find it, I intend to take it away from the Department of Agriculture. If it is \$50,000, I am going to take it out of some Agriculture program and put it in an escrow account and let Farmers Home go there and fix those homes. Now maybe there is another way, but I just want to share that with you today. We can work on it a little further in the ending weeks of this year and the start of next year.

I think you for coming.

Now, Doctor, will you very quickly just show us some of these examples. Go ahead.

STATEMENT OF DR. MARTIN LA VOR, CONSULTANT/INVESTIGATOR, U.S. SENATE SPECIAL COMMITTEE ON AGING

Dr. LA VOR. What I was going to do, Mr. Chairman, is just summarize some of the things that we found as a prelude to getting into the slides. There were two reports which were submitted for the record and have been printed.

We found the rehabilitation work done on most of the homes was generally incomplete and of poor quality.

We found that mismanagement of existing programs has resulted in the expenditure of Federal and State funds which actually frustrate and even circumvent the objectives Congress established to meet the pressing needs of low-income rural elderly.

We found the rules, regulations, and procedures promulgated by the national Farmers Home Administration Office were generally not adhered to in the three counties investigated. This breakdown in the management of the program appears to be a major cause of the problems which were observed, as you will see from the slides.

We found duplication and overlap of programs.

We found programs funded by different agencies and authorized by different laws being used for the same purposes and for the same target populations.

We found money provided by one program is often used to do, redo, or correct work that was already "done" by another.

We also found evidence of nepotism in awarding grants. Not all that information is detailed in the reports which were submitted for the committee but what I would like to do, we have just a sample of homes that we found.

This particular slide, I am going to give you just a brief background of what was supposed to have been done on each home and then quickly go through what was done. This grant was a second grant. The first one was from the weatherization program funded by the Community Services Administration and that was for \$760. The second grant from Farmers Home was for \$3,400. Then there was a third grant from the State Housing Authority which also had money from the Community Services Administration. The grant was supposed to repair the roof and install new windows.

Senator DOMENICI. Which grant?

Dr. LA VOR. The Farmers Home grant.

I am going to focus only on that one unless I specifically give you some other information.

Senator DOMENICI. All right.

Dr. LA VOR. Fix the roof, put in some new windows, and install new electrical wiring. Now this is the home; as you can see, a very small home.

Second slide, please.

One of the things on this house, the contractor used old materials and some new materials. This door and these two windows were installed by the weatherization program, and as you can see, they were stuccoed in the finish. The contractor doing the Farmers Home work did some electrical wiring although he was not a licensed contractor. He put this outside meter in, broke through the wall. A year after the work was finished the wall was still open and not finished. This is the wire going into the house, and the wire just flaps in the wind and can break at any time.

Next slide, please.

One of the principal reasons for doing the grants was to repair the roof because it leaked. As you will see here, that is sunlight, because 1 year after the work was done, this is what it looks like inside. It was

leaking around here, and you can still see outside. That is sunlight there so they didn't even close up the holes that were there. The woman who owns the house also complained that there were parts of the roof that leaked that didn't leak before the contractor started working.

This is another example of how they left the interior of the house. This back door was supposed to have been replaced and it was not. This is the drain pipe from the sink, so everything just goes into the ground. Here are some of the windows put in by the contractor. As you can see, they are not finished. The roof is open. You will see a later slide in a minute. The water leaks into the roof, which has no insulation in it, and then comes down here, and leaks into the house through the window.

Here is the closeup of the same picture, and you can see the openings there and nothing was done. Here are just some more of the windows put in by the same contractor.

These steps were put in by the contractor and there is no railing but they are new steps.

Next slide, please.

This is the other set of steps and the contractor didn't even bother to touch them, didn't bother to replace the doors—the regular house door, or the door to the house as per the contract.

This is the second home. What Farmers Home was supposed to do on this house was replace the entire roof on the dwelling. I am reading from the narrative from the Farmers Home Administration file:

Grant will replace entire roof on dwelling, stucco cracks around windows and doors. Living room will be repaired, and linoleum will be placed on bathroom floor as it is presently rough wood floor. Paneling and insulation will be installed on east and south wall in living room. Three new doors and locks will be installed. These factors will bring dwelling to decent, safe, and sanitary living conditions.

This is a long view of the house. This is a corrugated tin roof which is required in New Mexico.

Next slide, please.

This is the same roof, and this is the roof where the contractor did some work. The contractor did not remove the entire roof.

Next slide, please.

On this roof, he left it and painted it with aluminum paint on this roof.

Next slide, please.

On this roof, he left the corrugated tin on the roof and simply covered it, and laid rolled tar paper down, and it didn't even overlap the seams. As you can see, there is the old corrugated roof. He replaced two doors with thin hollow doors. The New Mexico code says they should be solid doors, but this is an example of a hinge the contractor installed.

This is the bathroom that was taken by an estimate sent out. That is a one-way street sign on the floor.

Here is an example of what the house looks like 2 years after the work was done, and how much it has leaked, and how much damage has been done to the wall and side that should have been protected by the new roof.

This is the third house. With this house I will read the description on this one.

Proposed grant will replace two doors which are in bad shape, replace one attic door which is old, replace rotted out floor in kitchen, put linoleum on living room floor to cover wood floors, replace flues in kitchen and living room and replace six windows. All work will be done and provide safe, decent, and sanitary living conditions.

For \$4,800, what they did was, they came in—these were the windows that were in the house. These were the existing windows and I am not sure why they were supposed to have been replaced because they seemed to have been in good shape, but the contractor had small windows so he simply took out a couple of the old windows, put framing in to meet the size of the windows he had, and put this window in, put these two windows in. You can see the sides of the old windows.

These doors were supposed to have been replaced and they were not. This is the back of the house and you can see these windows. This door was replaced. The attic door was not replaced although that window was replaced.

Here is the flue that they put in and they didn't even finish that, and so, as a consequence of the work they did, it rains through that opening.

Here is one of the floors they did. Someone picked up a piece of tile and went like that [indicating] and that is what is left after 1 year of tiling in the house.

This is the covering over the floor that the Farmers Home said replaced rotted out floor in kitchen. They left the existing floor and simply put the cheap tile on top of it.

This woman is very vocal, and so she went to Farmers Home and complained, and as a result, instead of getting the contractor to go back and repair the work, they went to the State housing authority which has the Community Services grant, and gave her another \$3,500, and what they were supposed to do was essentially what the first grant was supposed to do, so this house which you just saw received the total of \$8,900, and this is what the grant looks like after the expenditure of \$8,900.

Next slide, please.

This is a home that has received many grants, and this is an example of the duplication. This home received a weatherization grant, and we have not been able to determine how much they received on it, but it is no more than \$750.

They went in and put in these windows, which were done, and some other parts of the house, but the Farmers Home grant on this house was supposed to—I am reading from the narrative again: "Grant will be used to install bathroom, repair ceilings, roof, and porch deck. All of the above will eliminate all unsafe and unsanitary conditions which exist."

This is the back of the house and the septic system that went to the bathroom was back here.

Next slide, please.

This is the porch they put in and it is on an angle because it is a wide-angle lens. This is less than 1 year old and this gives you some idea of what it looks like, but you will notice the size of the step from the top. Remember, this is a very old woman.

Next slide, please.

We had somebody walk down. In order for her to get down she has to hold on to that railing and step down very carefully.

Next slide, please.

This is the deck that was put on.

This house had electrical work done on it. The electrical work was so bad that last May, 1 year after the work was completed, this house was red tagged by the electrical contractor for the third time. In October it was still red tagged and some new work was being done. This woman's monthly electrical bill went from \$12.60 in 1977 to \$88.27 last spring after the work was done. Even taking into account for inflation, it is admittedly higher. I should add, Mr. Chairman, after the first report was issued, several inspectors went out, and this house was also red tagged by the plumbing inspector because the septic system was put in improperly.

Here is an example of the type of electrical work that was done in the house.

Next slide, please.

Here is the bathroom. This room is 8 by 8. They put a wall down the center, and they did not put in any ventilation.

Next slide, please.

What I used here was a wide-angle lens. This is a 4 by 4 room so it looks a lot larger than it is. This is a used bathtub they put in although they were paid for a new one. This window was installed only half way and the woman complained vigorously about it.

This is the heater that is in the house, and you will notice there is no vent, which is a code violation in almost any State in the country, and it is just a danger to the woman. So what did they do? Instead of getting the contractor to come back they gave her a second grant from the State housing authority to do the work properly. So that house was given the weatherization grant, the Farmers Home grant, and the State housing authority grant. She had received \$8,500, and then because of all of the publicity that resulted from this house, the Community Services Administration has just given her another grant, which is repairing the house now and that is what you see now. This is the new contractor's work, who is going in to try to bring it up to standard. This house as you see it now and up until October had had \$11,600 spent on it.

Next slide, please.

Senator DOMENICI. Dr. La Vor, do you have an example showing us something different?

Dr. LA VOR. Yes.

Senator DOMENICI. Please show one, so we may hear the Farmers Home witnesses.

Dr. LA VOR. What I found, Mr. Chairman, while we were going forward was that there were homes that received grants that were owned by relatives of people who worked with Farmers Home, and that is what we are going to get to now. Now we have just run through very fast the other homes. Here is an example, and I must add, Mr. Chairman, the reason why we are showing these, all of the homes that we saw were picked at random, there was no design as to how we picked them, and it didn't matter which county we went to, we found the same thing with four exceptions. These are homes owned by rela-

tives or a relative of an employee of the State housing authority who worked out of the Farmers Home Office, and had total responsibility on the staff level for the 504 grant.

As we skim through let me just show you, you can just go through these very slowly, and I will just show you what \$5,000 bought in these homes. Just keep in mind what you saw before.

