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U. S. DEPARTMENT OF AGRICULTURE

Interim Report on Ways to Enhance Management

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Economic Development Division

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The Honorable Clayton Yeutter
The Secretary of Agriculture

Dear Mr. Secretary:

This interim report on the U.S. Department of Agriculture (USDA) is one in a series of GAO management reviews of federal departments and agencies. Our purpose in doing these reviews is to assess each department's or agency's management and identify actions that can be taken to improve organizational performance. This report is based on a May 8, 1989, briefing to you in which we outlined our preliminary findings at USDA. We plan to report later on the underlying causes of problems discussed in this report and recommend specific actions for improving departmental operations now and in the future.

Results in Brief

The Secretary of Agriculture faces a formidable task: to mobilize a large work force in 36 USDA agencies to implement policies and programs under rapidly changing conditions while facing many internal and external constraints. To meet this challenge, the Secretary needs to (1) overcome organizational constraints; (2) more effectively address issues cutting across agency lines, such as biotechnology, water quality, and marketing; and (3) improve human resource, information, and financial management systems.

Many internal and external constraints complicate and impede USDA's overall performance and management responsiveness. Despite dramatic changes in the agribusiness sector, USDA's basic organizational structure has changed little. Its agencies are tradition-bound and highly resistant to change. USDA still maintains a multibillion-dollar, 1930s-designed field delivery structure, although today's farmers are far fewer in number and operate in a global agribusiness environment. Additionally, USDA managers face many pressures from interest groups and the Congress, which sometimes frustrate management reform efforts. This rigidity and lack of flexibility reduce the ability to redirect the allocation of scarce human and financial resources within the Department.

USDA's structure has served its customers well during a period dominated by domestically oriented agricultural policies. However, when faced by constantly changing international conditions, the Department's great size and structural diversity present management problems in

organizing and directing the growing number of important cross-cutting issues that demand a higher degree of interagency, intergovernmental, and interdisciplinary cooperation than previously required.

Overcoming these constraints requires more comprehensive and effective performance from USDA's basic management systems. Human resource, information, and financial management system weaknesses at the departmental level, and program management and control problems within agencies, limit USDA's overall capability to manage its resources effectively. These weaknesses are often long-standing and tend to be perpetuated in the absence of strong central direction and leadership.

To begin to address these weaknesses, we believe the Secretary needs to develop and clearly articulate a management agenda for the Department focused on important cross-cutting issues and improved human resource, information, and financial management systems. GAO management reviews of other agencies indicate that Cabinet secretaries have been able to implement reforms by personally articulating policy and management priorities and by ensuring that the Department responds effectively. The agenda should include a statement of (1) goals, (2) actions to achieve the stated goals, and (3) management systems to monitor implementation and evaluate results against desired outcomes. We believe such an agenda would be an important first step to ensure that USDA has the appropriate organization, systems, and flexibility to meet its challenges. Further, the next levels of departmental political and career managers must be held accountable for implementing this agenda.

Background

USDA affects the lives of all Americans and millions of people around the world. Created 127 years ago to conduct research and disseminate information, USDA's role has been expanded to include, among other things, providing billions of dollars annually to support farm incomes; boosting farm production and exports; ensuring a safe food supply; managing and conserving the nation's forests, water, and farmland; and improving nutrition. USDA's challenge is to meet its responsibilities as it also adapts to a rapidly changing global agricultural marketplace.

To carry out its diverse missions, USDA spent over $44 billion in 1988 and employed over 110,000 full-time employees in over 15,000 locations around the world. In addition, USDA funds over 17,000 county office employees.

USDA oversees an agribusiness sector that is critically important to the nation's economy. Agribusiness accounts for 17 percent of the gross national product and employs 20 million people. During the past decade, this economic sector has been undergoing major changes affecting both domestic and international activities. U.S. farms are consolidating into larger, more sophisticated operations. Further, increased environmental and nutritional concerns influence U.S. and foreign government agriculture and trade policies. Finally, the most significant change has been the increasing globalization of agriculture and the corresponding loss of U.S. dominance in world markets. For these and other reasons, the Congress, industry, and public interest groups closely watch and debate USDA agriculture programs.

Overcoming Organizational Constraints

Many of USDA's major agencies—such as the Agricultural Stabilization and Conservation Service (ASCS) and Farmers Home Administration (FmHA)—were created in or based on programs of the 1930s and over the years have developed traditions and views independent of the Department. Newer agencies, such as those providing nutritional assistance and encouraging farm exports, have been added to USDA in recent years, each tending to develop its own constituency. This highly decentralized organizational structure places agency and Department-level managers, including the Secretary, in a weakened position to deal with policies and programs requiring the coordinated action of several agencies and outside groups.

USDA's inability to adjust its field structure has left the Department with a responsive but costly service delivery system. We estimate that USDA's 4 largest farm agencies spent over $2 billion in fiscal year 1988 to maintain over 10,000 field offices in almost every county in the United States. Most senior USDA officials we spoke with, and many studies done over time, recognize the need to streamline USDA, particularly its field structure. Strong ties between "grass roots" constituent groups, the Congress, and USDA's agencies have kept the Department from adjusting to changes in the external agricultural environment.

Past Secretaries, for a variety of reasons, have not been effective in addressing organizational constraints. Some have expressed frustration at their inability to make relatively small organizational changes.

Addressing Cross-Cutting Issues

Faced with many internal and external constraints, USDA managers are struggling to deal with the growing number of emerging policy issues that, because they go beyond the purview of traditional agricultural concerns, require close coordination of several USDA agencies, other federal agencies, and other outside groups. Issues such as safely pursuing the promise of biotechnology, controlling impacts of agricultural production on water quality, and enhancing farm sector competitiveness, all require a high degree of cooperation within and outside USDA.

Regarding biotechnology, for example, USDA has a major leadership role in harnessing the agricultural promise of biotechnology, an area of science that could revolutionize production of food and fiber products. The Department does not have a long-range plan that integrates the activities of its many participating agencies and other federal departments into an overall agricultural biotechnology strategy. Consequently, USDA has not committed sufficient resources nor taken adequate steps to minimize the friction between agencies responsible for technological development and those responsible for protecting the public's interest. With the United States in a race with other industrialized nations in terms of biotechnology, proper management of this issue has significant implications for future U.S. competitiveness.

Preserving the nation's water quality is a major concern of agriculturalists, conservationists, environmentalists, and policy makers. Agriculture, due to water runoff containing pesticides and other chemicals, is a major source of pollution. Because nine separate USDA agencies operate programs affecting water quality, a coordinated departmental strategy is crucial. While a working group for coordinating policies is operating, USDA's implementation approach remains a collection of individual program efforts, rather than a cohesive, Department-wide strategy. Without proper implementation, USDA may not achieve its policy objectives for addressing agriculture-related water quality problems.

The United States no longer dominates international agricultural trade. Moreover, increased competition from abroad in U.S. food markets has hastened the call for a more competitive, marketing-oriented farm sector. USDA, however, lacks a coordinated, multiagency strategy to assist the farm sector in becoming more marketing-oriented. Its programs and policy emphasis have long favored the production-oriented viewpoint that contributed to agriculture's post-World War II productivity boom. While production enhancement is still important to agriculture, many experts believe the United States must increase the efficiency of its marketing systems to ensure that product quality, distribution channels,

credit systems, promotional activities, and prices are in line with the needs of the customers in targeted markets. These areas of emphasis have been largely ignored by USDA and will require the coordinated efforts of USDA agencies and agribusiness groups.

Improving Basic Management Systems

USDA's ability to develop and implement critical policies, goals, priorities, and programs depends, in part, on the strength and support of its basic management systems. Weaknesses in planning, budgeting, and monitoring, and in human resource, information resource, and financial management systems, however, limit USDA's overall capability to manage.

USDA is without a Department-wide planning perspective. As a result, it assembles a budget that reflects only agency priorities, and it does not have systems for monitoring important departmental initiatives. These conditions leave top managers with few tools for overseeing performance from a departmental perspective. While there are Department-level offices with responsibilities for budgeting and oversight, they do not have the authority and resources to direct and control the operation of agency-level systems. Within the agencies, basic management systems suffer from long-standing weaknesses.

For example, USDA faces critical work force problems. Its responsibilities are growing and becoming more complex while its staff is decreasing. As a result, remaining staff have an increased work load and require new skills to respond to programmatic changes and new technology. Under these conditions, USDA's ability to implement new policy will be affected. For example, GAO and USDA's Inspector General have reported on ASCS' difficulties in coping with the heavier work load generated by the 1985 farm bill. In addition, the Soil Conservation Service, the agency primarily responsible for assisting farmers on water quality issues, estimates that about 96 percent of its staff are required to implement provisions of the 1985 farm bill, leaving few staff available to respond to emerging issues such as water quality. Finally, USDA's managerial staff is approaching retirement, and a new generation of supervisors and managers will be needed. However, a recent internal survey found that managers are not confident that existing staff development programs will supply the necessary leadership.

USDA investments in information technology have improved many aspects of program operations, but USDA still lacks essential information for agency program management and strategic decision-making. For

example, we recently reported that FmHA cannot evaluate its loan graduation process because it does not know how many borrowers left the program for other sources of credit. Additionally, poor interagency coordination has resulted in USDA's large data resources not being developed into an asset that can be maximized across program and agency lines. This situation exists mainly because USDA agencies are independent and parochial regarding ownership of information resources, cannot agree on common data definitions, and continue to operate under policies and procedures that do not recognize changing USDA missions. Therefore, information is underutilized by others in identifying problems, analyzing trends, and assessing cross-cutting issues important to agency missions. Because USDA plans to spend about $4 billion in information technology over the next several years, it is important that efforts are made to ensure wise use of these funds.

The Department's accounting systems are not providing complete and accurate financial information on the results of programs and administrative operations. Further, long-standing weaknesses in major systems place the Department at substantial risk of fraud and abuse. GAO and the USDA Inspector General have frequently reported on weaknesses in agency financial systems. Managers generally acknowledge these problems in their financial management and accounting systems, but efforts to correct them are difficult. Making system changes is often time-consuming. For example, FmHA's efforts to modernize its loan accounting systems date back to 1974. After several starts and stops, completion is scheduled for late 1989. Upgraded accounting systems are essential to (1) safeguard resources, (2) ensure program integrity, and (3) provide USDA's managers and the Congress with the financial information they need to make effective decisions about agricultural programs.

Recommendation

Overcoming organizational constraints, addressing cross-cutting issues, and improving USDA management systems will require strong leadership from top management. Therefore, we recommend, as a first step, that the Secretary of Agriculture adopt and implement a management agenda that (1) clearly articulates goals for the Department, (2) establishes specific short- and long-term actions to achieve the goals, (3) establishes target dates, and (4) institutes evaluation systems for monitoring progress towards these goals. We urge the Secretary, in deciding on an agenda, to consider observations pertaining to weaknesses in organizational structure and management systems discussed in the body of this report, both as justification for a Secretarial agenda and as potential topics for such an agenda. Establishing these tools at the Secretarial

level would represent a major step in resolving the types of problems identified during this first phase of our work.

Our final report will examine these issues in more detail and make more specific recommendations for improving the areas discussed.

We orally presented our interim findings to you on May 8, 1989. We plan to brief other top officials throughout the course of our review. Formal agency comments will be requested prior to completion of our final report.

Appendix I provides background information on USDA and discusses how we performed our work. Appendix II discusses the many constraints facing USDA managers. Appendixes III and IV discuss USDA performance in addressing cross-cutting issues and basic management systems, respectively. Appendix V presents our views on the need for a management agenda for USDA.

This work was performed under the direction of John W. Harman, Director of Food and Agriculture Issues, who may be reached at (202) 275-5138. Other major contributors are listed in appendix VI.

We are sending copies of this report to the Director, Office of Management and Budget, and to interested congressional committees and subcommittees. We will also make copies available to others upon request.

Sincerely yours,

J. Dexter Peach
Assistant Comptroller General

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Abbreviations

ACS	Agricultural Cooperative Service
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
CFO	Chief Financial Officer
CSRS	Cooperative State Research Service
EEO	Equal Employment Opportunity
ERS	Economic Research Service
ES	Extension Service
FAS	Foreign Agricultural Service
FCIC	Federal Crop Insurance Corporation
FGIS	Federal Grain Inspection Service
FmHA	Farmers Home Administration
FNS	Food and Nutrition Service
FS	Forest Service
FSIS	Food Safety and Inspection Service
GAO	General Accounting Office
GATT	General Agreement on Tariffs and Trade
GNP	gross national product
HNIS	Human Nutrition Information Service
IG	Inspector General
IRM	information resources management
NAL	National Agricultural Library
OAB	Office of Agricultural Biotechnology
OICD	Office of International Cooperation and Development
OIRM	Office of Information Resources Management
OMB	Office of Management and Budget
OT	Office of Transportation
PSA	Packers and Stockyards Administration
RCED	Resources, Community, and Economic Development
REA	Rural Electrification Administration
SCS	Soil Conservation Service
USDA	U.S. Department of Agriculture
WGACE	Working Group on Agricultural Chemicals and the Environment

Introduction

The Secretary of Agriculture is responsible for one of the most diverse and wide-ranging departments in the federal government. Originally created to disseminate information, the U.S. Department of Agriculture's (USDA) role has been expanded to include, among other things, providing billions of dollars annually to support farm incomes, boost production and exports, ensure a safe food supply, manage the nation's forests, water, and land conservation efforts, and improve nutrition.

The Food Security Act of 1985 (P.L. 99-198)—commonly known as the 1985 Farm Bill—is the primary legislation that guides USDA activities. It established a comprehensive framework within which USDA administers its food and agriculture programs through 1990. The latest in a series of agricultural laws that date from the Great Depression, the 1985 Farm Bill was designed in response to the early 1980s decline in the U.S. farm economy. Its goals were to help stabilize the U.S. farm economy, enhance the U.S. competitive position as a supplier in world agricultural markets, and prevent the buildup of large commodity surpluses.

USDA's Genesis

USDA was created by 1862 legislation "to acquire and diffuse among the people of the United States useful information on subjects connected with agriculture in the most general and comprehensive sense of that word." USDA addressed this mission by conducting experiments, collecting statistics, and distributing new seeds and plants.