This home installed a new tin roof, installed new kitchen cabinets, installed new paneling, installed a new water heater, installed a new bedroom heater, installed two new windows, installed two new storm doors. There were 10 to 15 sheets of sheetrock left over, and they claim they had money left over.

This next home, this was another relative, installed a complete new tin roof, installed two storm doors, installed new cement floor in kitchen and dining room, installed carpeting on entire floor, installed a new wall heater, installed a new vanity sink in bathroom. Her son, a cabinetmaker, made the kitchen cabinets.

This house received a new tin roof, new ceiling, new subfloor, new linoleum, new kitchen cabinets, carpeting, and the like.

The only reason why we mention those, Mr. Chairman, is to show the contract, No. 1. No. 2, these homes had many things done to them that were in total violation of Farmers Home's own regulations and were inspected by Farmers Home employees.

Senator DOMENICI. I will summarize this last one for you. There are a number of things wrong with it. I don't want to make a big issue of nepotism, but it is very strange to me. Of all the homes in the north, four direct relatives of Robert Madrid's in one little town of Villanueva all got grants. There are hundreds of homes spread out through the north which did not receive them.

Another thing that is interesting, and I would hope that Farmers Home would follow up on this, in New Mexico, the only homes our investigators saw that were repaired well, were those that were done through self-help, by the relatives of Robert Madrid. These were beautiful jobs for \$5,000. We are now told that self-help is illegal in New Mexico. It is illegal because you cannot self-help \$5,000 grants. You must be a building contractor. So this type of work which seems to do the jobs well is illegal.

Many of these were done by unlicensed contractors and there is no question under State law that anything over \$500 has to be done by a licensed contractor. I don't raise all these for you to know the answers, but just to tell you that something is "rotten in Denmark," with this small program in New Mexico.

In addition, for those of you who didn't hear the original testimony earlier, in each of these cases, the Farmers Home inspector looked at the home, looked at the agreement, and cosigned a check with the owner releasing the Farmers Home money for the repairs. That was part of the procedure, that the inspector would inspect and cosign a check. These are examples of some 20 homes that we have seen. Eleven of these were done by P. & P., who has been debarred by Farmers Home from doing any future work. I mean there are just all kinds of examples.

Now what I would like our three Federal witnesses to do, so that we can finish at 4 o'clock, is to testify together. Let's talk together about what we are going to do, if anything, to alleviate this situation.

Mr. McBride, I understand you have two people with you. I will leave it up to you. If you want them to come up with you, you can have them. Identify them, please.

STATEMENT OF THOMAS F. McBRIDE, WASHINGTON, D.C., INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE

Mr. McBRIDE. I think I can handle any inquiries you have, Mr. Chairman.

Senator DOMENICI. Mr. McBride, would you state your name and title, please.

Mr. McBRIDE. I am Thomas F. McBride, Inspector General, U.S. Department of Agriculture.

Senator DOMENICI. All right. Mr. McBride, I don't expect you to have a prepared statement for today but if you do, we will hear it.

Mr. McBRIDE. I do not. I will respond to questions or summarize my own findings and views.

Senator DOMENICI. Mr. McBride, let's quickly go through a few questions with you and see where we come out.

Can you explain for the committee briefly the mechanics of an audit. What kind of occurrences will trigger an audit? How long does an audit take? How thorough is it? Those kinds of questions first.

Mr. McBRIDE. We have on our staff 440 auditors, about 300 investigators. New Mexico is covered by our Southwest regional office located in Temple, Tex., with a fairly large staff of auditors and investigators. Our priorities are set both by the Inspector General Act and my own guidelines and they are threefold basically: One, is an allegation, or suspicion of fraud; two, danger of a large dollar loss; three, an issue of integrity of any U.S. Department of Agriculture employee. Finally, we give priority where there is press, congressional, or other interest, whether it be based on allegations of fraud or mismanagement.

This particular audit was initiated when we were in New Mexico auditing another FmHA program called the technical assistance program. Auditors read press accounts of complaints that homeowners had made, talked to their audit supervisors, and it was agreed that they would commence that next week an audit, initially in Rio Arriba County, and then they expected to move to San Miguel and Mora Counties. The Rio Arriba findings were discussed with the State Farmers Home people at the end of 1979 or in early 1980. Those were the beginnings of the disclosures that have since followed.

It is hard to describe the audit process without taking a little time. I will try to do it very quickly.

Senator DOMENICI. Let me just say so we will all understand an audit is a very detailed procedure. It is not a cursory examination, and it is not a criminal investigation.

Mr. McBRIDE. That is right.

Senator DOMENICI. Is this [pointing] your audit?

Mr. McBRIDE. That is the audit report and work papers.

Senator DOMENICI. And work papers.

Mr. McBRIDE. Yes.

Senator DOMENICI. And in this material are many of the same facts our committee investigation turned up much later.

Mr. McBRIDE. That is correct.

Senator DOMENICI. Is that correct?

Mr. McBRIDE. That is correct.

Senator DOMENICI. If I understand your role, it is you are up here at the top of the triangle and on one side are auditors. This is an ordinary function to make sure the departments are doing their jobs right and managing things right.

Mr. McBRIDE. Right.

Senator DOMENICI. Now on some occasions you go down the other side of this triangle and you have your investigators do something.

Mr. McBRIDE. Yes.

Senator DOMENICI. That is different than the auditing function, isn't it?

Mr. McBRIDE. Yes.

Senator DOMENICI. What do the investigators do?

Mr. McBRIDE. The investigators are basically investigating either employee misconduct or more importantly criminal violations. Let me just make one thing clear which is, that all of this information does not come to roost in the Washington office. We are a large organization. We are regionally suboffice oriented and I have instructed all of my auditors and investigators that it is as simple as walking across the hall to convey information which they think should be investigated. We have policy directives to that effect and I would be glad to submit them for the record.

Senator DOMENICI. I didn't mean to imply, and I don't right now, that Mr. Cavanaugh or Mr. Mercure would have access to this kind of thing. This is occurring in the field.

Mr. McBRIDE. The point I am trying to make, Mr. Chairman, is simply that the information does not have to get to me or one of my Washington staff. The field auditor is supposed to tell his counterpart investigator right away if he thinks there is something criminal that should be looked into.

Senator DOMENICI. I know you may have a lot of things to tell us, but I want to get a lot of things on record for this committee because it seems to me that the local Farmers Home office should have been aware of the findings you make here, what you found in the field. They should have been taking corrective action and they didn't, from what I can remember from the hearing, until long after this had been completed and our findings made.

Now why would that be? Is that the case and why would that be?

Mr. McBRIDE. Well, I think it is the case. That is, in terms of the deficiencies in the program operations and the faulty repairs being corrected, certainly that has been the case. In terms of action against the officials, I think that has, at least in part, been the case. There has been a long delay which FmHA would attribute first to instructions from their superiors not to take action during the pendency of the Senate committee's investigation and later of the grand jury investigation with which we are working.

Some things were undertaken. As I understand it, several of our audit recommendations were implemented—for example, working out procedures with the State Construction Inspection Division and certain training steps were undertaken. We recommended in September

that FmHA conduct as a routine part of its assessment field operations reviews of the 504 program. That has not been done to any great degree.

My understanding is that four counties in Texas have been surveyed slightly but it has not otherwise been built in to their assessments. We ourselves in June decided to conduct a national audit survey of the 504 program. That is begun and it is in the survey stage, the audit training stage, and will be conducted during the first 3 months of 1981.

Senator DOMENICI. How long will it be before those findings are made available?

Mr. McBRIDE. I would guess about April or March we would have a draft audit and be exiting with FmHA. We have done other 504 work. In fact, in Senator Pryor's State we have done three or four counties, either completed or underway, because we found indications of the same problems. It was the combination of problems in New Mexico and Arkansas that decided us to do a national survey.

We also are doing preventive audit surveys to cover on a statistical sampling basis the smaller FmHA programs which tend not to get the audit oversight that the large programs receive.

Senator DOMENICI. Let me state to Mr. McBride my recollection which is, and you correct me if I am wrong, either you or the staff, that this field work was finished 8 months—8 months—before the Senate Special Committee got involved. Now is that correct?

Mr. McBRIDE. Rio Arriba was finished in about January 1980, and San Miguel in about March, the field work was finished.

Senator DOMENICI. Now why in the world would Farmers Home not take corrective action against officials based upon your investigation? The Committee on Aging was not involved until 8 months afterward. That is several months. You were not involved in the criminal investigation until substantially later.

Mr. McBRIDE. Not until July.

Senator DOMENICI. Why didn't Farmers Home take some personnel action in the meantime?

Mr. McBRIDE. While I don't know, I may be able to shed a little light on it. First, while we had orally briefed the State director, Mr. Cloud; the district director, Mr. Glover; the assistant director, Ms. Quintana, and some of the other State office staff of our findings, I would guess that they were waiting for the final audit report, and there was some delay on our end in issuing the final audit report. I raised questions with my own staff about that and, both based on that delay and the delay of the investigative referral, we have had to take disciplinary action against two audit staff involved in this matter. The delay was in violation of my policy and I was unaware of it at the time. However, I do not think either of those factors excuses the State director from taking prompt administrative action.

This has been a constant problem that I have faced and I am sure other Inspectors General faced within their agencies. There is a tendency to be paralyzed while there is any investigation, particularly criminal investigative action, pending. Normally what I encourage agency management to do is to call me or my staff to see if the assistant U.S. attorney who is handling the case has any objection. If they want to demote, fire, reprimand, transfer, and the U.S. attorney does not

have a problem, then I encourage them to take the appropriate action. My theory is that (1) you have protected the program, and (2) in most cases it does not prejudice the criminal action. I was never posed that question in this matter.

Senator DOMENICI. Let me get this summarized. This committee will have to make a reference on the issue we are talking about. What you are telling me is that when an investigation that you are undertaking reveals a kind of personnel action that would justify personnel changes—

Mr. McBRIDE. Discipline.

Senator DOMENICI [continuing]. Discipline, nothing will happen if the USDA gets involved, because the agency won't take disciplinary action while the charge is pending. That is a general concern.

Mr. McBRIDE. It has been a general problem. That does not mean that in some cases there has not been prompt and effective action, but it is my experience that there is slowness in decisions and semiparalysis in exercising that kind of responsibility, and I don't think that is only characteristic of the Department of Agriculture. Talking to my colleagues in the IG business, it is a common problem.

Senator DOMENICI. All right.

Now I understand within your own IG office as pertains to this investigation and audit, you had to take some disciplinary action because your people didn't follow your rules, is that correct?

Mr. McBRIDE. That is correct.

Senator DOMENICI. You discipline, too.

Mr. McBRIDE. Yes; in this instance, a supervisory, auditor, and an assistant regional inspector general.

Senator DOMENICI. Has your office ever looked at the organizational and administrative staff and management capabilities of Farmers Home?

Mr. McBRIDE. Yes; we have. I would commend to your attention, Mr. Chairman, the semiannual reports that I have filed with the Congress. These contain my observations about the management competencies and problems of Farmers Home Administration generally, and observations about the problems, obstacles, and resources limitations that underlie some of those problems. In fairness to those that direct Farmers Home those obstacles are a very important factor. During the past 1½ years I have viewed Farmers Home as a major problem area within the Department and I have been candid to say so in any semiannual reports. It has been a subject obviously of both concern and dispute. Under Secretary Mercure, Administrator Cavanaugh, and I have sometimes differed but we have both felt free to call them as we see them and have done so.

Senator DOMENICI. Which was one of the characteristics of your Office when the IG Office was created.

Mr. McBRIDE. That is what the statute says.

Senator DOMENICI. Now let me talk to Mr. Cavanaugh and Mr. Mercure for a minute.

Mr. Cavanaugh, can you tell me now in your opinion what has gone wrong with your agency that would allow this small program—this 504 program, a very small national program—to be administered this poorly in my State?

STATEMENT OF GORDON CAVANAUGH, WASHINGTON, D.C., ADMINISTRATOR, FARMERS HOME ADMINISTRATION, U.S. DEPARTMENT OF AGRICULTURE

Mr. CAVANAUGH. Senator, there is no one that would be other than shocked by the poor work and total failure of performance by the contractor on the remodeling. The only thing I guess that is more shocking is the people who live in those places even before the repair work started.

Senator DOMENICI. That is correct.

Mr. CAVANAUGH. We believe that we have in the agency, and I think that your staff and others have found, a very sound set of regulations for administering the 504 program. As difficult as that program is, I think that it has produced some very, very sound repair renovation work nationally. I have seen hundreds of examples of it myself as I have traveled around.

Senator DOMENICI. Mr. Cavanaugh, based on your administrative experience, let me just ask you to experience a typical file on a \$5,000 504 grant in the State of Florida. This is a typical county in Florida, a typical program, a look at one of their files on a rehabilitated house. Now look at a file on a New Mexico house. They are not like the same program. Let me tell you some crazy things that are not even there that could be worse.

No release. You know what that means.

Mr. CAVANAUGH. Yes.

Senator DOMENICI. That means that one of these contractors, even with the shoddy work, could end up not paying for the materials, or not paying the labor. Then that poor homeowner would have a lien on his house that would indeed be paramount, and have to be paid by the sale of the property because a contractor didn't pay his bills. In the case of P. & P., there is not even a signed contract with this contractor where that contractor signed his name to be responsible to do the work.

Now how does all that happen?

Alex, you volunteer.

Mr. CAVANAUGH. I would like to add one thing here. I am not trying to relieve the responsibilities of our agency, but in an effort to broaden the coverage of that 504 program in New Mexico, we entered into arrangements with the State and some of its personnel for them to supply us employees to supplement our rather short staff to help conduct this program. It is my understanding, Senator, that many of the houses, if not all that you have referred to and have been described here today, were under the direction and handling of a person who is not a career Farmers Home employee, but someone who is provided to us under arrangements with the State, and that, in my view, that would count in part for the fact that our regulations were not observed fully and that we had—

Senator DOMENICI. Let me tell you on that score I agree with you. I am a strong proponent of this program and I want more money in this program, not less. I understand the personnel problems, but let me tell you, Robert Madrid is not the sole culprit; they never paid him, he was on the State's payroll. This is one of the examples of personnel problems you are referring to, but we found these same problems in

counties where every single employee was yours. There were no Robert Madrids.

I think Robert Madrid did part of San Miguel and part of Mora and that he begged other people to do inspections. They said, "We did them for him even though we didn't know how to do them, but we liked him." They so testified. That is not the whole story, something else went wrong.

Mr. CAVANAUGH. I was not suggesting it was the whole answer, but you are asking my view of how this happened, and I think that is part of the answer. The other is failure to follow the procedures of the agency, which follow, would not have allowed such a result as the terrible pictures that you have seen here today.

Senator DOMENICI. One of the things that struck me and I want to mention now, before we even start is, I have seen many of these homes. You are absolutely right. They are so poorly constructed at the beginning before you even start repairing them, and I began to feel maybe you can't repair them and maybe nobody can. Maybe we should excuse P. & P. who obviously, I say publicly, is a lousy construction firm; in fact, I don't think they are a construction firm. Then I read one of your regulations and it is not an excuse either, because Farmers Home had to make a finding based on the grant and the work plan, which end product would create and cause a home to be safe and sanitary.

I know how hard it is when you have many poor people who need help. There are many applicants. If you choose a home which can't be repaired for \$5,000, even though the law says it has to be healthy and sanitary when you are finished, I don't know if we can blame the contractor for that either.

Alex.

STATEMENT OF ALEX P. MERCURE, WASHINGTON, D.C., ASSISTANT SECRETARY, RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

Mr. MERCURE. The safety and sanitary conditions have been recognized by both the Congress and the agency, there were some houses that cannot be brought up to minimum sanitation conditions. The clear danger to health and safety is what we are attempting to eliminate. With the housing rehabilitation program it is clear that there are some houses that cannot be brought up to the safe and sanitary condition.

I think that one can interpret the quality of a home and the repairability of a home a little too strictly. It is important to recognize this problem.

Another element is, as you have already indicated and we agree with your statement, it is a very useful and fruitful program when properly administered. It is a catastrophe when not run right. The important part to remember here in terms of the procedure, our own regulations were not followed by our own employees and that is what first came to our attention as a result of the newspaper stories in Rio Arriba County. This is doubly embarrassing to me, inasmuch as that is my own county.

Farmers Home Administration has periodically requested audits wherever we discover these problems. As of May 5, we received information from the Inspector General which was responded to on May 27. I believe that most of the problems you have identified, together with what has been done since May 27, will go a long way toward eliminating most of the problems. I think it is also clear that this is a difficult program, and therefore it must be monitored on a consistent basis. It is the only way in which very poor people who don't need a 30-year mortgage can eliminate the problems of safety and unsanitary conditions.

I think the steps that Farmers Home has taken will help us prevent it, but I must admit, Mr. Chairman, that even under the best of circumstances you have to be alert. I believe that there was perhaps an opportunity to prevent some of the problems that you saw, but some of them would have occurred if we had been more alert. It is perhaps a problem that we were not alert enough early enough to prevent from occurring. An early warning system is obviously necessary.

You raise another more important concern, which is the human concern of those 20 families or so, and as many others as we can discover.

Senator DOMENICI. That is the real tough issue.

Mr. MERCURE. Which is to a large extent that they are out in the cold and it pains most of us to recognize, and I think all of us do recognize, that currently we have no authority to make the reparations which are necessary in virtually all of the 20-some loans that have been identified as the problem loan. We estimate that it probably would take us, even based on the information that was shown on the slides, about \$25,000 to fix those homes to the level where we believe we eliminate most of the critical problems.

The difficulty is that the current authority we have does not permit us to indemnify for bad construction in that repair process. The difficulty again is that most people who are into home repair programs, and this is true throughout the country, tend to be marginal contractors, and that was the fact in Rio Arriba County. The man walked away, there was no way to hold him accountable; he left the State.

Then finally, as I say, Farmers Home has been cooperating with providing information. We would be more than happy to work with you to overcome the difficulty that we have here and to work with you to make sure that we make the program more effective.

Senator DOMENICI. Let me get this on record because a lot of New Mexicans are concerned.

Mr. Cavanaugh, let me ask you some very specific questions. I would like to get back to the issue of trying to help those people who thought their homes were going to be repaired and still have unrepaired homes. Secretary Mercure mentioned \$25,000. I am not sure this amount will cover anything more than the 13 or 14 that we know about. No one has gone out and seen all of them or looked at every one. Have you instituted any procedure now to control conflicts of interest among staff members dealing with the administration of 504 grants?

Mr. CAVANAUGH. Senator, all our staff are subject to stringent rules with regard to conflicts of interest. I think basically the result in this kind of problem is not having alert management that stays directly on top of the question. That is often difficult for our staff in some areas

where we find ourselves understaffed and overburdened. There is no excuse for this kind of result but it is a strain on the system. Basically we believe that we have, governing our activities, strong conflict-of-interest rules that, should they be violated, there is plenty of room for discipline.

Senator DOMENICI. Where did the breakdowns in this one occur, at the State level?

Mr. MERCURE. We properly delegated authority to FmHA, and frankly I think that is the problem.

Senator DOMENICI. So if conflicts of interest occurred as related to Robert Madrid, who was an employee of the State and not yours, you improperly delegated authority to him to cosign your checks, and therefore he cannot be accused of this conflict, technically, because he didn't work for you?

Mr. MERCURE. That is right.

Senator DOMENICI. So that would be a convenient way to get around it and you will see that that does not occur again.

Mr. MERCURE. It was not supposed to occur in this case.