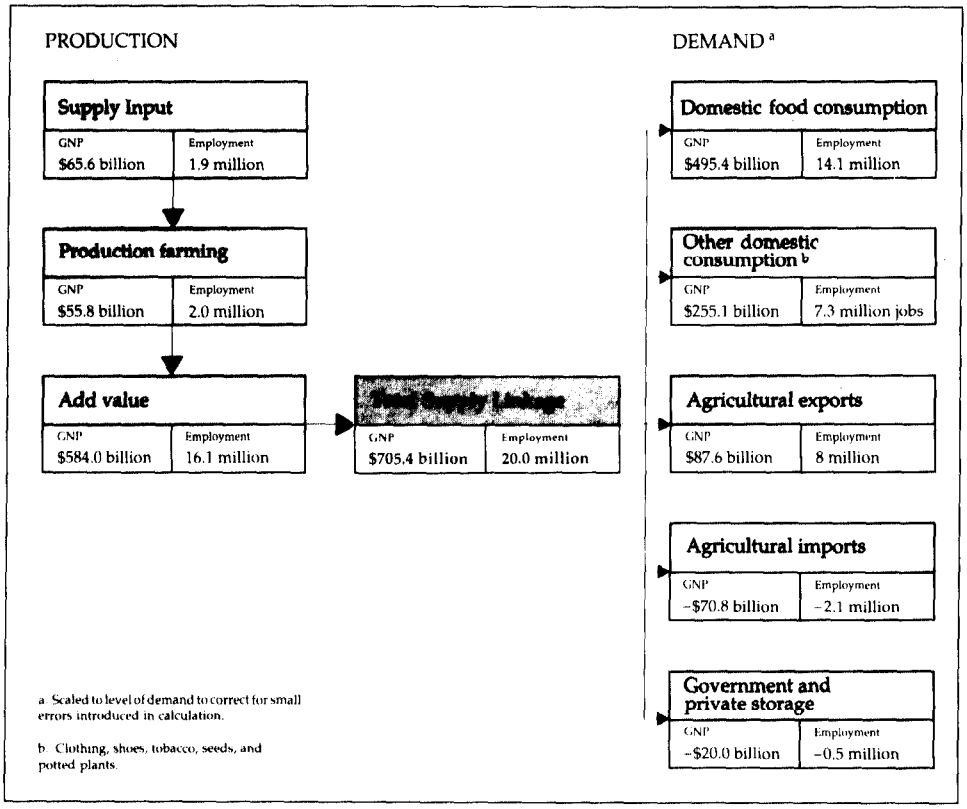
Over time, USDA's position in the farm policy arena shifted beyond information management to a more active role. During the 1930s, several independent agencies were created within USDA to help farmers regain self-sufficiency on family farms. For over 50 years, the basic objectives of these agencies have remained largely unchanged: to provide farmers with a fair return on their investment, to stabilize the agricultural economy, and to ensure an abundant supply of food at reasonable prices. A complex system of farm price and income supports and other farm programs has been built to accomplish these objectives. Since the 1930s, the Secretary's responsibilities have expanded beyond the farm sector to include the food stamp and child nutrition programs; food safety and quality issues; and market integrity issues.

The Agribusiness Sector

Today, USDA oversees an agribusiness sector that is extremely important to our nation's economy. Agribusiness accounts for 17 percent of the gross national product (GNP). Firms that store, process, transport, manufacture, distribute, retail, and consume agricultural products account for

the largest portion—13 percent of GNP. Traditional production farming and businesses that supply inputs to production farming supply about 2 percent each. Agribusiness also employs 20 million people—about 17 percent of the nation's workers. (See fig. I.1.)

Figure I.1: U.S. Food and Fiber System, 1987

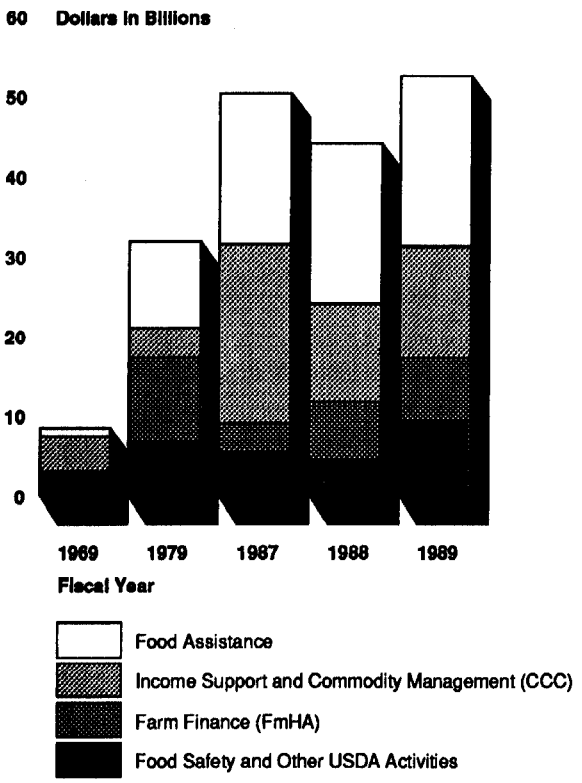


Source: Lincoln Institute of Land Policy, June 1989. Agribusiness Education in Transition: Strategies for Change. Report of the National Agribusiness Education Commission.

USDA's Budget

USDA outlays have grown dramatically in recent years (see fig.I.2). USDA spending was about $8.4 billion in 1969. About 50 percent of this spending was for farm programs—primarily income support and commodity management. Another $1 billion was for food assistance. The remaining $3.2 billion was for discretionary spending in such areas as food safety, forestry, conservation, research, and marketing. During the 1970s, there were large increases in spending for food assistance programs. Finally, between 1979 and 1981, there were huge increases in the Farmers Home Administration's (FmHA) farm finance loans.

Figure I.2: USDA Outlays



Note: Data for 1989 are estimated.
Source: USDA.

By the early 1980s, actions were taken to stem the growth of the food assistance programs and to reduce the new expenditures. However, farm assistance spending increased from $3.6 billion in 1979 to $25.8 billion in 1986, an increase of over 700 percent. In 1988, USDA's total spending was $44 billion, 73 percent of which ($32.2 billion) was for farm assistance and food assistance programs. These are primarily entitlement programs for farm and food assistance over which USDA has only limited control.

Organizational Structure

To address its many missions, USDA deploys an elaborate network of agencies and offices. The Department is headed by the Secretary of Agriculture, a deputy secretary, and nine under and assistant secretaries. Some 36 individual agencies are divided into 9 groups, each headed by an under or assistant secretary. In addition, several offices—Budget

and Program Analysis, Inspector General, and General Counsel—report directly to the Secretary. The names of agencies and duties assigned, as well as the configuration of agencies reporting to the different under and assistant secretaries, undergo frequent change. However, the basic missions of the individual agencies have remained much the same over time. Figure I.3 shows the Department's current organizational structure.

Farm Program Delivery Network

USDA has one of the largest and most expensive field structures in government. Almost 90 percent of USDA's more than 110,000 full-time employees, 17,000 county office employees of the Agricultural Stabilization and Conservation Service (ASCS), and numerous temporary employees work outside Washington, D.C., in offices located in almost every county in the United States and in many cities. The widespread distribution of USDA employees is viewed as providing a direct link between the Department and the nation's farmers and ranchers. Additionally, several USDA agencies have staff in overseas offices.

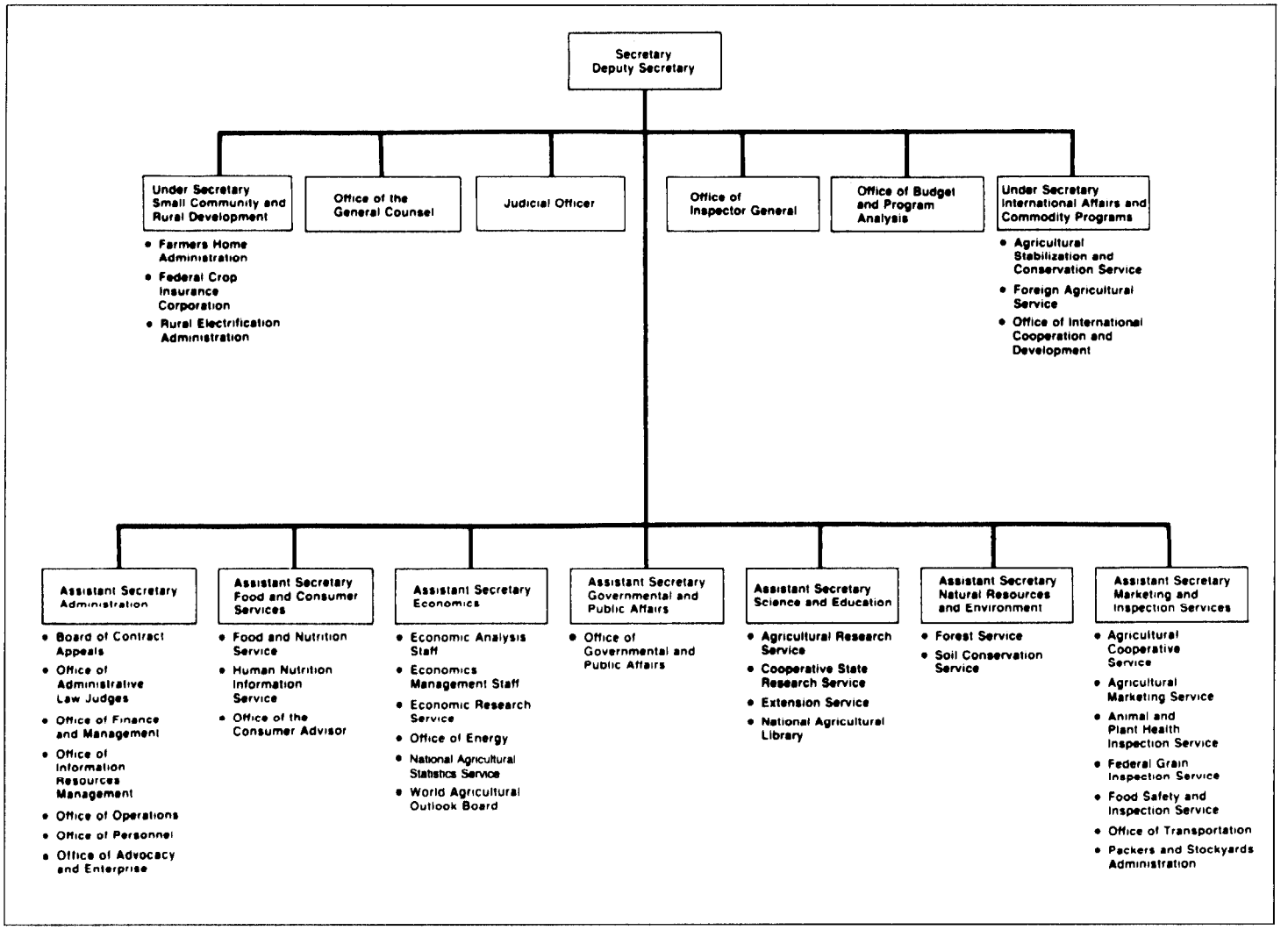
Most of USDA's farm service agencies were established during the 1930s in response to the Great Depression. In that era, communication and transportation systems limited the geographic boundaries covered by any single field office. For these and other reasons, USDA established a highly decentralized field office system consisting of numerous small offices to service the large number of small, widely disbursed, family-owned farms. From 1932 to 1948, USDA employment grew from 22,000 to 79,000.

Objectives, Scope, and Methodology

In this management review, we sought to identify how USDA can make and sustain management improvements to strengthen policy development, better achieve program initiatives, improve the integrity of management support systems, and enhance planning for future agricultural issues. To cope with the extensive scale of USDA, we initially focused our efforts on the four agencies most directly responsible for implementing the farm program provisions of the 1985 Farm Bill—ASCS, Soil Conservation Service (SCS), FmHA, and Foreign Agricultural Service (FAS). These agencies were most directly involved in responding to the early 1980s decline in the U.S. farm economy.

We also examined USDA's performance in addressing key policy areas that require coordinated efforts from several USDA agencies in order to

Figure I.3: USDA Organizational Chart



Source: USDA.

achieve their goals. These policy areas included introducing and regulating biotechnology, addressing the impact of farming practices on the nation's water quality, and the marketing of agricultural products. We selected these issues after discussions with officials and experts who believed that they represent important concerns facing USDA in the future and thus will require a great deal of management system support.

To accomplish our objectives, we surveyed and interviewed the heads of USDA's major organizations to obtain their perspectives on how well the

Department is managed. Those interviewed included the 9 under and assistant secretaries, 21 agency heads, and the heads of 6 central offices at USDA headquarters.

Additionally, we interviewed a wide range of officials from program, budget, personnel, and information resource management offices, primarily in ASCS, FmHA, FAS, and SCS, as well as officials responsible for water quality, marketing, and biotechnology activities. We interviewed three recent Secretaries of Agriculture: Richard E. Lyng, John R. Block, and Robert Bergland. We also interviewed representatives from several industry and interest groups, and state and local officials.

We discussed our methodology with and obtained comments on the draft of this report from a consultant panel we assembled, comprised of Charles Bingham and the late John D. Young, members of the National Academy of Public Administration.

We conducted our work between September 1988 and April 1989 in accordance with generally accepted government auditing standards. We provided the briefing upon which this report is based to the Secretary of Agriculture on May 8, 1989. We are currently working on a final report to the Congress that will examine in more detail USDA's management and ways it can be strengthened.

The Challenges of Managing USDA

USDA managers at all levels face many constraints that substantially affect the organization's overall management and responsiveness to pressing national agricultural issues. The constraints include (1) agencies that are independent and resistant to change, (2) major changes in the agribusiness environment, (3) other external pressures that influence program activity, and (4) budget pressures, which affect many departmental program and operational decisions.

Agency Independence and Resistance to Change

When first created during President Lincoln's tenure, the Department's mission was clear—to serve as a booster of research and education through the land grant colleges.[1] However, the modern USDA is a creation more of 1930s New Deal legislation, particularly of the philosophy that the federal government has a responsibility for the economy's performance. Efforts by various Secretaries to shift emphasis to different agendas were typically short-lived because of the intransigence of agency subsystems and the effectiveness of special interest groups in maintaining the status quo.

The 1930s USDA programs are characterized by strong client participation in the structuring and implementation of local programs. Politically, this involvement mobilized constituent support for the programs, and to a great degree this involvement has proven highly successful. Local cooperatives provided electrical power to virtually all rural America; farmer-organized districts implemented soil conservation plans; and locally elected farmer committees rather than bureaucrats oversaw the county offices that administered federal program benefits and farmer payments. USDA is one of only a very few federal entities that have direct, day-to-day, personal contact with its constituents, and, in key programs, the Department is managed at the grass-roots level by its constituents.

Although successful in making USDA responsive to its clients, the heavy constituent involvement has been criticized by some as the reason for difficulty in instituting reform: USDA is comprised of a number of diverse, autonomous, and entrenched local self-governing systems that to varying degrees are regulated by the constituent groups themselves. In our view, this organizational structure makes USDA slow to recognize the need for and implement change. Table II.1 shows USDA's traditional

[1]State colleges and universities started from federal grants of land to each state to encourage further practical education in agriculture, homemaking, and the mechanical arts.

missions and the primary agencies responsible for policy development and implementation.

Table II.1: Traditional USDA Missions and Corresponding Agencies

Mission	Primary agencies[a]
Raising producers' incomes	ASCS, FAS
Reducing income disparity	ASCS, FmHA
Stabilizing markets	ASCS, AMS
Increasing farm efficiency	ARS, CSRS, OT, PSA
Moving toward greater reliance on markets	FAS, AMS, OICD
Preserving the family farm	FmHA, FCIC
Conserving soil	SCS, ASCS
Promoting exports	FAS, OICD
Food assistance to the poor	FNS
Improving nutrition	HNIS, FNS
Expanding agricultural information and education	ES, ERS, ACS, NAL
Providing safe, affordable food	ARS, CSRS, FSIS, FGIS, FNS, APHIS, AMS

[a]See table of contents for a key to these acronyms.

Table II.2 shows that many agencies share responsibility for newer and emerging national agricultural issues, similar to USDA's traditional responsibility of providing safe, affordable food. This sharing occurs because these issues cut across USDA's traditional organizational structure. For example, seven to nine agencies are involved with the four issues shown in table II.2.