Senator DOMENICI. Are you requiring mandatory, onsite inspections of recipients' dwellings?

Mr. CAVANAUGH. Yes; that is part of the established procedure.

Senator DOMENICI. Now was onsite inspection part of the procedure when our New Mexico homes were remodeled, Mr. Cavanaugh?

Mr. CAVANAUGH. Yes.

Senator DOMENICI. So if it did not occur pursuant to sworn testimony, then it did not occur at all in some instances, and they were violating the national rules set down by Farmers Home; is that correct?

Mr. CAVANAUGH. That is correct, Senator.

Senator DOMENICI. Are we requiring a bond and State licensing for 504 contractors or either?

Mr. CAVANAUGH. Neither.

Senator DOMENICI. All right. Now let's talk about that. There is nothing in the statute law which requires you to have a bond. I am not going to argue that. I assume your reasoning is that it is too difficult to get in rural areas considering all the risks.

Mr. MERCURE. For 504.

Senator DOMENICI. Is that correct?

Mr. CAVANAUGH. Yes.

Senator DOMENICI. The second part of my question is, why is there not State licensing of 504 contractors?

Mr. CAVANAUGH. I believe that not all States license contractors. Some State licenses of contractors, as I understand it, require the contractor to be bonded and we find, as Mr. Mercure indicated, they were dealing with very small, marginal contractors who could not get a bond. I just say personally I am not sure that licensing really would protect against the kind of acts that take place here. I think what we have missed here is not having the normal procedure followed, in which our county supervisor is careful about looking into the reputation, skills, and financial reliability of the contractor.

Senator DOMENICI. Let me give you my views. I disagree on the following grounds. I think you should at least make it mandatory

where the State law requires it. In New Mexico, any construction work in excess of \$500 requires a license. Let me tell you why I think it would be very helpful; because we have some contractors who do not even get a building permit, others do.

If they must at least have a building permit, then State inspectors can be called in to see if State law has been complied with. Otherwise, they can come on but they don't have any marching orders to measure their inspections against. It appears to me that if you are not going to have a bond, you ought to have licensed contractors where possible.

Mr. MERCURE. I agree with you. I think we should work to that goal.

Mr. CAVANAUGH. I supplement that. Anyone operating in our program within a State has got to observe all of the State requirements. If the contractor can only perform with a license at a certain level of work, he must observe that under our program. Similarly, he must be subject to all the code requirements.

Senator DOMENICI. Well, let me tell you, there again you say that, but they didn't comply in these cases. We had subcontractors doing general contractor's work. We had contractors who were not qualified to install electrical outlets or lines in a home even though State law prohibited it.

I know these are small jobs, but let me tell you, these are the ones which create big problems. We have electrical systems exposed in these homes, and not even put in the walls.

Mr. CAVANAUGH. I would say in light of the income of the people we should be more careful with this program. We are talking about very poor people.

Senator DOMENICI. OK. Now let's talk a little bit about the personnel situation in New Mexico. I understand the State director, as of the date of our hearing, was not permitted to make any personnel changes or disciplinary changes because of ongoing investigations; is that still the case?

Mr. CAVANAUGH. I don't know what personnel might be under investigation, but I do know with regard to this case, Senator, that the county supervisor involved, as well as the gratuitous employee from the State, have both been removed from any involvement.

Senator DOMENICI. What is the name of the director in San Miguel?

Mr. MERCURE. Maese.

Senator DOMENICI. Roberto Maese?

Mr. CAVANAUGH. I don't know where he was assigned, but he was moved out of the program.

Senator DOMENICI. Would you mind giving information to us as to why he was missed? I have my own personal thoughts about that particular man. I think he is somewhat of a victim, but that is not my decision to make. If we have evidence, in this case where auditors found malfeasance, and personnel were moved, all right. But they were promoted. Now you don't want to get into that. The particular individual was promoted to head the Gallup area after having been found to be negligent somewhere else. Tell us what happened to Roberto Maese.

Mr. CAVANAUGH. Yes, I will review that personally and report to you.

[Subsequent to the hearing, Mr. Cavanaugh supplied the following information:]

Mr. Maese, who previously held the position of assistant county supervisor in San Miguel County (GS 475-11), is currently an assistant county supervisor in the Torrence County office (GS 475-9).

Senator DOMENICI. How about the fellow in Rio Arriba? Charles Knoop, what happened to him?

Mr. MERCURE. The case is somewhat different than Rio Arriba. Even though the work agreement may have worked out all right, I don't know. I don't believe Knoop has been disciplined in any way.

Senator DOMENICI. I just want to make sure if he was disciplined, that he didn't get promoted, but you don't think that happened in this case. Is that what you are saying?

Mr. MERCURE. I believe neither one of them got promoted, but I am not sure.

Senator DOMENICI. All right. Let me tell you another thing which really bothers me about some of the very old people and the way we do this. The 504 program has been developed nationally. It is to be given great credit for its simplicity. It is a simple program. Deposit \$5,000 in the name of the grant recipient, and then a local staff member of Farmers Home Administration cosigns the check as work progresses and is paid. There is a final inspection with the grantee and a final withdrawal.

But when you are dealing with very, very old people who have a lot of difficulty understanding English, as is the case in this particular part of New Mexico, there is an obvious opportunity to have them sign checks they ought not to be signing, because they have this tremendous faith in this young fellow, who is there telling them, "Mrs. Ortega, you have got to sign this check." This leads to forgeries, it leads to fraud. What procedures have we instituted to protect against that? Are there any?

Mr. CAVANAUGH. Again, I think the procedures are there. The real question is seeing that the staff people are attentive to those procedures. In addition, we have often tried to work, particularly in this program, with local nonprofit or other groups that are oriented to the client population, in this case elderly people, to try to get them involved to make sure that the people understand what the program can bring them, to make sure they get a fair shake, to assist us in seeing that good writeups are done, that good contractors are selected.

The program really works most effectively where you have that kind of adjunct to Farmers Home. That does not excuse us for not carrying out the program, through the county supervisor, in a sound, honest way, or for the Government to get them what it intended them to have. It is embarrassing, there has been a breakdown in our agency in these cases.

We have taken every case, not only in New Mexico, but throughout the United States, to the kinds of problems we have and the investigation this committee conducted. The concerns that you have, and that we all share, are to see that it is a sound program, and it is going to be reviewed very carefully with our staff, the national training meetings, to make sure that they are attentive to these and other prob-

lems that can occur to shortchange people on what this Congress and the administration wanted them to have.

Senator DOMENICI. Well, Mr. Cavanaugh and Mr. Mercure, I share your concern. I do not doubt that you are concerned. What bothers me is that there has been a long time lapse and we still have not figured out any way to repair any of these homes that were not repaired.

Let me ask you this. Are you satisfied you have a procedure in place and a policy, so that the checks which are cosigned are only for work actually completed?

Mr. CAVANAUGH. Yes, sir.

Senator DOMENICI. And you acknowledge this was not the case here. In many of these examples, the inspectors actually signed without knowing whether the work had been completed or whether the materials had been delivered to the site.

Mr. CAVANAUGH. It is just plain that our procedures were not followed in this case, and that no one would honestly have seen what was done and signed off on the check.

Senator DOMENICI. Now I want to tell you something that bothers me about the whole program. We had the New Mexico Construction Industries Division director testify to Senator Chiles, Senator Melcher, and me in New Mexico. His name is Ernest Coriz. He is really something, because usually we have people here who are not expert, but he is an engineer, a construction authority. He told our committee Farmers Home Administration does not have a single person in New Mexico qualified to make building inspections, or construction progress inspections, as required by the New Mexico State standards and code. Have you ever heard that before?

Mr. CAVANAUGH. No, sir.

Senator DOMENICI. What does this mean to you if this is the case?

Mr. CAVANAUGH. I don't know what examination the gentleman made. I would say, first, that I can't speak specifically to New Mexico today, but we have insisted that our State operations bolster our strength and capability in building inspection across the line. In my view, we do not have either the number of inspections, or in many cases, the caliber of inspectors that we need for the broad range of construction work that comes before the agency.

To a large measure we depend upon instruction, training, and oversight by architects and engineers, by training we give our own staff, and by considerable dependence upon what are known as WAI or WIN as the inspectors. I would like to make the observation, that in my view, we have not been able to get the kind of grade levels that we would like to have to be able to hire, what I think, is the level of experience and capability of construction inspectors for Farmers Home.

Senator DOMENICI. Why?

Mr. MERCURE. I believe Mr. Coriz' statement is a little extreme. There are a few but not enough to handle the kinds of tasks that we have. They address actually his criticism, and although somewhat overstated, it is valid and I think reinforced by some of the suggestions and recommendations Mr. McBride has made with regard to his assessment of FmHA management needs in the field.

Mr. McBRIDE. That is correct, Mr. Chairman.

Senator DOMENICI. Let me ask you this. Why in those parts of New Mexico, where the State inspector system has enough personnel to help out, are they not used? Now we have evidence here that, strangely enough, our State does not have a lot of building inspectors and the legislature doesn't put enough money into training State inspectors. But there were some inspectors who were licensed and qualified who could have inspected these homes and could have done so in a rather easy way. They were in the area, they knew about it, but they were not called upon under this program, and there is no effort to get them together.

Mr. CAVANAUGH. For work under the local codes and the rules that require local inspections we certainly welcome those inspections as a way of supplementing our own inspections.

Senator DOMENICI. All right.

Mr. MERCURE. One last point. We should consider more seriously where there is a structure of State inspection which, in the case of New Mexico it has, and perhaps other States don't have, that perhaps we ought to take a look at the capacity of our people out in the field, because it is obviously the kind of linkage of resources which is alluded to in Dr. La Vor's comments. Unfortunately in this case, although with good intention, the linkage appears to have been less than ideal.