Table II.2: New USDA Missions and Corresponding Agencies

Mission	Primary agencies[a]
Biotechnology	ARS, CSRS, FS, APHIS, FSIS, ERS, NAL, OAB, ES
Marketing	FAS, AMS, FSIS, ARS, OT, ACS, HNIS, FNS, NAL
Rural development	FmHA, REA, ES, ERS, ARS, ACS, NAL
Water quality	ARS, CSRS, ERS, SCS, ES, NAL, ASCS, FS, APHIS

[a]See table of contents for a key to these acronyms.

These emerging cross-cutting issues reflect recent changes in the agribusiness environment. Since they are not always compatible with USDA's traditional program goals, they do not garner the support of those individuals and groups benefiting from the status quo.

Changes in the Agribusiness Environment

Agriculture has been undergoing major changes during the past decade. Agriculture experts have observed that these changes are causing permanent differences in the way we manufacture and distribute farm supplies, produce agricultural commodities, and market and process food and fiber.

The most significant change is that U.S. agriculture no longer dominates world markets. Many nations that were once our best customers have become fierce competitors, aggressively marketing their products and farm supplies on an international scale. On the other hand, many developing countries have become our best export customers. Instant communication and new trading techniques have created complex but highly effective international trade relationships, and international trading companies and multinational supply firms have become major factors in nearly every market. U.S. agribusiness must compete not only with large multinational firms, but with the public sectors of other nations. The coming dissolution of trade barriers within the European Community and the growing industrialization of agribusiness in the United States and abroad will also affect the way U.S. firms do business.

Other major changes in agribusiness during the 1980s include the

- consolidation of farms and ranches into larger, more efficient operations that are increasingly industrialized and have more sophisticated management;
- adoption of new agricultural technologies that are revolutionizing the way we produce and market products;
- increased environmental and nutrition awareness among both consumers and agribusiness; and
- increased influence of U.S. and other government policies on the agribusiness industry.

In addition, and affecting all other changes, consumers have come to be generally accepted as an important part of the agribusiness system. The agricultural economy has clearly shifted from being production-oriented, where the consumer must accept whatever he or she finds in the marketplace, to being more consumer-driven, where the consumer dictates production by reflecting tastes and preferences back through the system. Today's emphasis on leaner meats, fresh vegetables, and a healthy diet is indicative of the consumers' increasing influence in a competitive world marketplace.

External Pressures

Consumer groups, because of their diverse needs, are not strong forces in developing U.S. farm policy. Farm organizations remain the primary influence in U.S. farm policy, both because of their size and their long histories as voices for farmers. However, the large agriculture budget at a time of budgetary restraint has placed new pressures on these organizations, breaking up traditional coalitions and changing the way farm lobbies typically work. The traditional large farm organization pursuing broad objectives has given way to a newer and smaller type of Washington advocate. The dominant farm lobbying groups now specialize in a single commodity or else they are a hybrid representing both growers and processors on specific issues. The individual commodity organizations, e.g., soybeans, cotton, pork, cattle, and honey, will often oppose each other to meet the demands of their constituencies.

Because proposed changes in farm programs, if implemented, would often disrupt existing patterns of benefit distribution, such proposals generally face opposition. For example, program changes to raise grain prices will be supported by corn growers but will be opposed by dairy farmers who must buy corn to feed their cows. A program involving the slaughter of dairy cows to reduce milk production and boost prices, while benefiting dairy farmers, will face opposition from cattle ranchers who fear that the impact on beef prices will drive down their profits. When consumer and conservation groups and fertilizer and investment community interests enter the debate, the conflicts are exacerbated. USDA policymakers are thus faced with the difficult task of placating some, none, or all of the various interest groups. Newer groups, such as environmentalists and marketing advocates, have interests that conflict with many of the currently entrenched groups, making development and implementation of new policies even more difficult.

The various interest and lobbying groups also exert strong pressure through the Congress, where 23 separate committees and 46 subcommittees oversee USDA activities. Because USDA programs are so geographically dispersed, implementing any type of management initiative is likely to result in one or more of the agriculture lobbies intervening in behalf of their constituents. We found substantial frustration among former USDA officials over their inability to make the type of changes normally associated with managerial discretion because of the influence established interest groups exercise over USDA. For example, top USDA managers stated that they lost some of their managerial authority when congressional staffers went directly to mid-level agency personnel to work out policy issues.

Despite its rigidity, USDA's "grass-roots" delivery structure for farm programs has many strengths. For example, it provides a rapid conduit for information in both directions between the Department and the farm community. Further, the system gives those most interested in and knowledgeable about the farm sector, including the farmer, an important role in the decision-making process. However, the system makes it difficult for new initiatives, especially those that cut across program, agency, or assistant secretaries, to gain a foothold in the Department since their advocates generally have no established constituency in the farm community, the Congress, or the Department. Without such a constituency, new initiatives that reflect changes in the agribusiness environment must always overcome the vested interests of those who were there first. This conflict between the proposed and the existing is especially real if the newer initiatives compete with established programs for financial, human, and managerial resources.

Budgetary Pressures

Managers within USDA are also constrained by pressures to reduce outlays in farm programs. U.S. agricultural policies are under fire because of the 700-percent increase in farm program appropriations since 1979, at a time when other domestic programs were being cut. There is also a growing perception that farm payments aimed at increasing the incomes of a dwindling number of family farmers are instead benefiting larger farm operations.

The funding process for USDA—involving 202 appropriation accounts—allows the Congress and individual interest groups to identify "their" specific portions of the budget and work to protect these portions from encroachment by those with different interests. The extent of control achieved under this budget configuration includes not only protection of funds from new or competitive initiatives but from management action as well. For example, several officials cited instances in which the Congress prohibited USDA from closing individual state and local farm program offices, effectively preventing the Secretary from making relatively small organizational changes. In some USDA agencies, closing a small office literally requires "an act of Congress."

APPENDIX III

Leadership Needed to Manage Cross-Cutting Issues

Faced with many internal and external constraints, USDA managers are struggling to deal with the growing number of important policy issues that require close coordination of several departmental agencies, other federal departments, and agribusiness. These newer issues cut across both agencies—the traditional level of policy implementation—and assistant and under secretarial responsibilities. In addition, all of the emerging cross-cutting issues require coordination with other departments and agencies such as Commerce, State, the Environmental Protection Agency, and the Food and Drug Administration. While USDA has tried several mechanisms within its existing organizational structure to manage these issues, we found many indications that its efforts are not fully successful. Our review of three such issues—biotechnology, water quality, and marketing—from a departmental perspective uncovered a number of difficulties encountered by USDA in coordinating and managing these issues. Table III.1 provides an overview of these three cross-cutting issues facing USDA.

These three issues are important to the future of American agriculture. Biotechnology offers the potential for revolutionizing domestic and international agriculture production and improving the quality and quantity of the nation's food supply. Water quality is of concern to federal, state, and local governments throughout the country, with agriculture often cited as a major contributor to groundwater contamination. Marketing's role will be heightened in the future given the current federal budget pressure to reduce agricultural support programs, the impact of international trade agreements to reduce trade barriers, and the need to maintain market shares. This appendix details our examination of USDA's efforts to manage these issues.

Table III.1: Examples of Cross-Cutting Issues Facing USDA

Cross-cutting issues	Departmental strategy	Status	Implications
Biotechnology	Developed a general policy; created a separate central office to oversee and coordinate implementation	Involved 8 agencies under 4 assistant secretaries Central office staffed with temporary and detailed employees Interagency conflicts continue	Research and regulatory conflicts jeopardize nation's competitive edge
Water quality	Developed a general policy; yet to develop a mechanism for policy implementation	Involved 9 agencies under 2 assistant secretaries Implementation left up to individual agencies	Cohesive policy needed to deal with growing public concerns and minimize impact on future production practice
Marketing	No mechanism for general policy implementation; no strategic approach to priority-setting	Involved 9 agencies under 3 assistant secretaries and 1 under secretary Top management unclear as to USDA's marketing role USDA policies, programs, and activities remain production-oriented	Marketing orientation is key to increasing profitability of the farm sector Major implications for future farm program and USDA organizational mission

Biotechnology

Biotechnology holds great promise for improving the quality and availability of the nation's food and fiber supplies, improving our position in international markets, and enhancing the quality of our natural resources. Biotechnology can help farmers grow crops that can better withstand droughts and pests and raise animals that produce more nutritious meat. Through biotechnology farmers may be able to lower their costs of producing milk and other products. Lower production costs could help U.S. farmers compete in foreign markets and improve their profitability.

USDA has a major leadership role in agricultural biotechnology and must interact with other federal departments, state agencies, universities, agribusiness, and the public if it is to help fulfill the technology's promises. However, certain research and regulatory problems hinder the Department's ability to address this important issue. USDA has not committed sufficient resources nor taken steps to minimize the friction between agencies responsible for developing the technology and those responsible for protecting the public's interests. USDA also does not have a Department-wide plan that integrates the activities of its many agencies into an overall biotechnology strategy. Given the divisions existing within the Department over the direction biotechnology should take—

including the conflict between agencies responsible for promoting the technology through research and other agencies responsible for regulating the environmental and food safety of such research—it is unlikely these divisions will be resolved without Secretarial intervention.

Biotechnology's Promise

Modern biotechnology promises to stimulate an agricultural revolution as significant as any that has already occurred. By using new techniques for transferring genes from one organism to another, agronomists can produce plants that can better resist insects, disease, and drought; meet consumer nutritional needs; or provide their own nitrogen fertilizer. Genes can be added to crops so that they last longer on supermarket shelves without preservatives, and can be added to animals so that they produce leaner meat or more milk at lower costs to farmers and consumers.

Biotechnological techniques can also enhance farmers' adaptability to changing market conditions. Researchers can transfer genetic material and see the results much more quickly than by growing a new product conventionally. This faster turnaround in research results means that new and improved products can be brought to the commercial market more quickly than previously possible.

Limited Central Office Success

USDA has adopted a "band-aid" approach to meeting the management challenges associated with its biotechnology activities. First, it assigned responsibility for biotechnology to the Assistant Secretaries for Science and Education and for Marketing and Inspection Services. It also created an interagency coordinating committee chaired by these assistant secretaries to discuss common areas of interest and provide advice on agricultural biotechnology-related regulations and research. However, after 1987 internal studies reported problems with this structure, the Secretary created an Office of Agricultural Biotechnology to coordinate agencies' activities and support the interagency committee.

Eight USDA agencies are involved in biotechnology activities. The activities are summarized as follows:

- Agricultural Research Service (ARS), Cooperative State Research Service (CSRS), Forest Service, and Economic Research Service (ERS), which as part of their ongoing mission-related activities, conduct or sponsor

research in basic biological science, genetic material and transfer techniques, and the economic implications of genetically modified crops and timber.

- Animal and Plant Health Inspection Service (APHIS), which issues permits for transportation and testing of genetically engineered organisms, and Food Safety and Inspection Service (FSIS), which regulates the quality of meat and poultry products from conventional and genetically engineered animals.
- The National Agricultural Library and the Extension Service, which disseminate information related to biotechnology to the public.

USDA's July 1987 internal study concluded that, despite the efforts of its interagency coordinating committee and supporting work by a small Office of Agricultural Biotechnology, which reported to the Assistant Secretary for Science and Education, USDA agencies continued to perceive that the Department favored the program's research activities over regulatory concerns.[1] A supplemental August 1987 study concluded that reorganizing the coordinating office to report to the Deputy Secretary could reverse this perception and enable the Office to independently coordinate biotechnology activities.[2]

Although USDA implemented this recommended reorganization, the Office of Agricultural Biotechnology has only partially succeeded in improving the Department's management of biotechnology activities. A 1988 Inspector General's report stated that (1) the Office could be more effective by having its authority for coordinating USDA's biotechnology activities clarified, (2) USDA had not developed uniform definitions of key biotechnology terms needed for effective program oversight and management, and (3) USDA needed to complete guidelines for field trials conducted outside the laboratory.[3] The report noted that the Office must have a clearly defined role within the Department if it is to effectively carry out its responsibilities.

The Office also has not developed a Department-wide program plan for biotechnology. Such a plan would integrate the activities of the eight agencies involved in biotechnology by identifying goals, milestones, and

[1]"Report of the U.S. Department of Agriculture Biotechnology Management Working Group," July 17, 1987.

[2]"Report of the USDA Biotechnology Management Working Group: Options for Functions and Organizational Location of the Office of Agricultural Biotechnology (OAB)," Aug. 21, 1987.

[3]Coordination and Control Over Agricultural Biotechnology: A Study Prepared by USDA's Office of Inspector General, Dec. 1988.

resources needed to achieve these objectives. The Office of Agricultural Biotechnology's deputy director told us the Office has not had sufficient staff to develop such a multiagency plan. Instead, this Office's three full-time staff members, supplemented by individuals temporarily detailed to the Office, have focused their limited resources on training new staff members, coordinating agencies' technical and regulatory reviews of biotechnology field experiments, and providing support for representatives on the USDA and governmentwide biotechnology coordinating committees.

Focused Top Management Attention Needed to Meet Future Challenges

Several factors and impending decisions make efficient management of agricultural biotechnology essential. First, the introduction of biotechnology into agriculture is almost inescapable. The United States is in a race with other industrialized nations to commercialize biotechnology applications to serve consumer markets worldwide. This competition will affect the complexity of USDA's regulatory activities and influence the tradeoffs it will likely be forced to make between research and regulatory activities.

Second, because biotechnology also has implications for the environment, many USDA agencies have a role in its development and oversight. Traditional price support and conservation agencies may find themselves unexpectedly involved in biotechnology. For example, the introduction of insect-resistant crops will reduce the need for pesticides, making it possible to improve water quality by encouraging farmers to use these plants. If these new varieties are less economical than conventional strains, ASCS may have to help SCS achieve its environmental objectives by modifying crop-support prices to encourage farmers to use these genetically enhanced varieties. It is also possible that, in the absence of improved marketing techniques and expanded exports, increased agricultural production resulting from the application of biotechnology will make crop-support programs more expensive and difficult to manage.

In a related area, USDA agencies are planning a major project to identify the genetic structure of agricultural plants. Management decisions on the scope and timing of the project will directly affect the nation's future biotechnology progress and the overall quality of its agricultural research system.

Finally, public fears of the unknown can materially alter a technology's evolution. If biotechnology is to be commercially accepted, more attention and resources will have to be devoted to marshal public support.[4] USDA may find it difficult to educate the public on biotechnology's promise without being judged as its promoter. Such a turn of events would jeopardize USDA's capabilities to act as a credible regulator of the technology.

Water Quality

Water quality is also a significant cross-cutting issue. The agriculture sector is a major contributor to the degradation of water quality from non-point pollution sources through its use of pesticides and fertilizers.[5] Efforts to minimize agriculture's impact on water quality will surely alter future production practices. USDA has developed an overall strategy covering its nine agencies with responsibilities in this area; however, implementation of the strategy continues to reflect individual agency programs. Again, as in the case of biotechnology, more Secretarial involvement will facilitate interagency coordination of water quality activities.

Growing Concern for Water Quality

Concern over the quality of the nation's surface and groundwater is growing. Water quality is the primary concern of state environmental health officers. A USDA survey indicates the public blames agricultural chemicals for much of the groundwater degradation. USDA estimates that nearly half of all U.S. counties in the continental United States have a potential for groundwater contamination from agricultural chemicals. In these counties, an estimated 50 million people rely on groundwater sources for their drinking water. The President has made water quality a priority and is proposing programs to meet the immediate need to halt contamination and the future need to alter fundamental farming practices.

Almost all areas of agricultural production are likely to face changes because many diverse production activities contribute to water contamination. For example, runoff from cropland, pastures, barnyards, feedlots, and forests carries pesticides, fertilizers, and waste into rivers, streams, and aquifers. In addressing water quality concerns in these

[4]See Biotechnology: Agriculture's Regulatory System Needs Clarification (GAO/RCED-86-59, Mar. 25, 1986).

[5]Non-point pollution refers to pollution created at a non-specified source.

various activities, USDA has responsibilities for research, education, technical and financial assistance, and data base development, spread among nine separate USDA agencies. The diversity of responsibilities within these agencies demands an integrated approach to water quality policy.

Department-Wide Policy Development Now Completed

USDA progress in developing a comprehensive water quality policy has been slow. The Department's initial efforts at coordination included compiling a list of its water quality programs, agency by agency, at the request of the Office of Management and Budget (OMB). OMB rejected USDA's proposals on the grounds that they did not represent a cohesive, Department-wide approach to the water quality problem. However, using an ad hoc task force, USDA has now completed a departmental strategy. The Secretary established the task force—the Working Group on Agricultural Chemicals and the Environment (WGACE)—to undertake a Department-wide review of its various policies and activities relating to agricultural chemicals and the environment, including water quality. Comprised of representatives of USDA agencies with water quality programs, WGACE had a major responsibility to identify USDA water quality activities. Many agencies were surprised to learn of the various activities of other USDA agencies. The work of WGACE resulted in a more comprehensive USDA water quality initiative, which was designed to improve coordination among USDA agencies in water quality. The task force initiative was resubmitted to OMB and has subsequently been accepted by OMB and the Congress. USDA's water quality initiative is aimed at developing improved farming practices to maintain water quality and assisting farmers in adopting these techniques. The Department's strategy is focused on targeting research, improving data bases, and enhancing technical assistance and education efforts to assist farmers.

Integration Must Continue in Implementation

Although USDA now has a Department-wide water quality strategy, it does not have a mechanism for promoting and monitoring individual agencies' implementation of the ad hoc task force's recommendations. The former WGACE chairperson noted that task forces were good at raising policy issues but that agencies proceed with implementation on the basis of their own interpretations of the policy discussions. Currently, each agency conducts its water quality activities according to its principal mission and functions instead of USDA's objective.

Integration is left to the individual agencies and, in turn, to their individual managers. A task force advisor described USDA's implementation

approach for water quality as an orchestra that is playing without a conductor, suggesting that some formal coordination or focal point was needed. The former chairperson also suggested that an institutional mechanism for implementing cross-cutting, multiagency programs, such as water quality, was needed. For example, he said that a staff of agency representatives could be very helpful in ensuring that the overall policy direction was carried through in each agency's implementation. As with the development of the water quality initiative, the Secretary's commitment is crucial to the integrated implementation of water quality programs.

Marketing

While some progress has been achieved in organizing USDA's structure to address the issues of biotechnology and water quality, little or no action has been taken to better organize USDA to address its role in improving the marketing of U.S. agricultural products. The United States' historical dominance in international agriculture trade no longer exists, and increased competition from abroad in U.S. food markets has hastened the call for a more competitive U.S. food/fiber sector. Future changes in foreign trade policies are likely to increase this demand. USDA, however, lacks a coordinated, multiagency strategy to assist agribusiness to be more marketing-oriented, a key ingredient in enhancing competitiveness. The Department's menu of policies, programs, and activities remains fixed on production enhancement at the expense of a more comprehensive marketing strategy. Recent USDA conferences and publications show an increasing awareness of the importance of marketing; however, our review shows minimal leadership in this area.

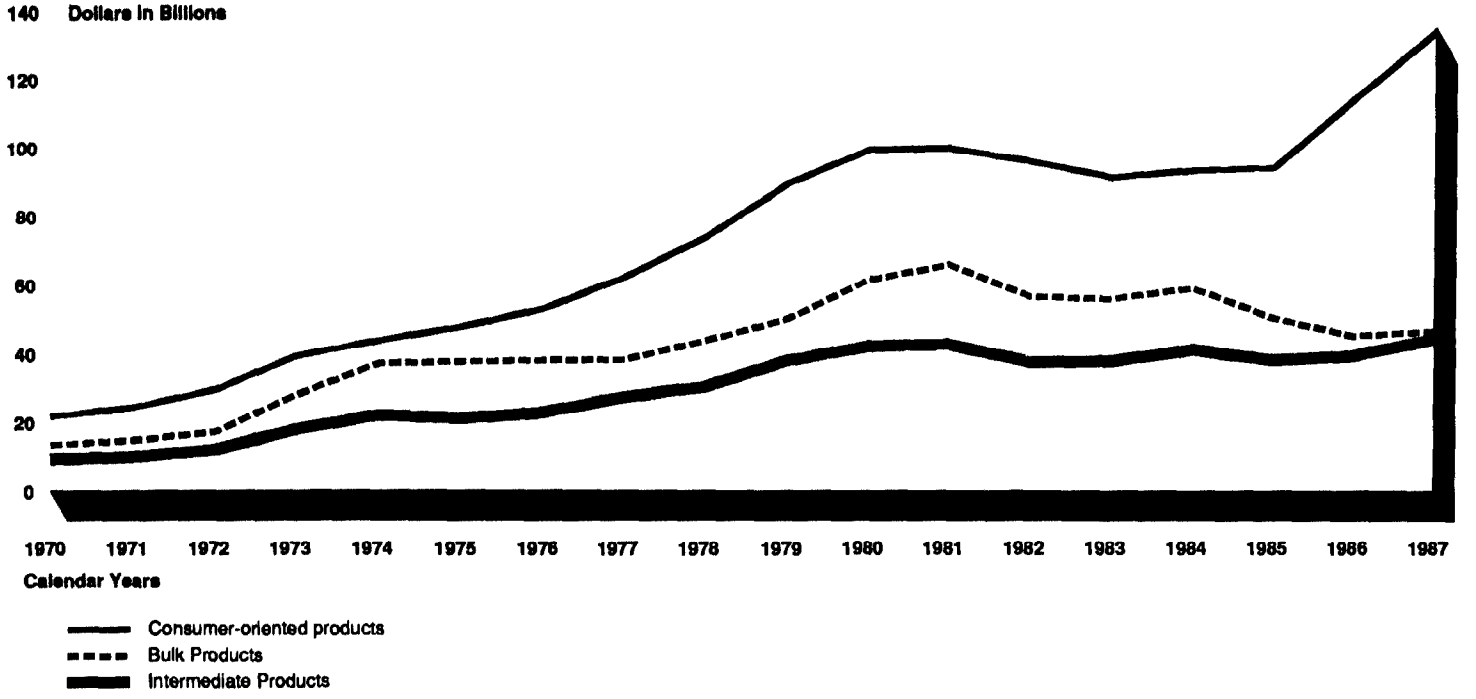
U.S. Agricultural Position Slipping

Long the dominant supplier in international markets, the United States' competitive position has slipped significantly in recent years. U.S. producers remain the leading supplier of bulk agricultural commodities but are falling behind in the area of fast-growing consumer-oriented products, which are end products that require little or no additional processing for consumption. This category reflects the increasing global trend toward producing products for specific needs.

Bulk commodities accounted for only 29 percent of the $251 billion in agricultural products traded globally in 1987. Of the remainder, 18 percent were intermediate products (semi-processed products in the intermediate stage of the food chain) such as wheat flour and vegetable oils. Fifty-three percent were consumer-oriented products such as table eggs

or fresh and processed fruits and vegetables. During the 1980s, consumer-oriented product trade grew by more than 3 percent, or $3.7 billion a year, compared with less than 1 percent for both bulk and intermediate products. (See fig. III.1.) A shift to balanced participation in all product markets would require U.S. producers to develop new strategies for operating in competitive world markets.

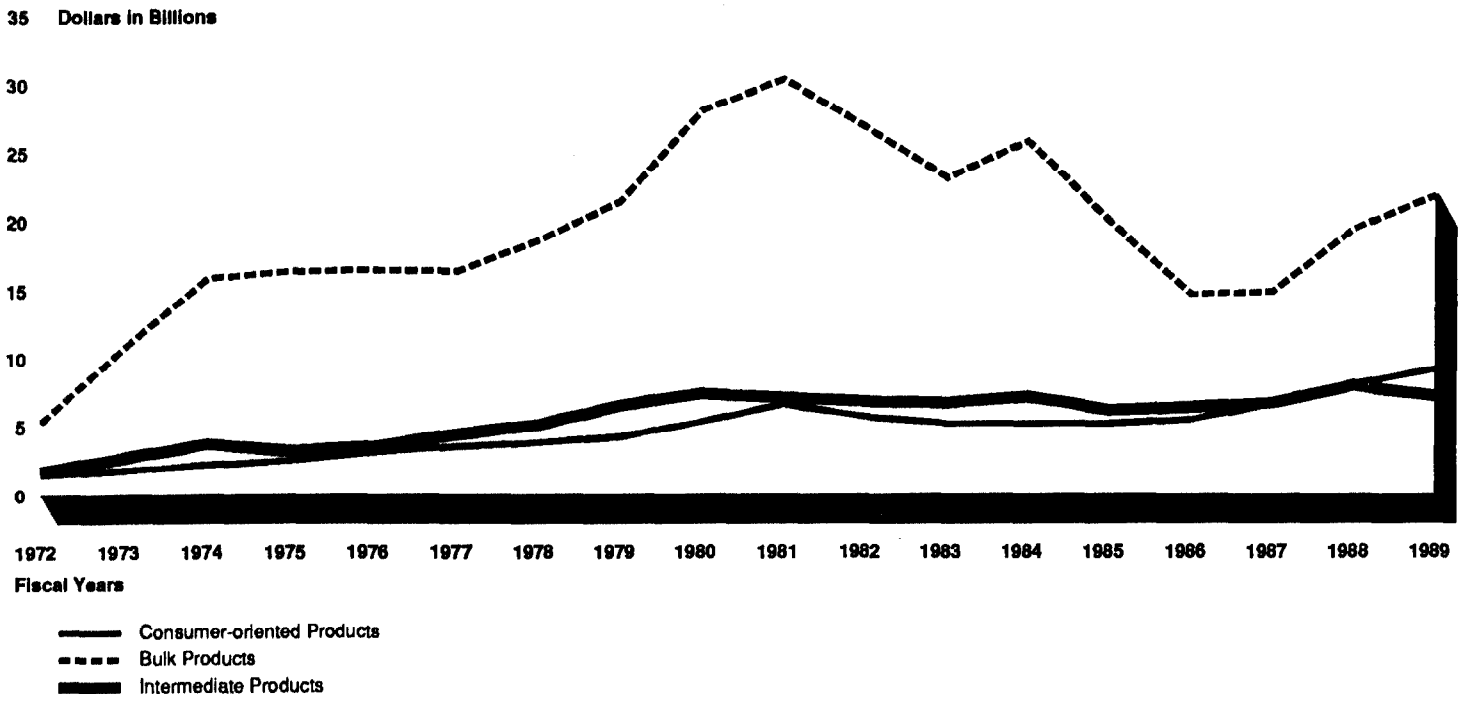
Figure III.1: Expansion in World Agriculture Trade Greatest in Consumer-Oriented Products



Note: World trade in bulk tropical products such as green coffee and cocoa are excluded to more closely approximate world trade in the commodities that the United States competes in.
Source: USDA/FAS.

As shown in figure III.2, U.S. performance in the 1980s reflects the high risk of focusing on the export markets for bulk commodities, reflecting the foreign debt problems in developing countries.

Figure III.2: U.S. Agricultural Exports by Product Category, 1972-87



Note: Data for 1989 are estimated.
Source: USDA/FAS.

Government payments have historically discouraged marketing initiatives and encouraged the overproduction of subsidized bulk commodities. The subsidies helped U.S. farmers survive the 1980s farm depression. However, the government payments, which provided a ready market for bulk commodities, reduced incentives for participating farmers to consider marketing techniques as a way to promote product sales. If, as some have suggested, subsidies for commodities are reduced, producers will have to identify world markets for their products, as several other major agriculture-producing countries have begun to do. For example, although a combination of processing and export subsidies are significant contributors to the success the European Community and other countries have had in expanding their market shares, marketing techniques have often played a major role. Countries relying on marketing techniques to expand their markets generally utilize a strategic marketing approach. This approach is better tied to success in competitive

world markets because it starts with identifying customer needs and works backwards to the producer.

The outcome of future trade negotiations could increase the importance of the United States' becoming more competitive and concentrating more on improved marketing techniques. For example, in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) negotiations, the United States is pressuring other countries to reduce or end their export subsidies for agricultural products, improve market access, and develop standardized guidelines for imposing health and sanitary regulations. The European Community and other exporting countries have also called for reduced subsidies and a move to market-oriented agricultural trading. The goals, according to the Secretary of Agriculture, are to eliminate distorted trading practices that create incentives for uneconomic production and to create a level playing field for American farmers and exporters. Other international trade agreements, such as the U.S.-Canada trade accord, will also open new markets to producers. The United States' success in this open marketplace will depend in no small way on how effective U.S. agriculture interests are in devising and implementing global marketing strategies.

USDA Lacks Marketing Strategy

USDA's farm programs have long focused on enhancing or controlling farm production. Many leaders and politicians point with pride to the fact that one farm worker provides food and fiber for 75 people and that U.S. consumers spend less of their disposable income on food than any other people. However, efficiency in the production sector, largely the result of decades of USDA research and application of production advances, does not guarantee the profitable marketing of products. Increasing production efficiency is only a partial solution to enhancing U.S. competitiveness, according to many observers. The United States must also increase the efficiency of its marketing systems to ensure that product quality, distribution channels, credit systems, promotional activities, and price are meeting the needs of the customers in targeted markets.

Yet, many questions have been raised regarding USDA's willingness and ability to exercise leadership in developing a clear strategy for assisting the farm sector in becoming more marketing-oriented. No single agency, under secretary, or assistant secretary has either the authority or the responsibility to comprehensively address the strategic marketing issue.

Our discussions with 36 senior USDA management officials revealed a lack of consensus about USDA's marketing role. For example, an Assistant Secretary told us that he would have difficulty determining what to do if USDA were changed into a marketing agency. His deputy stated that he sees USDA's traditional marketing agency, the Agricultural Marketing Service, as a 1930s-oriented domestic regulatory agency unprepared for dealing with the global marketing issues of the 1990s. Another senior official said that strategic marketing has become the main focus within the Foreign Agricultural Service (FAS) since the 1985 farm bill, but that there is confusion within FAS concerning its mission. Other senior USDA officials used the marketing term in various contexts, such as selling surplus commodities, promoting their individual organizations, or ensuring a fair domestic marketplace. Only a few of the senior management officials used the term in a strategic marketing context.

No agency has taken the lead in developing a Department-wide strategic marketing approach. FAS, an agency of less than 800 employees, has the lead on implementing international trade programs. However, the Service's programs do not comprise the Department-wide initiative necessary for USDA to lead agribusiness under a strategic marketing approach.