Senator DOMENICI. Now we get to the last issue here. However, before I get into that, let me say, I am firmly convinced after looking at the programs in other States, that unless we put somebody in charge of this type of program in a State like New Mexico, who is willing to take some innovative approaches and match resources, and encourage contractors to do reputable work, we will continue to have second-rate people apply. Then you are going to have to have inspectors on inspectors on inspectors.

In Florida, they had a tremendous matchup of CETA trainees with small business assistance. The subcontractors were supervised by general contractors while learning to do the work and the general contractor was responsible. They did all these things, and it is a masterful application of resources, compared to what we have in New Mexico.

Mr. Mercure, when we got this all finished in New Mexico, we still had one question hanging over our heads, and that is: Where are we going to get resources to take care of these poor people whose homes have not been fixed? So on October 28, we asked Mr. Cavanaugh, through our staff and Senator Chiles, the following: The committee found in its hearing that certain homes were inappropriately repaired, if at all, under the 504 program. The committee would like to know exactly what steps Farmers Home will take, if any, to properly fix up the homes in question? Farmers Home ascertained that nothing can be done, in a letter from Mr. Cavanaugh indicating the following:

Farmers Home has no legal basis to provide additional assistance to persons whose homes were not properly repaired, unless the amount of the 504 grant originally provided was less than the \$5,000 legal maximum or the family could now qualify for a 504 loan at 1 percent, but in any event the total assistance would not exceed \$5,000, and a total loan combination grant of \$7,500.

Now, Mr. Mercure, were you asked by Mr. Cavanaugh to check into this, from the standpoint of the Department of Agriculture, and is this your conclusion also?

Mr. MERCURE. No; the first answer to your question is no. No, I don't believe Mr. Cavanaugh asked me if there was any alternative, but I believe it is correct to say that our General Counsel has indicated we cannot exceed \$5,000 or \$7,500 combination.

Then in that context we cannot do it within the resources that are available legally from the Farmers Home Administration.

Senator DOMENICI. So it is the official position of the Department of Agriculture then, so we know in New Mexico, that they cannot do anything to help those people get their homes repaired. Is that right?

Mr. MERCURE. Without the legislative authorization that permits the Farmers Home to indemnify families who were victimized essentially by shoddy workmanship, your answer is correct.

Senator DOMENICI. Well, let me pursue this with you. I really can't understand that.

What if the homeowner has some rights? You know the kind of people we are talking about. There is no way they can exercise legal rights in this case. They don't have the money up front. They would have to have an implied contract, and there may be one. That was the answer of some lawyer who advised your people locally. I am enough of a lawyer to know that is the first hurdle, and it will cost you \$800.

Mr. MERCURE. And if you had \$800, you could probably do the job that should have been done in the first place.

Senator DOMENICI. So there is no way that you can go in and take the work or take assignment from the homeowners, or go after the contractor, or exercise any rights in the Department of Agriculture?

Mr. MERCURE. Well, I don't know. We have not really posed that question although we could pose it. The difficulty, again, is that the likelihood that we can recover much from the contractor is probably fairly remote also.

Senator DOMENICI. I would not doubt it. From the ones I saw, I don't think they have anything left.

Mr. MERCURE. We pick up the pickup.

Senator DOMENICI. Yes, we pick up the pickup. Some of them were incorporated. You cannot go beyond the corporation and the corporation does not have anything in it.

Mr. MERCURE. Yes.

Senator DOMENICI. So it is your position, even though you were not asked previously, and you didn't sit down and talk about this with Mr. Cavanaugh, to get this squared away before he wrote his letter to us, that you cannot do anything to help them?

Mr. MERCURE. No; we cannot within the current legislative authority we have.

Mr. CAVANAUGH. Sir, may I add something to that?

Senator DOMENICI. Please.

Mr. CAVANAUGH. We do have legislation in Farmers Home relative to new construction, that I feel I was in part instrumental in achieving for the agency, which allows us, in comparable situations, in new construction where the homeowner is unable to get compensation in a suitable fashion from the contractor, to be able to turn to the Government for assistance, and the Senator may wish to recommend an extension of that kind of protection for these low-income repair loans,

where those who have been defrauded or otherwise have not gotten the type work that was planned, and where the contractor cannot be held responsible, will get recompensed from the Government to put the property the way it should be.

We have exhausted everything, and that was out of the same kind of predicament where on occasion new houses would be built. When the contractor would not be available to pay or to correct the effect, we have process whereby we can step in and do that after all the alternatives have been exhausted. State directors and others are working hard with both the Community Services Administration to obtain funds that would allow the needed repairs to be made, as well as with the New Mexico State Legislature, not because we are trying to turn to somebody else to pay for it, but because we do not have any legal authority to take care of it ourselves.

Senator DOMENICI. Well, I can guarantee you, I think I have a pretty good feel for New Mexico, and I don't think our State legislature is going to appropriate money to redo the work which they are going to say the Farmers Home Administration muffed up. I just can't see it. I hope they will appropriate some money for the State's activities in housing rehabilitation. They didn't do it last year. There was no money for rehabilitation, but I hope they put some in. However, it would be for their own activities. They are not going to repair what they perceive to be the Federal Government's mess.

Let me ask you this. Are there any cases where the Federal Government has gone after a contractor to seek restitution for the grantee?

Mr. MERCURE. Not to my knowledge.

Mr. McBRIDE. There have been a number of criminal actions against contractors. There are some claims actions pending involving these, although because of the fly-by-night character of some of these operations the civil claim is often worthless. In the larger loans, such as community facilities, there are quite a few. There have been a fairly large number of criminal actions involving contractors.

Senator DOMENICI. Let me ask you, as Inspector General, are you aware of the fact that some people have succeeded in lawsuits against the Government in this kind of situation even though they have no contract right?

Mr. McBRIDE. That was the question I raised; what action does the Government have against any of the contractors, either corporate or individual? I talked to the Assistant General Counsel this morning in preparation for this hearing and posed that question and got what seemed to me a conservative answer. The Government is not a party to the contract, and thus has no right of action.

I would commend to you, Mr. Chairman, and to the committee staff that you might want to make an inquiry of the General Counsel himself, Dan Marcus. I have found in the past that he is an imaginative legal scholar, and may find a solution that has occurred to none of us. I am not sure he has been brought in on this question.

Senator DOMENICI. Well, my chief staff aide was there, as were two members from Mr. Marcus' office.

Mr. McBRIDE. I suggest you talk to Mr. Marcus.

Senator DOMENICI. Personally?

Mr. McBRIDE. Personally.

Senator DOMENICI. I am not so sure I want to continue to have to be part of that kind of government.

Mr. McBRIDE. I will certainly be glad to take these—

Senator DOMENICI. If you have to go to the Governor of the State every time an agency is not doing a job, things are in bad shape.

Mr. McBRIDE. I must say candidly, having been through issues like this in the past, being myself a lawyer and exprosecutor, that I think judicial remedies are unlikely to be successful because everybody who might be liable is judgment proof, and that only some legislative or regulatory action could be effective.

Senator DOMENICI. Let me just summarize this then and say the one suggestion that you made, Mr. Cavanaugh, about new construction, is not an easy application to our situation. This does not apply readily because it is an entirely different situation. It may be stretched to apply; is that what you are saying?

Mr. CAVANAUGH. No, sir, I don't want to play lawyer but I don't really think that the existing provision would apply. In fact, the notion of having it apply to repair and rehabilitation was rejected during the course of the legislation.

Senator DOMENICI. So there is nothing in the legislation from what you can tell at this point.

Mr. CAVANAUGH. Yes, sir, that is what I have been advised.

Senator DOMENICI. Mr. Mercure, is there anything that you can think of that we ought to follow up on?

Mr. MERCURE. Well, I think you would probably want to consider the suggestions Mr. Cavanaugh made.

I have a couple of points. Mr. McBride and I will talk to General Counsel to see if there is anything that he can develop in the way of a solution.

The third and final thing that I point out is that our experience has been that this has been a very solid program. You made a statement earlier, Senator, that we cannot just self-help in rehabilitation. We have recently developed regulations for self-help housing which permits us to use self-help housing approaches in rehabilitation. We think that is going to be an important improvement but it will not apply for section 504.

Senator DOMENICI. Let me ask if you will pursue that for us. I just want to say there is no way I want to continue to have hearings, on hearings, on this issue. I don't want to abuse this process, but I can tell you this: I have now gone as high as I intend to go in the Department of Agriculture. I am not going to invite the Secretary down here. I think Assistant Secretary Mercure is as high as we have to go. I can say that if we don't find a way to at least offer some help, I clearly intend to take it out of some other program of the Department of Agriculture. I am going to do it.

I am going to get money appropriated to help these poor people get at least some of what they already paid for once. It just seems to me we are dancing all around this. We know they did wrong. We know they didn't follow the rules, but who gets punished? It is anywhere from 15 to 100 people, principally elderly in very rural areas, that are probably living as bad now as they were before they spent the money. I just think we have to find a way to solve that. We hope we have

solved the management problem. I am not sure we have, but at least we pointed it up for you.

My last questions go to you, Mr. Inspector General. Since we are about to have a new administration, in due course, in the usual manner in our country, a peaceful one without revolution, in your opinion does Farmers Home need a new top-to-bottom audit of its procedures as to management capabilities? Would this be the right time to do it?

Mr. McBRIDE. Mr. Chairman, I think we know almost all the major problems in Farmers Home that need remedying, though a new administrator, new Secretary, might find some additional areas that need probing. We have devoted intensive audit attention, and conducted management reviews of State and national operations. I have a number of areas that I think require immediate attention; in fact, I have conveyed information to the transition team and have given them my recommendations in that respect.