The Extension Service (ES), which conducts educational programs to help farmers and agribusiness apply the results of food and agriculture research, is also developing a strategic marketing focus. Through its National Priorities Initiatives process, ES discusses strategic marketing concepts in three of its eight long-range initiatives developed since 1986 and proposed a major role for itself in guiding the Department's resources toward a strategic marketing orientation. Because the Extension Service works at the "grass roots" level in over 3,100 county offices, great potential exists to educate farmers and agribusiness in strategic marketing techniques. However, ES coordination efforts with other USDA agencies have only recently begun, so that the potential is unknown. Moving to a strategic marketing approach would require a cooperative and coordinated effort at all levels of USDA management and has major implications for a number of USDA programs. Yet, as with other cross-cutting issues, the Department has shown little of the leadership necessary for bringing agencies together to update, develop, and implement approaches to addressing USDA's role in marketing agricultural products.

Weaknesses in Management Systems Constrain Program Delivery

Weaknesses in basic management systems limit USDA's ability to meet its responsibilities most effectively. At the departmental level, USDA lacks an effective planning and evaluation process, which impedes top management's ability to implement and oversee important initiatives. Within the agencies, operating units are often poorly prepared to recruit, train, and retain a work force for the future; heavy investments in information technology for improving program operations have left managers information poor; efforts to modernize financial systems have been uneven; and USDA continues to maintain a field structure that, although responsive, may not be as effective as it could be and is costly, inefficient, and possibly inappropriate for the long run.

Table IV.1 details USDA's major management systems and summarizes the results of our work.

Table IV.1: Major Management Systems in USDA

Systems	Departmental strategy	Status	Implications
Planning, budgeting, and evaluation	Delegated responsibilities to individual agencies Rely on small central offices to provide advisory services	Central offices lack authority and resources needed to direct operations	Few tools available for measuring Department-wide performance Does not ensure a Department-wide perspective
Human resources management	Delegated responsibility to individual agencies	Little strategic work force planning Training and recruitment efforts vary from agency to agency	Agencies' preparation for future varies
Information resources management	Focused on improving efficiency of individual agency operations Central office is primarily advisory	Heavy investment in information technology but little emphasis on integrative approaches to policy-making and decision-making	Need for compatible systems for cross-cutting issues not emphasized Top management lacks consistent and reliable Department-wide information
Financial management	Delegated responsibility to individual agencies	Modernization effort underway, but programs uneven across agencies No long-range financial management plan	System weaknesses impair management accountability
Farm program delivery	Maintain traditional field office structure	Studies recognize need to streamline, but little action because of political constraints	Responsive but expensive and inefficient field structure system

Planning, Budget, and Evaluation Systems

USDA has historically delegated responsibility for planning, budgeting, and evaluation to individual agencies. As a result of this delegation, USDA is without a Department-wide planning perspective, assembles a budget that primarily reflects agency priorities, and lacks performance

measurements for monitoring and tracking Department-wide activities. These conditions leave the Secretary with few tools for overseeing performance from a departmental perspective. Although USDA has a number of central offices with responsibility in these areas, their roles are largely advisory. They lack the authority and resources to direct and control the operation of basic management systems.

Planning

USDA engages in little central planning; most planning activity occurs at the agency level and is generally short-term. According to USDA officials, little incentive for long-term planning exists because legislation, policies, and regulations are constantly changing. Also, officials told us that the unpredictability of the weather and the economy are major influences on agricultural conditions and policies. These influences render planning too imprecise to be useful. A current and a former USDA official also told us that USDA Secretaries have historically shown little support for long-term planning.

The Budget Process

The budget process can be an important device for translating policy goals into required departmental actions and resource needs. In USDA, budgeting has historically been a compilation of individual agencies' budgets, with limited front-end guidance on how agency submissions are to support cross-cutting issues. For example, instructions governing the initial agency budget submissions largely address format and procedural matters. Secretarial influence on budget content comes from the daily interaction between the Secretary and his senior managers and through the more formal budget review process. During the budget process, the budget office, the Deputy, and, eventually, the Secretary, review agency budget submissions, making changes reflecting the departmental perspective. In spite of the intensity of this effort, the size and complexity of USDA's budget mitigates against making extensive changes in the agencies' original submissions. Thus, for the most part, the budget remains a creature of the individual agencies' priorities and missions.

USDA's elaborate budget structure also limits the Secretary's flexibility to shift funds from one account to another. USDA does not operate on a single budget; rather, there are over 200 appropriations accounts. The Office of the Secretary itself is budgeted under 12 separate appropriation accounts. Flexibility for shifting resources among these numerous accounts is greatly restricted, often to emergencies, such as forest fires or disease/pest problems, making the need for Secretarial guidance on budget priorities even more important.

Monitoring Performance

USDA lacks Department-wide, key performance measurements. Instead, the Office of the Secretary relies on existing performance measures at the program and/or agency level or, if needed, asks for ad hoc assessments. Although the Office of the Assistant Secretary for Administration tracks productivity measures, these measures primarily assess administrative activities rather than program results or mission attainment. For example, in an attempt to reduce its motor vehicle costs, USDA conducted a productivity review of its motor vehicle management services, including consideration for contracting out.

In addition, USDA agencies have developed quantitative program measurements but have been challenged by the difficulty in defining and developing quality measures. For example, ASCS developed a productivity improvement program to improve its county office operations, which, according to OMB officials who monitored the effort, provided adequate quantitative measures of productivity but little useful information about the quality of services provided. Recognizing the need for quality performance measures, USDA has elevated the importance of developing quality and timeliness performance measures.

Recent USDA attempts to develop a Department-wide tracking system to measure performance were sidelined, partly because officials believed that external, uncontrollable factors (e.g., weather) heavily affect the success of the Department's programs.

Evaluation Activity

USDA has reduced the emphasis given to Department-wide evaluations over the years, and has shifted that function to individual agencies. A USDA official told us it is difficult to elevate program evaluation to the Department level because of the large number and variety of programs. In addition, USDA interest in Department-wide evaluations is not steady, but "ebbs and flows" with different administrations.

Some officials expressed the view that the Secretary should reassess the emphasis being given to evaluation efforts to determine whether additional evaluations of key departmental activities would enable the Secretary to exert more informed leadership over policy decisions. As discussed below, management systems, such as human and information resources, financial management, and organizational structure, could all benefit from increased emphasis and leadership from the Secretary.

Human Resources Management

USDA's work force is facing many operational and program changes while departmental responsibilities are increasing and becoming more complex. With over 110,000 full-time employees working in over 15,000 locations in about 375 occupational categories, the responsibility for ensuring that employees are recruited, trained, and retained is no small chore. These duties are currently delegated to individual agencies, with the central personnel office maintaining primarily an advisory role, concerned for the most part with traditional administrative matters. The Office of Personnel retains responsibility for the following functions: (1) the Senior Executive Service, (2) the noncareer work force, (3) ethics in government requirements, and (4) discipline of higher-level employees. In addition, the Office of Personnel serves as the personnel office for the central offices. We believe that basic human resources management reform in USDA is not likely to materialize in the absence of strong top management leadership and attention because of the highly decentralized structure governing human resources decisions.

USDA Faces Critical Work Force Issues

The most critical work force issues facing USDA stem from growing responsibilities, a decreasing budget and staff, and demographic changes in the work force. The effect of these changes has been an increased work load and the need for new skills because of programmatic shifts and new technology.

Staffing and Work Load

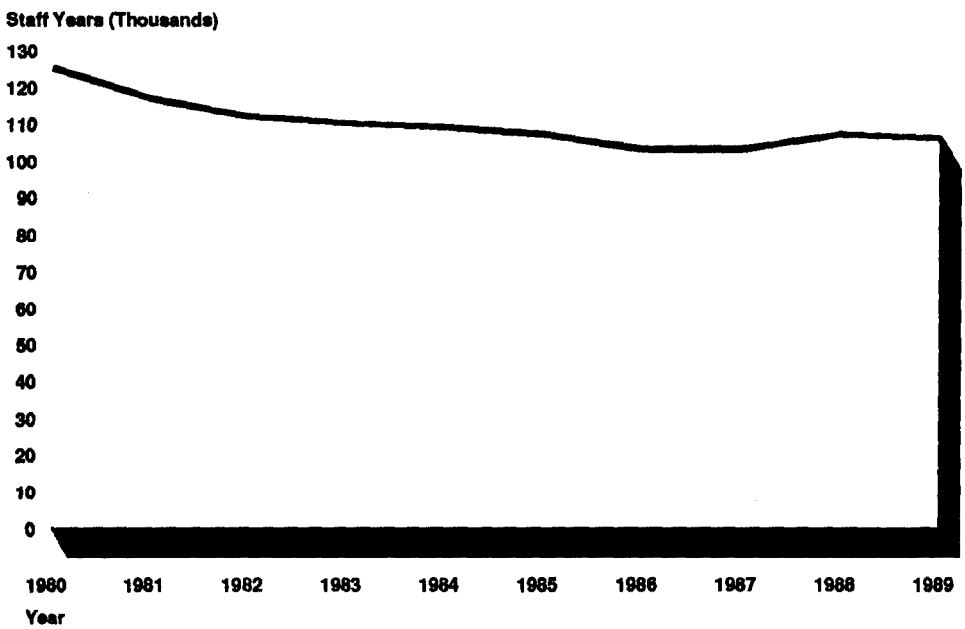
USDA's staffing declined 15 percent between 1980 and 1988. Figure IV.1 illustrates USDA's staffing trend.

While staffing at the farm agencies has not decreased as significantly as the Department-wide staffing levels (see fig. IV.2), all agencies have to deal with increasing work loads. For example, in a recent report on ASCS' progress in implementing the 1985 farm bill,[1] we discussed ASCS' difficulties in handling the increased work load resulting from the farm bill.

The increase in work load, given current staffing levels, has had a negative impact on program delivery. For example, ASCS has had difficulty implementing the increased payment and loan-making work load under the 1985 farm bill. USDA's Inspector General found that ASCS county offices had not complied with procedural requirements for some loans, had inadequately performed and documented spot checks in some cases,

[1] Agriculture: Progress Made Toward Goals of the 1985 Farm Bill (GAO/RCED-89-76BR, Mar. 30, 1989).

Figure IV.1: USDA Staff Years

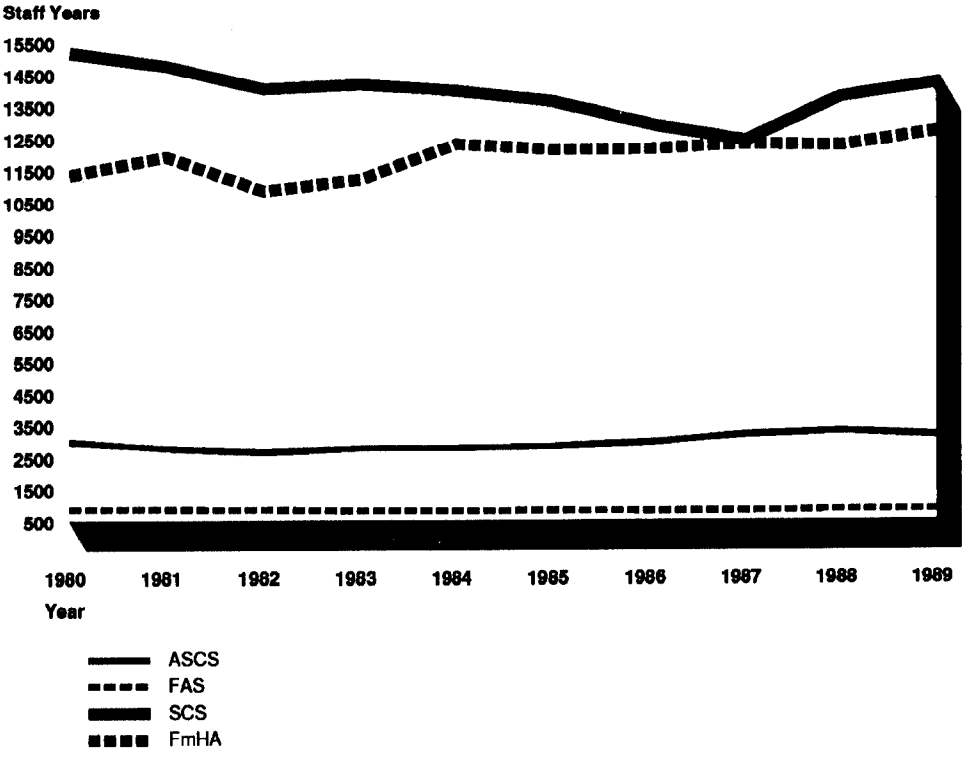


Note: 1989 staffing level is estimated.
Source: USDA.

and neglected to lock up payment-in-kind certificates or mark certificates as paid—thus leaving the certificates fully negotiable. These lapses were attributed to the severe time constraints and increased work load that ASCS employees were placed under by the farm bill. Our recent review of ASCS found similar results. The Inspector General also found that Farmers Home Administration (FmHA) field offices did not always follow mandated procedures for maintaining records and ignored routine servicing of loans until delinquency actions became necessary, thereby jeopardizing agency securities. The Inspector General attributed these problems to staff shortages.

Work load levels may affect USDA's ability to implement new policy or program emphases. For example, the Soil Conservation Service (SCS), one of the agencies delegated responsibility for providing technical assistance to farmers for water quality concerns, estimates that about 96 percent of its field staff will be required to implement existing farm bill requirements through the early 1990s. Therefore, only a small staff is available to respond to emerging issues such as water quality.

Figure IV.2: Farm Agency Staff Years



Notes:1989 staffing level is estimated.

Figures do not include ASCS county employees, the number of which has increased from 12,919 staff years in 1980 to 17,393 staff years in 1988. While ASCS county staff are paid with federal funds, they are not federal employees and are not counted as such.

Source: USDA.

Shifts in Program Mission Require New Skills

Coupled with an increasing work load, USDA also faces some fundamental shifts in program emphasis. For example, USDA has taken on a growing role in biotechnology, food safety, and other technical areas requiring an expanding research emphasis. Similarly, USDA is tackling the issue of water quality—a new mission for several agencies. Finally, USDA is attempting to shift to an increasing market orientation for international trade. Changing program missions will require USDA to assess its human resources to determine (1) the skills necessary to implement the missions, (2) the number of staff needed, (3) if the current work force can meet the needs (taking projected turnover into account), and (4) the

human resource management activities to be undertaken to ensure that the necessary work force is available.

Technology is increasingly important to USDA. All agencies servicing the farmer have been equipped with computers. Both field offices and USDA headquarters organizations have stated that they are relying on automation to improve productivity and hence minimize the need for additional staff. However, equipment purchases per se will not increase productivity—USDA needs to ensure that all staff, including field staff, are trained to use the technology. To effectively use available technology, USDA will need more staff with specialized skill requirements to design and carry out information systems for its programs. However, with the current federal personnel structure, which limits salaries for various occupations, USDA already faces difficulty in recruiting and retaining some technically qualified people.

In addition, some agencies are implementing modernization programs that involve increasing reliance on technology. These programs will change the basic nature of the agency's work. For example, the Food Safety and Inspection Service (FSIS) has recognized a need to update its inspection programs to shift its focus from visual inspections to identifying bacterial contaminants that require technical laboratory analyses. This effort has major human resource implications because an entirely different set of skills is needed. The Service has instituted a major training effort for its staff.