I think FmHA needs a lot of work. I view it as the biggest problem agency within the Department of Agriculture, and I do not say that in criticism of Mr. Mercure or Mr. Cavanaugh. Many of the problems arise for reasons beyond their control. It is the most serious management problem within the Department and I think it deserves top priority. I have been blowing the whistle for the last 1½ years and indeed have talked to Members and staff of the Congress about these problems, because I feel they are so serious. Frankly, I welcome this kind of hearing and I think greater congressional oversight would be a service in this area.

Senator DOMENICI. Mr. Cavanaugh, do you want to comment?

Mr. CAVANAUGH. Just a word on behalf of what I think is a very fine Federal agency that has absorbed a tripling of its workload with no increase in staff. I would be glad to share with the Senator, or anyone else associated with the agency that can identify readily in terms of how it can improve its service to the public. They are not all related to manpower, but the threshold of any agency that has grown so fast in both the scale of its operations and the complexity and the breadth of the operations, it is plain that the Government is being penny-wise and pound-foolish by not maintaining adequate personnel levels needed to properly service its programs. In the meantime I think that its personnel has done a remarkable job in serving the rural public in this country.

Senator DOMENICI. Well, I want to say that it certainly may have problems, and your job is to do precisely what you have done, and hopefully it will be constructive. The Farmers Home Administration has a tremendous responsibility and the potential for doing good is great. When we decided our rural development program was going to be run by the Department of Agriculture, that was a major American legislative policy decision and the Department of Agriculture undertook some very different roles from that which it had conventionally. I am not making excuses for anyone. It should be run right. Even though we don't have enough personnel, it still does not excuse the kinds of things that are occurring in the field in New Mexico.

Mr. CAVANAUGH. I am the first to admit that.

Senator DOMENICI. We look forward to reviewing your annual report as we move through the legislative year.

Do you have your findings reduced to a summary which you can make a part of our record, or is it a very extensive document?

Mr. McBRIDE. I think it would be most useful to place in the record that portion of my recently issued semiannual report pertaining to the Farmers Home Administration.

Senator DOMENICI. I would request that you do that. If it is more than 30 pages, let's just make an adjunct.

Mr. McBRIDE. Probably no more than five or six pages.

Senator DOMENICI. Including recommendations, I assume.

Mr. McBRIDE. Yes.

Senator DOMENICI. Thank you. It will be made a part of the record. [Subsequent to the hearing, Mr. McBride supplied the following information:]

U.S. DEPARTMENT OF AGRICULTURE,
OFFICE OF INSPECTOR GENERAL,
Washington, D.C., January 13, 1981.

HON. PETE V. DOMENICI,
U.S. Senate Special Committee on Aging,
Washington, D.C.

DEAR SENATOR DOMENICI: Pursuant to your request at the hearings of the Special Committee on Aging on "Possible Abuse and Maladministration of Home Rehabilitation Programs for the Elderly," I have enclosed pages from my last semiannual report which point out significant problems, and recommendations for corrective action, in programs of the Farmers Home Administration, for inclusion in the hearing record.

While the semiannual report for the most part deals with problems in specific programs of the Farmers Home Administration, you also asked for my views of the management problems which have led to these program deficiencies. First, I think there has been too much emphasis within FmHA on disbursing loans and grants and too little attention paid to such things as preloan analysis, and loan servicing. There must either be retrenchment in the number of programs which FmHA administers, as well as the scope of the individual programs, or a substantial staff increase.

They do not have a sufficient number of people to manage the present range and volume of programs properly, nor do they have the correct mix of skills; i.e. sufficient persons with skills in financial analysis, banking, engineering, construction, building inspection, etc.

The present management information system is grossly inadequate. Timely data such as number of deficiencies, loans by category, and other necessary information for management decisions is not available. Closely related to the need for an improved management information system, is the need for a qualified individual to fill the position of Deputy Administrator for Management. It is one of the most important positions in the Department of Agriculture in terms of impact on program operations.

The agency also has to clarify the line of authority relating to many of its programs. For example, we recently conducted an audit on loan decisionmaking for business and industry loans. We found that it was difficult to pinpoint responsibility for loanmaking. We have made eight recommendations to the Secretary to improve business and industry loan decisionmaking. These recommendations have not yet been fully implemented. Other programs have similar problems.

The high degree of autonomy which FmHA State offices exercise in loan and grant decisions, coupled with the turnover among State Directors compounds the problem of defining lines of authority and pinpointing responsibility. Further, the noncareer status of the position of State Director enables the hiring of persons who do not necessarily have professional backgrounds which prepare them for the job.

The Farmers Home Administration also lacks the capability for an internal review and analysis of its programs. We have also recommended to the agency that they establish an internal review capability so that many of the problems which your committee has identified and which our auditors and investigators

have repeatedly identified, could be found by FmHA and corrected more rapidly. To date only five positions have been established for the internal review staff.

Finally, we have consistently found procedural problems in loanmaking, i.e. insufficient documentation, insufficient preloan analysis, checks that should have been made prior to granting the loan have not been made, borrowers being given misinformation by FmHA personnel, etc. Indeed, we have had cases where U.S. attorneys have declined prosecution of borrowers because of the negligence of the agency or its personnel. I currently have a task force looking at these procedural problems.

If you have further questions, please let me know.

Sincerely,

THOMAS F. McBRIDE,
Inspector General.

Attachments.

SIGNIFICANT PROBLEMS, ABUSES, OR DEFICIENCIES AND RECOMMENDATIONS FOR CORRECTIVE ACTION

RURAL DEVELOPMENT PROGRAMS OF THE FARMERS HOME ADMINISTRATION

In past reports we have expressed our concerns regarding the rapid growth in the number of programs and the dollar volume of the programs administered by FmHA, and the stress this growth has placed on the agency's capacity to manage these programs.

Illustrative of this growth is the fact that since FmHA began as the Resettlement Administration in 1935 through the end of fiscal year 1979, the agency has advanced or obligated, through loans and grants, a total of \$73.2 billion. More than \$58 billion (80 percent) of the total has been obligated between 1969 and the end of fiscal year 1979. \$38 billion (45 percent) of the total has been obligated between fiscal year 1976 and the end of fiscal year 1979. FmHA services the accounts of approximately 1.25 million borrowers with a principal indebtedness of over \$40 billion. In fiscal year 1979 almost \$5 billion was collected by approximately 2,000 field offices.

This growth has occurred while employment has increased very little. Recent trends show the number of full-time FmHA employees has increased from 8,057 at the end of fiscal year 1972 to 8,456 in April 1980. Part-time employment during the same period has increased from 1,491 to 1,674.

The result is that the number of staff years available for loanmaking and servicing functions per \$1 million in program money has decreased from 1.0 in fiscal year 1969 to 0.21 in fiscal year 1979. Conversely, the average value of the loan portfolio per employee has increased from \$930,000 in fiscal year 1969 to \$4.7 million in fiscal year 1979.

Effective management of the FmHA loan programs, however, does not depend totally on the adequacy of FmHA resources. An equally large part of the problem lies in FmHA management priorities, which emphasize getting the loan made, often at the expense of careful review of the loan application, financial statements, availability of commercial credit, and loan servicing. Our investigations and audits have shown longstanding and serious problems in these areas. We have investigated numerous instances involving alleged fraud or false statements by borrowers only to find that faulty FmHA procedures or practices were an obstacle to successful prosecution. While additional staff resources are necessary to help deal with these problems, a fundamental reorientation of FmHA management attitudes is likewise essential. Recently there have been some indications that such a reorientation is occurring. For example, the Administrator of FmHA has recently sent an administrative notice to the field offices emphasizing the need for improved loan servicing.

The rapid growth in programs, combined with the inability to hire additional personnel; the emphasis on loanmaking at the expense of loan servicing; the failure to develop the Unified Management Information System (UMIS); and new programs such as the economic emergency loan program and the synthetic fuel program place new demands on employee skills and seriously strain FmHA management capacity.

Intradepartmental Review

In early 1979, we conducted a review of past audits of FmHA programs and found that many of them reported the same general problems—for example inadequate review of loan applications, inadequate servicing of loans and delinquent accounts, and inadequate review of borrowers to determine if they should be graduated to commercial sources of credit. Many of the problems were attributed to the imbalance between the size and complexity of FmHA programs and the size and skills of its staff.

This review led to the creation of an intradepartmental group (the Deputy Secretary, Assistant Secretary for Rural Development, Inspector General, and FmHA Administrator) which was charged by the Secretary with the responsibility of developing recommendations to improve FmHA's management controls and lessen the susceptibility of the rural rental housing, business and industrial development, and emergency loan programs to fraud, abuse, and waste. The group developed over 60 recommendations which FmHA has implemented or is in the process of implementing. In addition FmHA requested audit and investigative assistance in those program areas.

Internal Review Capacity

At the request of FmHA, the Office of Inspector General analyzed the need for FmHA to establish an internal review capacity. The analysis was predicated on the fact that FmHA has evolved from a small lender of last resort for family farmers to one of the largest financial institutions in the world. In the past decade FmHA's loan volume has increased from \$800 million to over \$14 billion annually. The typical county office (there are over 1,800) is often the largest lending institution in the county, having the responsibility for servicing a caseload of 591 loans with an outstanding balance of \$19.6 million, making loans and grants of \$7.5 million per year; and making cash collections of \$2 million per year. This workload is usually handled by a staff of three: county supervisor, assistant county supervisor, and county office assistant.

FmHA has traditionally relied upon OIG to provide the resources necessary to test and monitor the internal controls in their programs and financial operations, and, to a lesser extent, has itself performed internal reviews on an ad hoc basis. However, the tremendous growth in FmHA programs and the amount of dollars loaned, plus the fact that the loan programs are becoming increasingly complex, require the Office of Inspector General to focus its resources on those program areas most susceptible to fraud, abuse, and waste. Therefore, the checking of internal controls at the State or county offices on a standardized cycle cannot be accomplished within available OIG resources. While we believe that our new audit approaches have substantially reduced the need for cycle audits of State and county offices, we recognize the need to perform control checks at those levels, and we have therefore recommended that a permanent internal review staff be established within FmHA. This staff would not assume any OIG functions. Rather it would augment the FmHA Administrator's ability to detect and respond immediately to problem areas. The internal review staff would also enable the Administrator to insure that corrective actions for problems identified in audits, investigations, and reviews are, in fact, implemented. This latter function should help resolve the primary concern of OIG that effective corrective action is taken.

Specifically, we have recommended the establishment of an internal review staff of between 50 and 75 persons within FmHA which would be responsible for the following functions:

- Perform postclosing credit analysis of large dollar loans and review the independent public accountant reports required by various FmHA programs.
- Perform trend analysis on FmHA programs and operations and monitor the activities of the Finance Office—that is, make confirmations of borrower accounts; and
- Perform additional internal reviews of areas most susceptible to problems, and follow up on actions taken to correct deficiencies disclosed in prior OIG audits and internal reviews.

FmHA has recently developed a plan for creating an internal review staff, but has not yet assigned personnel to this function.

Special Impact Audits

Although we continue to devote a significant portion of our resources to programs administered by FmHA, we have also concentrated on improving the effectiveness of our audit effort by placing greater emphasis on special impact audits designed to focus on problems in an entire program, as opposed to problems in the particular office administering the program as was done under the cycle audit concept. We have found that the special impact audit results in more comprehensive correction of endemic problems.

The following audits, conducted during this reporting period are examples of our special impact audits.

BUSINESS AND INDUSTRIAL LOAN PROGRAM

The business and industrial loan program was authorized by the Rural Development Act of 1972. The purpose of the program is to stimulate the rural industrial economy by providing loan funds to acquire, construct, reorganize, or expand rural businesses providing new employment opportunities. It is primarily a guaranteed loan program. That is, FmHA can guarantee up to 90 percent of a loan which is usually made by a commercial bank. Business and industrial loans made through the program through fiscal year 1980 totaled approximately \$4.4 billion.

During this reporting period we completed a review of 40 business and industrial loans. This review resulted from concerns voiced about the business and industrial loan guarantee decisionmaking process by persons within FmHA, the Office of Inspector General, and the Secretariat, and from outside the Department. We were concerned not only with the issue of whether or not external pressures were leading to the approval of business and industrial loan guarantees for reasons unrelated to the financial and economic feasibility and impact, but also with the appearance that external political or other pressures were factors in the approval of such loans. For the loans reviewed, there was a considerable amount of external involvement in the loanmaking process. While it is important to note that this does not mean all loans reviewed were not worthy of being approved, it does highlight the fact that there is an appearance that these loans could have been made for reasons other than financial and economic considerations. Since these loans were not randomly selected, we cannot project the results of the survey to all business and industrial loan guarantee decisionmaking.

Of 40 loans in excess of \$1 million selected for review, 22 loans (totaling \$88 million) were selected primarily because loan approvals initially were "discouraged"; that is, not recommended for approval by the State office or the national loan review committee, or loan review officers. Eighteen loans (totaling almost \$223 million) were selected from fiscal year 1979 operations primarily because of the large dollar amount of the loans (4 of the 18 were also rejected at least once by the State office or national loan review committee).

We determined through interviews and record examinations that in 21 of the 40 loans reviewed there was evidence of support for the loan by outside parties; for example, Office of the Secretary, Members of Congress, congressional staff, White House staff, or State and local elected officials. We took into consideration only those instances where strong letters of support for the loan guarantees were present and/or there was evidence of meetings or personal contacts between FmHA officials and outside interested parties concerning the loan applications. Routine congressional or other inquiries on the status of loan applications were disregarded.

Six of the forty loans in our sample were approved outside the normal application review and evaluation process at both the State and national office levels. While the regulations provide that the State Director has ultimate responsibility for final loan approval, in practice that system is not always followed. In three cases, State officials either did not recommend approval of the loan or were not given an opportunity to review and evaluate fully the application before the loan application was reviewed by the national office. A national office loan review officer was assigned to evaluate the six applications, but the applications were either not fully evaluated by the officer or were not subsequently recommended for approval by the national office loan review committee. Two of the loan applications were approved but never reviewed by the loan committee as required by FmHA procedures. The remaining four applications were discouraged by the committee but were subsequently approved. According to inter-

views and record examinations, the assigned loan review officers had recommended or were going to recommend against guaranteeing loans to these applicants because of their poor financial condition, the high risk involved, or the lack of credit worthiness.

Of the 40 loans reviewed, 26 were discouraged at least once by the national office prior to being approved. There were nine cases where the loan guarantee applications were discouraged two to four times preceding final approval. From our reviews of the loan dockets and our interviews, it appeared that considerable support from Members of Congress or the Secretariat was given for final approval of 14 of the 26 loan applications previously discouraged.

In many of the cases where there was outside support for loan approval, the documentation of the processing and the factors on which approval of the applications was based were inadequate.

In addition, the loan review summaries prepared by the assigned loan review officers for presentation to the loan review committee were not retained when applications were discouraged or rejected. Only the letters to the State offices discouraging the projects were in the loan files. However, when the applications were resubmitted and ultimately approved, the loan review summaries prepared at that time were retained. Therefore, the loan review committee in its deliberations did not have the benefit of the prior review and reasoning for discouraging the loan guarantee application.

Recommendations

We made the following recommendations to the Secretary to improve business and industrial loan decisionmaking. These recommendations were based on our belief that we must insure the integrity of the business and industrial loan program and that we should take steps necessary to assure that all loans are made on their merits and in accordance with statutory requirements.

(1) All "outside" contacts, that is, from other than FmHA employees or the applicant and his/her representative, should be documented. A written record of such communications, calls, or inquiries setting forth the nature of the inquiry and the response should be transmitted to a designated official of FmHA who will make sure such records of contacts are placed in the loan docket.

(2) The Administrator of FmHA should have full delegation of responsibility for business and industrial loan approvals and disapprovals. While such a delegation presently exists, our review showed noncompliance with this regulation in a number of instances.

(3) The Administrator of FmHA may delegate approval authority to subordinate levels within FmHA with clear guidelines specifying the dollar size or specific nature of the business and industrial loans subject to such delegation.

(4) Each business and industrial reviewing level within FmHA (State or national office) should fully document their recommendations for approval or disapproval and the specific factors on which such recommendations are based.

(5) All loans of \$1 million and over should be reviewed by a national loan review committee.

(6) The loan committee should make a documented committee recommendation of approval or disapproval setting forth the specific reasons and analyses in support of that recommendation.

(7) There should be an appeal process to the FmHA Administrator for those loans finally disapproved at the State level. For those for which the national office has approval/denial authority, there should be no appeal.

(8) The Administrator of FmHA should immediately implement internal review systems to deal with the following aspects to assure that the business and industrial loan applications are thoroughly reviewed in depth and in detail:

(a) Economic feasibility of the venture, including review and verification of current financial data, sales and profit projections, employment projections, adequacy of borrower equity, management capability, and any specific feasibility studies submitted in connection with the applications.

(b) Negotiation of an appropriate level of guarantee commensurate with the degree of risk and FmHA financial exposure.

(c) Adequacy of loan security, particularly personal guarantees.

The agency is implementing those recommendations, with one modification. The Under Secretary for Rural Development will retain final review authority for loans over \$2.5 million which have been approved by the FmHA administrator.

We are continuing our audits of the overall administration of the business and

industrial loan program and are currently performing a review of a statistically selected sample of 30 business and industrial loan guarantees in 20 States.

RURAL HOUSING CONSTRUCTION AND REPAIR LOANS: INTEREST CREDIT AGREEMENTS

The Housing Act of 1968 gave FmHA authority to subsidize interest on loans approved for low-income borrowers. Under this authority FmHA can charge a low-income borrower as little as 1-percent interest on the loan, with FmHA paying the difference between the subsidized interest rate and the true interest cost to FmHA, currently 11 percent.

Since 1968, FmHA has granted approximately \$1.7 billion in interest credit assistance. The interest credit program has grown from \$1 million in 1969 to \$442 million in 1979. The average effective interest rate paid on loans by borrowers who receive interest credit is approximately 2.8 percent.

The interest credit agreements are for a 2-year period and are reviewed biennially to determine the need for continued interest credit assistance. The FmHA County Supervisor has the authority to increase the benefits if there is a reduction in income prior to the normal review date. However, there is no requirement to reduce benefits unless the borrower is found ineligible for the program; nor are there requirements for the borrower to report changes in income nor for the County Supervisor to monitor changes in income.

We conducted an audit of the interest credit program in 1976 and found that 34 percent of the 150 interest credit agreements sampled were incorrect at the time they were approved by the County Supervisor.

The amount of interest credit was incorrect in an additional 39 percent of the sample agreements because of changes in borrower income or other circumstances occurring after the loan was made. The prior audit projected \$50.3 million in excessive interest credits being granted to borrowers during the term of the 181,262 agreements that were in effect at the time of the audit.

Our current audit, based on a statistical sample of 200 loans selected from 310,778 loans in effect as of October 1, 1979, was to determine what changes had occurred in the program since our previous audit and to determine the effect of such changes. We found that: (1) FmHA had not adopted many of our recommendations, and (2) the magnitude of the problems had increased significantly. We found there had been a 72-percent increase in the number of interest credit agreements and a 157-percent increase in the value of these agreements since 1976. The error rate in interest credit computations resulting in overissuance of benefits increased from 64.7 percent of the agreements sampled in the prior audit to 76.5 percent in the current audit; while the error rate resulting in an underissuance of benefits increased from 8.6 to 10.5 percent.