Further, each of the nine agencies responsible for implementing USDA's water quality initiatives will have to identify the skills it requires and train present staff or recruit new employees in those areas. The SCS, for example, has determined the need to upgrade its staff at its technical centers and state offices. It has also identified the need for the expertise of water quality specialists, chemists, hydrogeologists, pesticide specialists, soil physicists and chemists, geologists, computer modelers, computer programmers, system analysts, data base managers, and trainers.

Finally, a shift to an increased marketing emphasis will require some staff redirection in the Foreign Agricultural Service and other agencies. Staff will require additional training in marketing, and/or the affected agencies will have to modify recruiting patterns to select more people with marketing backgrounds.

USDA's Work Force Is Likely to Include More Women and Minorities

USDA, along with other federal and nonfederal agencies, will need to address the demographic implications of population and cultural shifts described in the recent Workforce 2000 and Civil Service 2000 reports.[2] These reports discuss trends affecting the future work force. For example, the reports note that the competition for well qualified workers will become more intense during the 1990s. Second, a growing share of federal jobs will fall into the most highly skilled, most competitive categories. In addition, the growing role of women and minorities in the work force will require continued attention because USDA has traditionally been a white male organization, drawing employees from the agricultural community, itself heavily white and male. USDA recognizes this concern. A recent Secretary made equal employment opportunity (EEO) one of the most important priorities of USDA. However, USDA has not reached its goals in this area, and USDA officials have stated that USDA will need to continue to emphasize recruiting, developing, and retaining the most qualified women and minorities. USDA will also need to develop new supervisors and managers. However, USDA officials have expressed concern about the ability of the current supervisory and managerial development programs to yield strong supervisors and managers.

Strategic Work Force Planning Is Lacking

USDA has yet to develop a comprehensive and structured approach to human resource management, relying instead on the individual agencies to conduct work force planning as they deem necessary. However, the four USDA agencies we reviewed have done very little to implement their work force planning responsibilities.[3] Under the current system for work force development, the agency budget offices develop their annual staffing ceilings with information from the program offices. Budget offices are also responsible for determining the types of staff needed in various locations. Some agencies, such as ASCS and FmHA, have formal work load measurement systems to guide these decisions. Other agencies, including FAS and SCS, rely on managerial assessments of work load. In any case, the assessments are based on the past year's work load and generally do not reflect the effect of desired programmatic changes on work force requirements beyond the next year. The budget office then provides these annual staffing requirements to the agency personnel office, which is charged with recruiting new staff and training existing staff to meet needs defined by the program offices. The agency personnel

[2]Workforce 2000: Work and Workers for the Twenty-first Century, The Hudson Institute, June 1987. Civil Service 2000, The Hudson Institute, prepared for the U.S. Office of Personnel Management, June 1988.

[3]SCS, ASCS, FmHA, and FAS.

offices, which have the most detailed knowledge of human resource issues, are not involved in developing staff needs nor in planning the most effective approach for using human resources to meet agency missions.

Strategic management of human resources could subtantially aid the Department in meeting future policy and program requirements. Under such an approach, all managers, including those at the highest levels, are actively involved in planning for the future of the organization—as opposed to the current year-by-year, backward-looking approach—and for the mix of management and employee skills that will be required to reach articulated goals. Traditional "personnel" functions such as recruitment, training and development, EEO, and performance appraisals are related to the attainment of organizational goals and objectives. Although we believe USDA could benefit from a more strategic approach to human resource management, the decentralized nature of the Department presents major obstacles to such an approach unless or until the Secretary takes an active role in the process.

Information Resources Management

USDA's heavy investments in information technology over the past few years have yielded gains in program efficiency and productivity improvements. These gains, however, have not been coupled with corresponding improvements in approaches for using information technology for problem-solving and decision-making. Our findings suggest that, while developing its information resources and improving program efficiency, USDA also needs to consider how to satisfy the increasing and changing information demands of top management through the development of integrated systems. Further, while USDA agencies increasingly have to work together to address issues cutting across agency lines, the integration of program and information resource management (IRM) planning necessary to ensure that information collected and processed by one agency or program unit can be used by other agencies or programs has not kept pace. The failure to integrate the various information systems has resulted in unnecessary expense and duplication. USDA has a central office with responsibility for optimizing the benefits of information technology in the Department. However, this office lacks the authority necessary to overcome the problems caused by USDA's traditional approach to managing information resources.

Information Technology Should Focus More on Managerial Needs

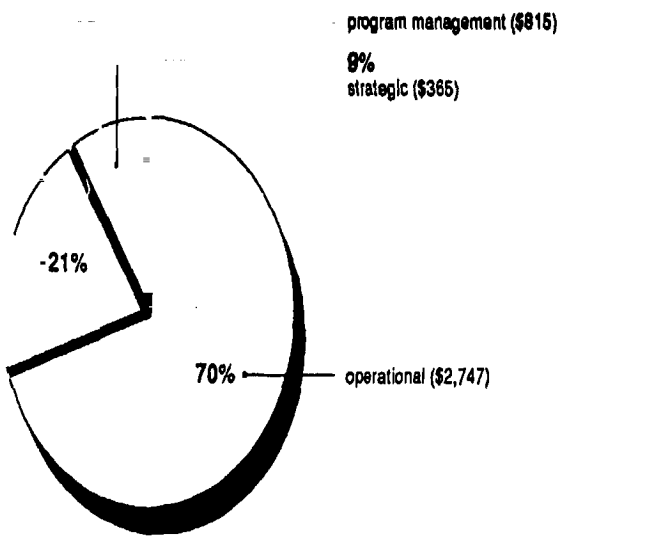
While USDA's information technology continues to support productivity improvements in delivering program benefits and services to farmers, its automated information systems are not adequately supporting the information needs of program managers and decision-makers. As shown in figure IV.3, USDA plans to spend $3.9 billion in information technology over the next several years. Approximately $2.7 billion, or 70 percent of the total, will support field-level and agency-specific operational activities; $815 million, or 21 percent, will support program management; and $365 million, or 9 percent, will support strategic management activities. While automation has resulted in productivity gains in processing transactional data at the field level, it has not produced a corresponding improvement in the timeliness and quality of information needed by intermediate- and top-level managers for decision-making. Decision-makers' needs are not met because these systems are beset by serious weaknesses. Some of these weaknesses are that (1) systems frequently cannot aggregate field-level data for timely reporting to headquarters, (2) system components to array the field-level data bases to meet requirements for headquarters-level program analysis have not been developed, or (3) subsystems for allowing direct data-sharing between field and headquarters data bases often do not exist.

These weaknesses exist largely because USDA has not integrated program data requirements into its mainstream program planning activities. Several agencies have not established a clear view of their current and future information requirements as a continuum of reporting from the field level up through the program management and decision-making levels.

Consequently, the information reported up to management from the field is generally inadequate, untimely, unreliable, and poorly formatted for effective use in program analysis, managerial oversight, and strategic decision-making. For example, in a recent study we found that FmHA cannot effectively monitor its loan graduation process—how many farmer borrowers no longer need USDA credit assistance—because it does not know how many borrowers have left the program and now use other sources of credit.[4] In another instance, we found that in developing its headquarters data base for program analysis and evaluation purposes, ASCS had to redesign and reconstruct field operations data bases because

[4]Farmers Home Administration: Farm Loan Programs Have Become a Continuous Source of Subsidized Credit (GAO/RCED-89-3, Nov. 22, 1988).

Figure IV.3.: Information Management Resources Expenditures by Category (1989-94)



Note: Dollars in millions

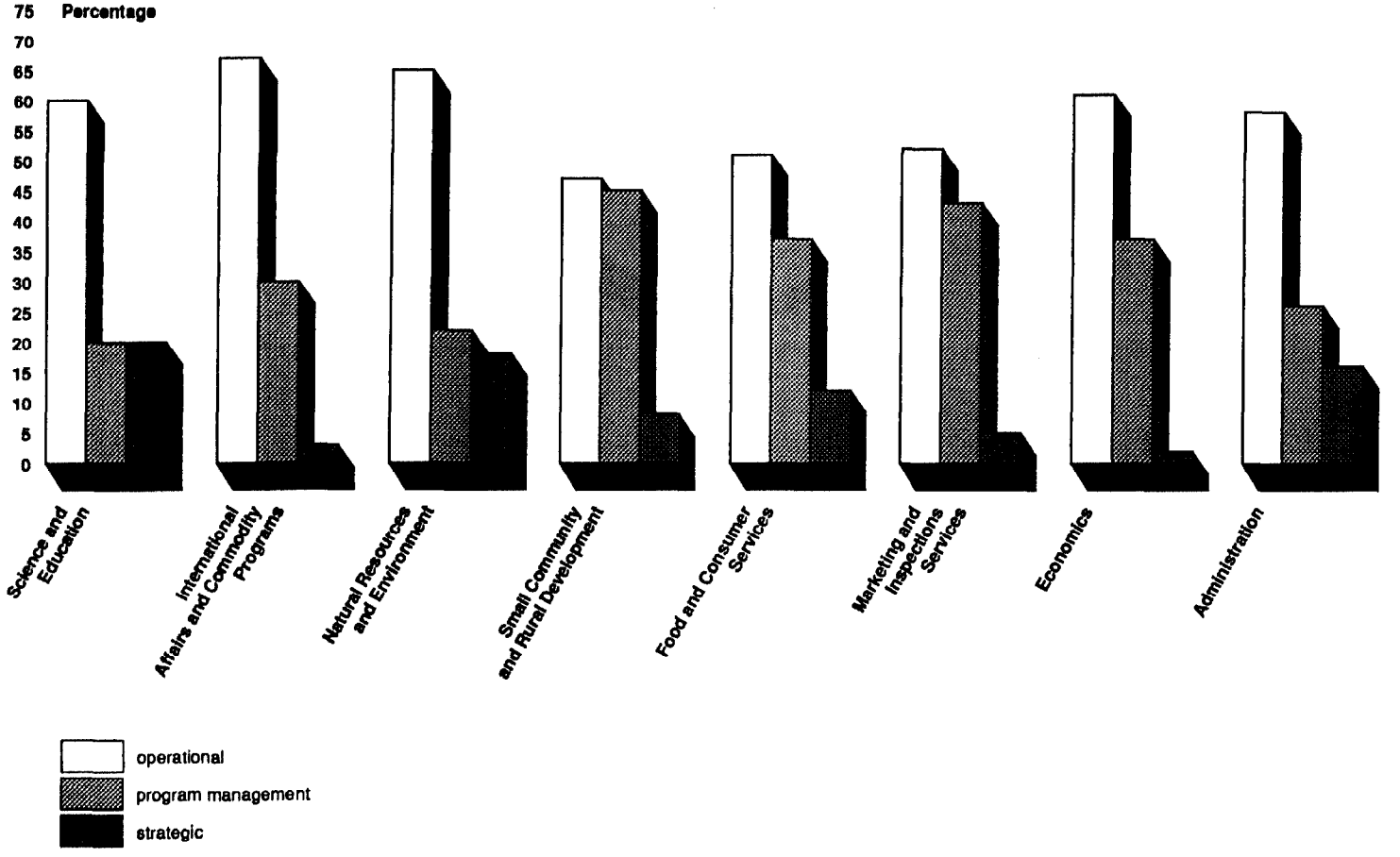
operations data from the field were not compatible with the requirements for program analysis activities. Further, in the conservation compliance area, we found that because ASCS' current system design lacked a component detailing the data collected, how and where they were stored, and where the collection responsibility lay,[5] the data accumulated at the county offices could not be aggregated for reporting to national headquarters. Therefore, ASCS could not ensure that (1) program obligations and costs are in compliance with applicable laws and (2) program funds are appropriately safeguarded against waste, loss, unauthorized use, and misappropriation.

Absent a strategic focus in its program planning process to address intraagency and intraprogram information reporting needs, USDA finds itself with a broad information technology base that is too compartmentalized, inadequate, or unsuitable to facilitate the flow of information up

[5]In the field of information systems, this is referred to as creating a data architecture.

from the field to headquarters-level program managers. As shown in figure IV.4, USDA's $3.9-billion information resources management investment, viewed collectively across all agencies, is still heavily focused on automating specific agency operational activities.

Figure IV.4: Information Resources Management by Program Activity (1989-94)



Our findings suggest that USDA's development of information resources needs to be driven less by application-focused solutions and more by the increasing and changing information demands of program managers and decision-makers. In its current mode of deploying information technology, USDA is not realizing the full potential of automation to access

extensive field data resources and extract meaningful information for top management to evaluate the implications of alternative program approaches and solutions.

USDA needs to plan strategically to ensure that the right amount of critical program information is acquired at the right time and at acceptable costs. The program manager and the agency administrator must both participate with the agency's IRM officials in strategic planning to determine (1) the data critical to managing and assessing its various programs; (2) the time frame for obtaining the data; (3) the purposes for which the data will be used; (4) the interrelationships existing in the data; and (5) the systems designs for collecting, storing, accessing, and manipulating the data so that they will meet the needs of all levels of management. Using this approach, determining the critical information needs for ensuring program operation and management success becomes an essential component of information systems planning.

Managing Data as a Strategic Resource

Data-sharing on related programs both within USDA and with other federal and nonfederal organizations also requires an expanded view. As we have already discussed, more and more of the issues facing USDA require coordination and cooperation across agency lines and/or with non-USDA organizations. However, USDA's vast amount of data resources has not been developed into a resource that can be easily used and reused for these purposes. Because system designs have not included this eventuality, much of the data remain inaccessible and underutilized outside of, and even within, the collecting agency for identifying problems, analyzing trends, or assessing cross-cutting programmatic and policy issues. Further, in dealing with cross-cutting issues such as biotechnology and water quality, departments and agencies outside USDA face enormous difficulties in obtaining information scattered throughout the Department.

This situation exists mainly because USDA agencies (1) are independent and parochial regarding ownership of information resources, (2) lack agreement on common data definitions, and (3) continue to operate under administration policies, procedures, and capabilities that do not recognize the revolution taking place in USDA's missions. Consequently, USDA information systems are typically characterized by compartmentalized data holdings, duplicative data bases, and lack of interconnectivity.

We noted that various programs use the same or similar data in program planning, management, and decision-making. For example, the farm unit

is a common data element used by many USDA agencies, but there are different definitions of what constitutes a farm unit. While recognizing that these definitions are incorporated into different pieces of legislation, we believe USDA could and should do more to work with the Congress to address this and other definitional problems. Also, the lack of ability to use existing computer technology to access common data bases among the agencies diminishes the utility of farm unit information that could be shared by all, increases the cost of data-gathering and handling, and impedes multiagency access to farm unit information. For example, ASCS and SCS separately maintain costly, duplicative data bases to carry out their respective statutory responsibilities under the conservation provisions of the 1985 Farm Bill. The two agencies share common data in paper format via the mails because their respective information systems have different software, hardware, and data base formats. When a farmer signs up for the Conservation Reserve Program, ASCS officials must coordinate very closely with SCS officials. The chief information tool for this coordination is the Form AD-862. ASCS must file an AD-862 with SCS to determine whether the farmer's land is eligible for the program. SCS must key the data from the form and then return the form with new information to ASCS; ASCS then re-keys the data and maintains it in its own computer files.

It is unlikely that steps will be taken to improve data-sharing until USDA officials recognize that data are a costly corporate resource essential to effective program management and evaluation. Once the importance of data-sharing is recognized, USDA will face a major task deciding on the data bases needed, how to best provide for access and sharing, who the data custodian should be, the data to be stored, and the technical aspects of file composition. All these questions must be considered in the program planning process. Such planning provides the ability to control, monitor, protect, and effectively utilize the corporate data resource.