The dollar impact of these errors increased from \$50.3 million in 1976 to about \$190.7 million in 1979. Generally, the same types of problems disclosed in our previous audit were found in the current audit. For example:

—Because FmHA procedures do not require borrowers to report changes in their income or other circumstances to the county office, we found 19 percent of the 200 borrowers sampled would have been ineligible for interest credit because of increases in income. An additional 48 percent, while still eligible for interest credit, had income increases which would have resulted in an increase in the interest charged them on the loan.

The audit also identified certain inequities in the granting of interest credit to rural housing borrowers. An analysis of the loan data for the period October 1, 1978, to December 31, 1979, showed that lower income interest credit borrowers on a nationwide average were purchasing higher priced homes than are higher income borrowers who were not eligible for interest credit. The analysis also showed that some rural housing applicants not eligible for interest credit probably could not afford to purchase a home because they would pay a higher percentage of their income for housing than do the interest credit borrowers.

Recommendations

(1) Interest credit agreements should be reviewed on an annual basis and upon termination or renewal and, if appropriate, retroactive adjustments made for improper interest credit benefits. Appropriate changes should be made when a change in borrower circumstances offsets the interest credit by more than \$15 per month. In addition FmHA should provide for penalties to borrowers' accounts

to cover the expense of performing retroactive adjustments if the borrowers do not report changes.

(2) The forms used to obtain and verify an applicant's family income should be revised to include scheduled increases in salary, expected overtime, and any other data necessary to evaluate and compute adjusted family income. County office personnel should be required to document adequately their computations of adjusted family income and interest credit.

(3) The period for reverifying income if the verification of employment is more than 90 days prior to the date of loan approval, the date of loan closing, or the date the interest credit agreement is approved should be maintained. FmHA is proposing to extend that period to 120 days. We believe that FmHA will have greater assurance that borrower income data is correct if the 90-day period is maintained.

(4) The interest credit agreement should be revised to alert borrowers to the fact that when they sign the agreement, they are certifying to the accuracy and completeness of the financial and household data.

(5) The national office should emphasize to county office personnel the need for accurately identifying and verifying all household income for persons applying for interest credit. They should be instructed to include income from temporary employment and overtime. In addition, county office personnel should be requested to interview borrowers applying for renewal of interest credit agreements to determine if income or family status has changed since execution of the interest credit agreement.

FmHA officials were in agreement with some of the audit findings; however, they stated they did not have the staff to review interest credit agreements upon termination or renewal nor to make retroactive adjustments for excessive interest credit. While we agree the recommended reviews would be an administrative burden, such corrective action is both desirable and cost beneficial when more than \$190 million in ineligible subsidy payments is involved. The agency is establishing a task force to review the program to determine the cost effectiveness of implementing the recommendations.

If the recommendations contained in the prior audit had been acted upon by FmHA, a substantial portion of the projected \$190.7 million in excess interest credit would have been saved.

ECONOMIC EMERGENCY LOAN PROGRAM

The purpose of the economic emergency loan program, enacted in 1978, is to make financial assistance available to eligible farmers and ranchers to enable them to maintain a viable agricultural operation during times of economic stress. Loans can be made only to applicants who receive 50 percent or more of their gross income from agricultural production or expend more than 50 percent of their time operating the farm or ranch. Originally the loans could be used for: (1) Refinancing outstanding indebtedness on farm or home real estate and for other essential farm and home debts; (2) reorganization of the agricultural operation; (3) purchase of water rights, supplies, and irrigation facilities; (4) purchase of livestock and farm equipment; (5) purchase of feed, seed, fertilizer, insecticides, and other farm supplies; (6) financing land and water development; (7) family subsistence; and (8) loan closing costs.

Legislation enacted in 1980 prohibits the refinancing of outstanding indebtedness on farm or home real estate unless such real estate was purchased by the applicant at least 1 year prior to the date of the loan application.

The interest rate charged for these loans is "the cost of money to the Government," currently 11 percent for real estate loans and 11.5 percent for operating loans. For insured loans and guaranteed loans the interest rate is negotiated between the borrower and the lender. Insured loans are those loans made by FmHA directly to the borrower. Guaranteed loans are made to the borrower by commercial lenders and FmHA guarantees repayment of a portion, usually 90 percent, of the loan.

The purpose of the loan reviews conducted by this office was to determine whether the economic emergency loans were made to eligible applicants for authorized purposes, and whether there were reasonable efforts to consider making guaranteed loans before consideration was given to making insured loans.

Our review of 276 loans disclosed the following problems:

Extended Loan Amortization Periods

Economic emergency loans were made to refinance borrowers' operating debts over periods as long as 40 years without determining the borrowers' ability to repay the loans over shorter periods of time. FmHA procedures provide that loans for operating debts shall be repaid in 7 years. A 10-year repayment period can be approved, however, if certain provisions are met. Some FmHA county office personnel were of the opinion that if real estate was used as loan security, the repayment period could be scheduled for periods up to 40 years. As a result, 42 of the 276 loans reviewed were made to finance operating debts (totaling \$3.9 million) for periods of up to 40 years.

The effect of this practice is to increase substantially the interest cost to the borrower and to hinder the graduation of these loans to private sources of credit, because commercial lenders usually limit the repayment schedule for operating debts to much shorter periods even when the debt is secured by real estate.

Insured Loans Versus Other Sources of Credit

Although FmHA established a policy of making insured loans only when loan guarantees were not available through local agricultural lenders, as of December 1979, only 4 percent of the \$3 billion in outstanding economic emergency loans represented guaranteed loans. While FmHA personnel attributed this to the higher interest rates charged by commercial lenders, a projection based on a statistically selected sample of 30 of 377 economic emergency loans in 11 county offices in Indiana showed that as many as 146 of the 377 loans were probably made without adequate FmHA determination of whether borrowers could obtain credit from commercial lenders either through commercial loans or FmHA loan guarantees.

Ineligible Borrowers and Unauthorized Loan Purposes

Of the 276 loans included in the review, 31 loans totaling \$3 million were made to borrowers who were ineligible, or the loans were made for purposes not authorized by the program. Many of the improper loans occurred because FmHA personnel approved substitution of economic emergency loans for farm ownership and operating loans when applicants did not meet the economic emergency loan eligibility requirements, or the loans were for purposes not authorized by the program.

Our survey disclosed that 12 loans totaling \$1.9 million were made to borrowers who were ineligible because they did not meet the FmHA criteria of deriving more than 50 percent of gross income from agricultural production or contributing over 50 percent of their time to operate the farm. Nineteen of the loans reviewed were made for unauthorized purposes, such as the expansion of farming operations; purchasing, repairing, or constructing personal dwellings; and financing real estate debt.

In addition to conducting the audit, we reviewed the data base of the St. Louis Finance Office and determined that over 4,000 borrowers with loans totaling \$199 million reported receiving less than 50 percent of their income from agricultural production. Field verification of this information revealed that 7 of 27 borrowers in two counties were not primarily and directly engaged in agricultural production as is required by the statute.

Recommendations

(1) The procedures for approval of loans for refinancing operating indebtedness should be revised to place more emphasis on the applicant's repayment ability, as a condition for loan approval, rather than relying solely on the assets used as security for the loan; and to further define what other debts can be included in real estate loans.

(2) In order to carry out the stated policy of making guaranteed loans in preference to insured loans, the FmHA or Congress should consider establishing interest rates keyed to the mortgage market and establishing separate fund limitations for insured and guaranteed loans. Subsequent to the audit, the economic emergency loan program was extended by Congress. In extending the program, several amendments were made, one of which requires that before approving an insured loan of more than \$300,000, FmHA determine that the applicant is unable to secure a loan commitment from a commercial lender that

could be guaranteed by FmHA. This requirement should improve the balance between insured and guaranteed loans.

(3) The FmHA national office should rewrite and clarify the intent of operating instructions pertaining to the applicant's eligibility, authorized loan purposes, and repayment terms. In addition, the national office should monitor more closely critical problem areas.

The 1980 amendments also included a requirement that the FmHA conduct a comprehensive study of the operation and effectiveness of the economic emergency loan program and the need for extension of the program beyond September 30, 1981. Other provisions of the study include: (1) The effect of the loans on the overall financial condition of the borrowers and their ability to maintain viable agricultural operations, (2) the effect of the credit elsewhere test, (3) the loan delinquency rate and the percentage of borrowers subsequently graduated, (4) the use of loan guarantees compared with insured loans, (5) the purposes for which the loans are obtained compared to the purposes specified in the act, (6) the methods of servicing loans and encouraging repayment, and (7) program alternatives, including merging the program with the farm ownership and operating loan programs or the combination of all programs into a single program.

The agency is revising the economic emergency loan program instructions to incorporate the provisions of the amendments and to provide the clarification necessary to assure loans are made only to eligible applicants and that such loans are used for authorized purposes.

UNIFIED MANAGEMENT INFORMATION SYSTEM

In November 1979, we pointed out that FmHA had experienced serious problems and cost escalation in its efforts to develop the Unified Management Information System. Since that time the following events have occurred:

- In January 1980, a departmental task force was formed, under the direction of the Assistant Secretary for Administration, to evaluate the status of the Unified Management Information System, to determine what portions of the project could be salvaged.
- In July 1980, the House Subcommittee on Legislation and National Security of the Committee on Government Operations held hearings to examine the cause of the failure of the project and to determine what corrective actions are needed to insure that FmHA will develop a modern and efficient management information system.
- In September 1980, the subcommittee issued a report entitled "Management Failures in Developing the Farmers Home Administration's Unified Management Information System." The report contains several recommendations, including: (1) The Secretary should direct that all UMIS development efforts be halted; (2) the Assistant Secretary of Administration should develop a project plan to design and develop a new Management Information System; and (3) the Assistant Secretary for Administration should assume overall management control for the development of FmHA's Management Information System.

It is essential that FmHA have a viable Management Information System and we will continue to monitor its development.

Senator DOMENICI. We stand adjourned.

[Whereupon, at 3:45 p.m., the committee adjourned.]

END