Role of the Central Information Resources Office

USDA currently has an Office of Information Resources Management (OIRM) that could play a larger role in promoting data-sharing. However, as with most USDA central offices, its role is largely advisory. Therefore, OIRM has not always been successful in resolving differences concerning how agencies define, measure, and analyze data. As a result, there is no Department-wide strategy for assigning data collection responsibility, determining the common data definitions to be used, or analyzing the data when all agencies have equal access. In addition, there are no guidelines on how such a process should work, nor, as discussed above,

does OIRM have adequate policy authority to resolve and reconcile multiagency differences over these issues. The importance of resolving these issues becomes even more critical as agency program responsibilities change, work loads increase, and information technology advances. In this changing environment, OIRM needs to play a more active role in promoting and championing use of data for problem-solving, decision-making, and data-sharing within the department.

Financial Management

The Secretary bears the ultimate responsibility for managing the Department's vast financial operations—the Department's budget authority exceeded $56 billion for fiscal year 1988. Following Office of Management and Budget guidance, this responsibility has been delegated to the Chief Financial Officer, who does retain certain policy-setting functions. However, the operational responsibilities for developing, operating, and maintaining financial management systems rest with the heads of USDA's various agencies. Our work, and that of USDA's Inspector General (IG), indicates the Department's system of financial management and related internal controls suffers from long-standing problems that call into question the reliability of the Department's financial data and leave many of its major programs susceptible to fraud and abuse.

USDA has embarked on an extensive program to modernize its financial systems, and to improve the accuracy of its financial reporting and the effectiveness of its internal controls. However, because each agency has its own authority, disparities exist in the level of direction, guidance, monitoring, and importance given to improving financial management. Because sound financial management requires systems that contain effective internal controls and reliable financial information, it is imperative that strong financial leadership, starting with the Secretary, be provided to ensure that existing plans are implemented.

The Secretary has financial management responsibility for billions of dollars of annual outlays and a substantial amount of assets. Three of the Department's components alone—FmHA, the Commodity Credit Corporation (CCC), and the Rural Electrification Administration (REA)—reported total assets of $136.6 billion on their respective September 30, 1987, statements of financial position. These assets consist of $112 billion in loans, accounts, and notes receivable, and $24.6 billion in other assets.

The Chief Financial Officer is located in the Office of the Assistant Secretary for Administration and provides leadership, direction, and monitoring of the Department's financial management systems. According to Office of Management and Budget guidance, the Chief Financial Officer has primary responsibility within an agency for (1) finance and accounting policy, (2) financial reporting, (3) the development and operation of accounting and financial systems, (4) Financial Integrity Act oversight, and (5) cash and credit management. As the agency's focal point for financial management, the Chief Financial Officer is expected to provide the leadership needed to solve long-standing problems, and to focus on financial management issues requiring prompt and appropriate attention. Actual operation and management of most financial information systems, however, is the responsibility of component agencies. Because they do not have management authority over agency systems, the Assistant Secretary for Administration and the Chief Financial Officer require strong Secretarial support to ensure effective development of financial management systems and related controls across the Department.

Long-Standing Weaknesses Exist in USDA's Systems

USDA faces long-standing problems concerning the accuracy of its financial data, and its programs continue to be susceptible to fraud and abuse.

Our financial audits have revealed a number of material problems with the financial data reported by USDA agencies. For example, our audit of the Food and Nutrition Service's (FNS) fiscal year 1987 financial statements disclosed that FNS' accounting system suffered from material internal control weaknesses. As a result, the agency's system did not provide an accurate basis for financial information and could not be used to prepare its external financial reports, as required by title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies.[6] A system of internal accounting controls are expected to provide management with reasonable assurance that (1) obligations and costs are in compliance with applicable laws, (2) funds, property, and other assets are safeguarded against waste, loss, and unauthorized use or misappropriation, and (3) assets, liabilities, revenues, and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical

[6]Financial Audit: Food and Nutrition Service's Financial Statements for 1987 (GAO/AFMD-89-22, Mar. 15, 1989).

reports, and to maintain accountability over agency assets. FNS, however, could not rely on the data from its accounting system as a basis for its financial reports because information in its general ledger was inaccurate and could not be reconciled to supporting subsystem balances. FNS did not use its Financial Accounting and Reporting System to (1) summarize totals for account balances, (2) record entries to properly reflect outstanding year-end liabilities, and (3) review accounts to detect erroneous data, such as an understated cash balance of $7 billion.

Similarly, we issued a qualified opinion on FmHA's fiscal year 1987 statement of financial position because FmHA's accounting system did not record current property market values at the time of acquisition for voluntarily conveyed property, as is required by generally accepted accounting principles.[7] FmHA's accounting system records the fair value of property acquired through foreclosure, while property received by voluntary conveyance is recorded at loan principal plus accrued interest. However, because of depressed farm property values, the borrower's unpaid loan balance is generally much higher than the conveyed property's fair market value. In addition, because of the depressed overall farm economy, FmHA's inventory of acquired property is significant. As of September 30, 1987, for example, FmHA reported an acquired property inventory of 1.7 million acres of farmland and 14,617 single-family houses with a recorded value of $1.2 billion. Nearly 50 percent of this amount was acquired through voluntary conveyance. As a consequence, an appropriate allowance for loss and related provision should have been established to properly record these assets at their fair market values.

As discussed in prior GAO reports, USDA has not consistently followed generally accepted principles in valuing assets on its statements of financial position. FmHA began using proper accounting procedures to value its outstanding loans and related interest due and as a result recognized losses of $22 billion as of September 30, 1987.[8] Other components of USDA still have substantial assets on their books at values greatly in excess of their realizable value. For example, CCC refuses to recognize loan loss estimates for its outstanding and guaranteed loans that we have estimated would decrease assets by $5 billion to $8 billion

[7]Financial Audit: Farmers Home Administration's Losses Have Increased Significantly (GAO/AFMD-89-20, Dec. 20, 1988).

[8]Financial Audit: Farmers Home Administration's Losses Have Increased Significantly (GAO/AFMD-89-20, Dec. 20, 1988).

and increase liabilities by $1.5 billion to $2.5 billion, as of September 30, 1987.[9]

Internal control problems, identified by the Department's IG, also serve to put the agency at risk of reporting and basing decisions on inaccurate financial data and expose its programs to fraud and abuse. For example, the IG's semiannual reports to the Congress identify weaknesses in internal controls that have resulted in inaccurate financial reporting as well as instances of fraud and abuse, as reported for the period October 1, 1988, to March 31, 1989:

- Incorrect "person" determinations by the ASCS resulted in about $60 million in excess deficiency payments to producers.
- Over 5,000 FmHA borrowers were released from liability of about $53.6 million even though properties were not maintained, other loan covenants were not met, and/or borrowers had potential repayment ability.
- An increasing number of investigations of FNS' Food Stamp Program have identified individuals and retail stores accepting food stamps in exchange for illegal drugs.
- A university receiving grants from the Cooperative State Research Service was found to have improperly claimed indirect costs of almost $1 million over a 7-year period.

Progress Is Being Made in Addressing Systems Problems

USDA is making some progress in addressing its financial management and related internal control weaknesses. However, correcting long-standing weaknesses in systems as diverse, numerous, and large as those operated within USDA will be expensive, require extensive planning, and take an extended period of time. Under its current financial management improvement plan (fiscal years 1988 through 1993), the Department expects to spend about $170 million to improve the computer equipment, software, and controls used to carry out financial management responsibilities.

Developing and implementing a long-range financial management plan is the key to successful system enhancement efforts. System development efforts require costly investments in human and financial resources. Decisions made during planning and implementation significantly affect the system's future efficiency and its effectiveness in providing the information needed to manage the agency's operations, and serve to

[9]Financial Audit: Commodity Credit Corporation's Financial Statements for 1987 and 1989 (GAO/AFMD-88-47, July 7, 1988).

determine its useful life. Thus, careful and effective planning and management throughout the entire development process is imperative. For example, FmHA's efforts to modernize its loan accounting systems date back to 1974, and after several starts and stops, completion is now scheduled for late 1989. USDA's Chief Financial Officer told us that, in large part, the delays were caused by the failure to develop adequate functional requirements for the systems prior to contracting for their development.[10]

The existing plan for improving financial management and related internal controls details where improvements are still needed. These include the following:

- Developing an integrated, efficient, Department-wide financial management system. While some USDA components have or will shortly complete their efforts to become part of an integrated system, others are not scheduled for completion until 1993.
- Improving subsystems for payments, billings, collections, and property. These improvements are expected to cost about $26 million and will not be completed until late 1993.
- Ensuring that all USDA systems comply with generally accepted accounting principles as well as with the Comptroller General's Accounting Principles and Standards for Federal Agencies. Compliance with these principles will enhance the integrity and improve the usefulness of USDA's financial data. A number of the Department's components have made major strides in their efforts to adopt and apply these principles to their systems, but substantial additional efforts will be required before all systems are in compliance.

Given the continuing budget pressures on the Department, financial information will be key in determining how reductions can be absorbed with the least harm to organizational effectiveness. Further, sound financial data are essential to safeguard resources and to make effective decisions about the use of these resources.

The magnitude of the Department's resources and the variety of its operations require a responsible financial management approach to effectively manage and maintain accountability and control. The Secretary's involvement and commitment is essential to improve financial management. Further, even though momentum currently exists to

[10]Functional requirements describe the accounting and financial management jobs the systems are to perform and the agency's information requirements.

address the problems within the Department's financial systems, improvement will not come about overnight. If such efforts are to succeed, they must remain high on the Secretary's management agenda and be guided by a cohesive framework under centralized leadership.

Field Delivery Structure

USDA operates a responsive but expensive field delivery structure. The basic delivery structure was put in place in the 1930s to respond to problems created by the Great Depression and was shaped by the technology and the agricultural structure existing at that time. The intervening years have brought significant changes in the structure of agriculture and vast improvements in transportation and communication systems, as well as other technological changes. However, proponents of the existing field delivery structure have successfully resisted changes that could reduce its administrative costs. In the short run, USDA has the option of controlling costs by aggressively pursuing productivity improvements and by making minor organizational changes. For the longer term, USDA needs to consider whether the Department can afford to maintain its present field structure in the face of certain trends, including fewer program beneficiaries, increased opportunities to use information technology, and budgetary constraints. These and other factors argue that serious attention be given to alternative systems for delivering farm programs.

Field Structure Is Expensive

To ensure responsiveness and maintain a closeness with its client base, ASCS and SCS maintain offices in over 85 percent of the 3,150 counties in the United States. FmHA maintains offices in over 60 percent of the nation's counties, and the Extension Service (ES) in nearly all 3,150 counties. In total, USDA operates in over 15,000 locations staffed by over 100,000 employees, making it one of the largest and most expensive field structures in the federal government. Of this total, four USDA farm service agencies—ASCS, SCS, FmHA, and ES—operate approximately 10,600 county offices. In addition, the Federal Crop Insurance Corporation operates through a network of government offices and private insurance agents who are often located close to or with one or more of USDA's existing field offices.

As table IV.2 shows, operating such an extensive field network is costly. In fiscal year 1988, the five farm service agencies spent approximately $2.1 billion and used over 63,000 staff years to administer their farm programs. The total cost of all field offices has not been accurately calculated by USDA.

Table IV.2: Selected USDA Field Services (FY 88): Costs, Staff Years, and Number of County Offices

Dollars in millions

	ASCS	SCS	FmHA	ES	FCIC	Total
Cost[a]	$555.3	$533.4	$534.7	$345.6[b]	$177.5[c]	**$2,146.5**
Staff years	18,428[d]	12,887	11,248	20,257[e]	449	**63,269**
Number of county offices	2,798	2,759	1,907	3,159[f]	0	**10,614**

[a]Include salaries, expenses, rent, utilities, supplies, and computers.

[b]Represents USDA's contribution of about one-third of total ES costs. State and county governments fund the balance.

[c]Includes reimbursements to about 17,500 private insurance agents who sell, service, and adjust crop insurance policies.

[d]Includes 17,393 county office staff years that are funded from ASCS' consolidated salaries and expenses account.

[e]Does not include clerical staff.

[f]ES estimate.

Source: USDA.

Organizational Change Resisted

As discussed in appendix II, the definition of agriculture as well as its structure and environment has changed enormously over the years, especially in the last decade. USDA's inability to adapt its field structure to changes in the farm sector have left the Department with a responsive but inefficient service delivery system. In contrast with many public and private organizations that periodically reorganize to respond to external changes, USDA's farm service field structure has changed little since its inception in the 1930s. USDA farm service agencies are highly resistant to change, and relatively minor changes are bitterly protested by politicians and special interest groups at many different levels. For example, specific legislation has been passed prohibiting the closing of USDA offices.

Many senior USDA officials we spoke with recognized the need to streamline USDA's delivery of farm services. However, few advocated significant reforms, primarily because they viewed reorganization as too politically difficult to accomplish. For example, two officials, who believed the current structure was costly and ineffective and needed to be changed, also believed such change would be politically unpalatable and too disruptive.

Political opposition notwithstanding, the perceived inefficiencies in the delivery system have prompted frequent suggestions for change. As early as 1945, initiatives were advanced to streamline field structure.

Further, USDA's field structure has been the subject of eight studies during the past 2 decades. (See table IV.3 for a list of field structure studies.)

Table IV.3: Studies of USDA's Field Structure

Date	Organization	Title
9/21/85	USDA	A Blueprint for the Future Organization of the United States Department of Agriculture: Final Report by the Secretary's Task Force on Streamlining USDA
8/31/83	Grace Commission	President's Private Sector Survey on Cost Control: Report on the Department of Agriculture
1982	USDA	Study on the benefits of collocated offices
8/5/80	GAO	Streamlining the Federal Field Structure: Potential Opportunities, Barriers, and Actions That Can Be Taken (FPCD-80-4)
4/25/79	GAO	Collocating Agriculture Field Offices—More Can Be Done (CED-79-74)
11/27/78	USDA	Final Report: USDA Field Structure Task Force
12/5/76	USDA	Audit Report: Multi-agency Agricultural Service Centers Program (Report No. 5100-1- SF)
10/12/73	USDA	USDA Field Co-Location Study

Despite this continuing concern about field structure inefficiencies, few significant changes have been made. From these studies and our work on this management review, we have identified four approaches USDA could consider in attempting to reduce the administrative cost of delivering farm programs. Three of these approaches—enhancing field office productivity, locating farm service agencies in one office (collocation), and combining two or more of a single agency's county offices into one office (consolidation)—could result in lower costs while leaving USDA's traditional program delivery structure intact. The fourth approach, combining regional, state, district, and county offices of two or more agencies into a single farm service agency (integration), while preserving the county-based structure, would require more extensive changes.

Improving Efficiency Within the Current Structure

Because of the success proponents of the existing structure have had in resisting change, achieving a more efficient field delivery system might initially be best achieved by avoiding major field structure changes. These gains could be obtained by improving productivity and/or collocating and consolidating existing offices.

Improving Productivity

For a variety of reasons, the farm service agencies (ASCS in particular) often operate in a crisis atmosphere that makes it difficult to deliver services efficiently. For example, the 1985 Farm Bill required the simultaneous implementation of many new programs, such as the Conservation Reserve Program. Furthermore, economic changes in the farm sector result in major fluctuations in the demand for USDA's farm programs. While ASCS officials told us they are proud of the agency's "can do" ability to implement these programs, they acknowledged that the crises sometimes inhibit their ability to implement all program provisions. For example, ASCS officials acknowledged that compliance activities in the Dairy Termination Program and the Conservation Reserve Program were not always getting done. They attributed this problem to ASCS' heavy work load and said that making payments and loans to farmers had taken precedence over the performance of other tasks.

In spite of the knowledge that important tasks are not being done, ASCS has not determined whether existing resources could be used to do more. For example, the Office of Management and Budget (OMB) has been encouraging ASCS to fully participate in the federal government's Productivity Improvement Program as a way of improving efficiency. The program was established in 1986 to improve the quality, timeliness, and efficiency of federal services, with a goal of increasing productivity by 20 percent by 1992. Although ASCS uses its work load measurement system to measure quantitative productivity—the costs of producing a certain level of output—OMB has been unable to persuade ASCS to adopt productivity measures that address product quality. ASCS has developed some timeliness measures, but it has virtually no measures of the accuracy and quality of the services its field offices provide. Managers need such measures, according to OMB, to ensure the timely delivery of high-quality, error-free, and cost-effective services. ASCS budget officials told us that they are not developing quality productivity measures because of the difficulty in measuring qualitative performance and a lack of resources.

Collocation

Of the two types of structural changes that leave USDA's delivery structure generally intact, USDA has been most successful in collocating offices. Collocating offices often reduces program delivery costs through

sharing equipment, technical expertise, and tasks. Program recipients also benefit by being able to transact all their USDA business in one location.

In its 1985 study of USDA's field structure, the Secretary's Task Force on USDA reported that ASCS, SCS, FmHA, and the Extension Service were totally collocated in 1982 in 476 counties and were collocated in 1,438 counties except for the Extension Service. However, the report stated that from 1982 to 1985, collocated offices were separating more frequently than offices were collocating, and that collocation did not necessarily lead to increased cooperation among the agencies. In addition, USDA did not administer its collocation policy between 1982 and 1986; its current collocation policy permits collocated offices to separate permanently; and it no longer tracks collocations in the detail needed for management to determine the extent to which counties are collocated.

Consolidation

USDA has been less successful in consolidating field offices than in collocating them. According to some USDA officials, consolidation would save money and improve the efficiency and effectiveness of service delivery. However, fewer than 10 percent of the ASCS county offices have been consolidated. In the Extension Service, an even smaller percentage of county offices has been consolidated.

We recognize that USDA must overcome organizational and political obstacles before significant numbers of consolidations can be achieved. Farm agencies, such as ASCS and SCS, were designed to deliver client-supervised services at the county level. The farmer-elected county committees, which exercise administrative control over the programs, also hire staff to administer programs. Thus, the over 17,000 ASCS county office staff members are employees of the county committee, although their pay and benefits are funded by the Commodity Credit Corporation. Consolidating two county offices results in the awkward situation of two elected county committees overseeing the operations of a single office. SCS also illustrates the problems consolidation faces. State conservation offices, which are usually collocated with SCS county offices, use staff interchangeably and frequently provide SCS with free office space and secretarial support. Consolidating SCS county offices could disrupt this historically close working relationship.

Other obstacles to consolidation and other structural changes include county employees' concerns about the loss of jobs—particularly since they do not have federal employment rights except with USDA—or being

forced to relocate. Also, dissatisfaction, which can have political repercussions, is generated by county committee members concerned about their loss of authority, and farmers concerned about traveling further to obtain services. USDA officials said that in past consolidation efforts the concerns of these groups have resulted in successful political pressures to oppose consolidations. However, the potential savings to USDA appear to justify more attention being devoted to consolidation efforts. For example, one state agency director said that if it were not for anticipated political pressures, he could reduce the number of county offices in his state by about 40 percent and maintain the same quality of service.

Without minimizing the difficulties, some USDA officials said that the organizational and political obstacles to consolidation can be overcome. These officials emphasized that successful consolidation efforts depend upon early and constant congressional contact, the involvement of local officials, and consistent management attention. They also suggested that the use of demonstration projects and pilot programs showing that consolidations result in reduced costs and improved service could facilitate change.

An Alternative Program Delivery Structure May Be Needed

Although improvements in productivity and more aggressive collocation and consolidation efforts could make the current field structure more efficient and effective, economic and technological changes are likely to compel USDA to adopt more significant structural reforms. Long-term trends—(1) increased availability of information resource technologies, permitting remote information processing; (2) the steady decline in the number of farms, resulting in fewer farmers to service; (3) changes in USDA's mission, possibly leading to more limited government involvement in production agriculture; (4) budgetary pressures; and (5) programs requiring increased interagency coordination—may compel USDA to make changes to its 50-year-old field structure. To accommodate these trends, USDA needs to consider if it should convert its field structure from a county-based organization, oriented toward the needs of 1930s agriculture, to a structure that will efficiently and effectively serve agriculture in the 1990s and beyond. One approach that might be considered is the integration of USDA's field structure, defined here as a single USDA entity serving all farmers and implementing the various farm programs through a single national and local organizational structure.

Better provision of services and coordination of cross-cutting policies are two of the main advantages of integrating the farm services agencies. USDA's 1985 field structure study was a major attempt to address the integration issue. The report suggested several alternatives to the Department's current structure, including combining ASCS, FmHA, SCS, and Federal Crop Insurance Corporation into a single Farmer Services Agency to "provide service to farmers through a single national, state, district, and county office structure." A single farm services agency is also one way to improve USDA's coordination of policies when two or more agencies are jointly responsible for implementation. However, USDA has not implemented these recommendations.

USDA needs to look at integration because its current system of coordinating cross-cutting policies through state and county Food and Agriculture Councils is not working effectively. USDA established these councils in 1982 to serve as a single forum for promoting interagency coordination and cooperation in each state. Discussions with several USDA officials indicate, however, that the councils are effective only in some localities and that elsewhere policies are coordinated only on an ad hoc basis. The council may not be effective because USDA has not encouraged or required councils to coordinate policy. Instead, according to one USDA official, the councils have been primarily used by headquarters to gather information and for public relations.

Any reorganization of the field structure is likely to include fewer field offices, a higher degree of program specialization among local employees (especially in ASCS), and broader cooperation among Department employees. To accommodate this transition, USDA could periodically (1) evaluate how well its field system is performing, given changes in USDA's mission and environment; (2) identify changes needed to improve the performance of the field system; and (3) establish goals and timetables for making these changes. Such an approach, which is similar to that used by major corporations, could help USDA foster an attitude receptive to change. Without such a system, it is unlikely that USDA's management would consider significant changes unless a crisis left no alternatives.

While the potential benefits from even small changes in field structure are apparent, changes are unlikely to be initiated without strong Secretarial support. Currently, there is little incentive for officials to initiate or assess the efficiency and effectiveness of the farm program delivery system. Further, given USDA's delegated management style, no single agency, assistant or under secretary has authority over the entire field structure. Thus, only the Secretary has sufficient authority to assess the

efficacy of the existing field structure and determine whether, and in what form, changes can be made.

A Management Agenda Will Enhance USDA's Policy Implementation

The management problems facing the Secretary as he attempts to implement the new administration's agricultural policies are substantial. They are not problems that have occurred overnight. Rather, they are the result of years of political and organizational evolution at USDA. Yet, addressing these problems is critical at a time when the Department is faced with major changes in the scope and nature of its mission. To effectively manage USDA and to implement wide-ranging initiatives, the Secretary needs management tools that will enable him to (1) address existing and emerging agricultural issues that cut across agency lines and (2) ensure that the Department's management systems adequately support policy development and implementation.

Given the diversity of the Department, its highly decentralized structure, and the many constraints facing managers, achieving managerial reform is a major but not insurmountable challenge. Such tools should provide the Secretary with mechanisms for overseeing decision-making and for ensuring that priorities are addressed. Doing this will require strengthening the Secretary's control over agency operations. This is necessary and appropriate because, ultimately, the Secretary is held accountable to the Congress, the President, and USDA's client groups for the effective and economic management of the Department.

We believe a management agenda is a first and necessary step in establishing more departmental control. As defined here, a management agenda is a list of specific issues that, in the view of the Secretary, deserves the attention of the entire Department. By instituting a management agenda, the Secretary would be more proactive, setting the basic direction and strengthening the management capabilities of USDA by ensuring that policies, goals, and objectives are supported throughout the Department. An agenda would also help ensure that departmental actions are focused firmly on resolving the most important agricultural problems facing the nation.

Our past reviews of the management of federal departments concluded that successful implementation of departmental/agency priorities required specific department or agency head's attention and action. These actions include (1) clearly stating Secretarial visions or goals, (2) translating goals into programmatic activities, and (3) continually monitoring activities and measuring them against desired outcomes.

Developing a Management Agenda

A management agenda should reflect the Secretary's and the new administration's priorities for agriculture and should include certain features, discussed below, to be effective. It should not be a static, bureaucratic process but, rather, a living document that will guide the Department in implementing critical programs and improving management systems. The types of issues and priorities that might be included in such an agenda include both specific, cross-cutting policy issues, such as water quality, and traditional management functional areas, such as organizational structure and/or human resources. We also recognize that the Secretary may have priorities and critical issues in addition to, or instead of, the ones discussed in this interim report.

Once developed, communicating the management agenda throughout USDA and linking it to other departmental systems is essential to building consensus for change and, ultimately, to making the Secretary's goals an integral part of USDA's decision-making process. Hence, if USDA is to implement an integrated approach to addressing cross-cutting issues and other management challenges, an agenda must be articulated to, and understood by, those within and outside the Department. USDA officials directly overseeing, managing, and implementing agricultural programs need to understand the Secretary's goals, and their consequences, in order to gain their participation.

We believe developing a management agenda also builds on OMB's initiative to implement management-by-objectives principles in executive departments. The process of developing such an agenda could also help build a consensus among agencies on identifying the most important issues facing the Department and the steps needed to address them.

Criteria for an Effective Management Agenda

Developing a management agenda is only a first step. To be effective and to serve as a blueprint for addressing the Secretary's priorities, it must be implemented across the Department. The Secretary cannot simply develop an agenda and assume it will be implemented uniformly by the various agencies. Further, we are not advocating centralizing the Department. Such an approach is also not likely to work. The current basic organization keeps USDA close to its constituency and has been effective in delivering services to the farmer. But one thing is clear—at a time when critical issues and problems must increasingly be coordinated among and addressed by more than one agency, a single point of responsibility must be established. That focal point, whether an organization, task force, established agency, or office within the Office of the

Secretary, must have the authority to implement Department-wide priorities, goals, and objectives, and to monitor progress and change directions when necessary. The organizational mechanism that is established can therefore vary depending on the particular circumstances.

Developing and implementing such an agenda requires several of the following basic, and seemingly simple, steps. However, our experience in carrying out management reviews has shown that in many cases the steps are not performed in major federal agencies.

Emphasize a Few Issues

The number of items and priorities that can be effectively communicated is limited. Simply put, everything cannot be a priority. Therefore, the management agenda needs to focus on the Secretary's highest priorities. A distinction between critical concerns and minor problems must be made to ensure that sufficient attention is given to the critical issues. The Secretary should highlight his priorities by first communicating his goals and objectives to the Department.

Establish Management Systems That Identify Problems

USDA has several mechanisms for identifying emerging issues and problems. For example, the Joint Council on Food and Agricultural Sciences advises the Secretary on emerging, long-term research issues. This Council and other mechanisms should be enhanced so that they can bring information about emerging food and agricultural as well as management issues to the attention of the Secretary.

State Desired Outcomes

Once the management priorities are decided, the Secretary needs to communicate the objectives to be achieved and state them in meaningful and measurable terms. These measures are essential in program management because they (1) provide a means to assess progress in meeting program objectives and helping allocate scarce resources, (2) serve as the agency's performance and accountability system, (3) supply the data for improving productivity, and (4) identify areas that should be targeted for resources and marshal support for current programs, new or increased initiatives, and the improvement of basic management systems.

Establish Short- And Long-Term Goals and Priorities

Both short- and long-term goals and priorities are essential ingredients for managing the Department's resources and activities. Some USDA agencies have detailed long-range planning systems in a number of areas, including agricultural research, forest management, and soil and water conservation. However, USDA does not have a systematic, long-range, Department-wide planning system at the Secretarial level. Rather, departmental plans are essentially compilations of individual

agencies' short-term objectives. The management agenda should include a planning component that would set management goals and objectives, design and analyze alternative management strategies and programs to achieve the goals, and present the best course of action.

Link Plans, Outcomes, Goals, Priorities With Budget Resources

Once the goals and priorities are identified, they must be linked with the budget. Plans would need to be developed addressing how the desired outcomes would be achieved, the resources needed, and resource shortfalls, if applicable. The plan should be directly tied to the budget and integrated with the budget process in the course of developing, reviewing, and approving programs. The plan should also specify periodic reviews to assess how well program goals and objectives are being accomplished. Programmatic performance should be measured in tangible terms.

Establish an Action Tracking System

A Department-wide action tracking system, as a major tool of USDA management, would help chart the course of the Secretary's established priorities, including cross-cutting program initiatives as well as the performance of critical management systems. This would help ensure quality control and timely performance. The tracking system should be focused on priority concerns and oriented toward meaningful and significant results.

Measuring, Monitoring, and Evaluating Performance and Results

The management agenda should include a process to monitor the Department's progress in accomplishing the established goals and objectives. Answers to what is working and what is not are necessary for the Secretary and senior officials to guide them when developing new programs, modifying existing ones, or determining whether new or different approaches are needed. The expected results must be better defined for programs/initiatives where they do not currently exist. Lessons learned must be assessed and applied. Without evaluation measures, USDA and the Congress have only subjective reasoning as their method of assessing the effectiveness of agricultural programs or initiatives. Using this approach would enhance the Department's ability to effectively address cross-cutting issues and management weaknesses.

Conclusions

Better management could be achieved by strengthening Secretarial direction and control over the Department and by emphasizing the need for and importance of effective management of programs. Specific actions the Secretary should take include developing and implementing

a management agenda that highlights the critical agricultural and management issues of the Department. Such an agenda would benefit USDA by

- providing a course for implementing the Secretary's long-range vision for USDA, including improvement of the basic management support systems;
- demonstrating a commitment to better management by showing strong Secretarial support for and interest in an effectively managed and unified Department; and
- establishing accountability for policy and management by creating a mechanism for monitoring priority achievement.

The management agenda could help the Secretary demonstrate departmental leadership in achieving those agricultural policies that have been developed with the Congress and the American agricultural community. It would also serve as a means of ensuring that the multitude of programs are working together to achieve the Secretary's vision, policies, goals, and objectives. But developing a management agenda and establishing a mechanism for implementing that agenda is only a first step. The process cannot be viewed as an end in and of itself. It is a management tool that will require constant reevaluation and persistent management attention to ensure that the priorities, goals, and objectives are being met, changes are being made as necessary, and implementation mechanisms are working as intended.

Recommendation

We recommend that the Secretary of Agriculture adopt and implement a management agenda that

- clearly articulates management goals for the Department,
- establishes specific short- and long-term strategies, priorities, and actions to achieve these goals,
- establishes target dates, and
- institutes evaluation systems for monitoring progress towards these goals.

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