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Report to the Congress

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1990 FARM BILL

Opportunities for Change

GAO

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To the President of the Senate and the
Speaker of the House of Representatives

The 1990 farm bill is one of the most significant pieces of legislation to be developed this year. Revised about every 5 years, the farm bill governs $40 billion to $50 billion in annual federal spending and affects virtually all aspects of the nation's economy, including international trade, the environment, rural development, and domestic social welfare.

The farm bill establishes policies and programs to ensure the provision of a safe, reliable, and affordable food supply. The heart of the farm bill is the farm program, which uses many methods—including nonrecourse loans, government purchases, direct payments, planting allotments, and marketing quotas—to support and stabilize commodity prices and producer incomes for certain commodities. These methods originated in legislation developed during the Great Depression and in the Agricultural Act of 1949.

This report addresses issues that we believe the Congress should consider during the debate over the farm bill. It contains 25 brief discussions that raise issues for congressional consideration. Each discussion follows the same format: a short identification of the issue; some background information; an analysis of the issue; and a suggestion for congressional consideration, with a reference to one or more GAO reports or testimonies for more information.

The information in this report is based on nearly 250 food and agriculture products we have issued since the last farm bill. We analyzed these reports to identify the issues that are still relevant for the current farm bill debate. In some cases, data were updated to reflect program changes. Several issues are also based on ongoing work on which we have not yet reported.

The major program areas covered in this report are (1) commodity price and income supports, (2) farm finance, (3) crop disaster assistance, (4) conservation and environmental programs, (5) international programs, (6) food stamps, and (7) U.S. Department of Agriculture (USDA) management. These are many of the same issues the Administration addresses in its report, 1990 Farm Bill: Proposal of the Administration.

Report Highlights

High on any farm bill agenda should be major changes to price and income support programs—by eliminating some programs and restructuring others—to encourage greater opportunities for marketing; and an overhaul of the way farm credit and agricultural disaster assistance, especially crop insurance, are provided to farmers. More specifically:

- For price and income support programs, government support can be eliminated in the honey program and the wool and mohair program. In addition, production incentives can be phased out in the dairy program. Other programs—cotton and the major grain commodities—can be modified to emphasize marketing opportunities more and federal subsidies less. In addition, the Congress can set grain stock goals and ensure vigorous enforcement of the $50,000 payment limitation. (See sec. 1.)
- For farm finance programs, the Congress needs to resolve issues concerning the Farmers Home Administration's (FmHA) role and mission. The Congress expects FmHA to continue to assist financially stressed farmers. As a result, FmHA is increasingly acting as a continuous source of credit. These conditions raise fundamental questions about FmHA's mission to serve as a temporary source of credit while fulfilling its role as a lender of last resort. (See sec. 2.)
- For crop disaster assistance programs, the Congress can rely on a strengthened crop insurance program, without competition from direct payment and loan programs, to provide disaster assistance to farmers more effectively and efficiently. (See sec. 3.)
- For conservation and environmental programs, the Congress can make several program changes in its conservation programs to place more highly erodible land in the programs. (See sec. 4.)
- For international programs, the Congress can encourage USDA to make a stronger commitment to international marketing opportunities and use the Export Enhancement Program selectively; combine the market development programs; and clarify export credit guarantee and Public Law 480 food assistance program policies. (See sec. 5.)
- For the Food Stamp Program, the Congress can take a number of actions to improve access to food stamps. It should also consider eliminating enhanced funding for state food stamp automation. (See sec. 6.)
- In addition, the Congress can help USDA manage its programs more effectively. As a first step, the Congress needs to reexamine how USDA is organized to carry out its marketing responsibilities and deliver services to farmers. Important management changes can also be made to (1) improve the accuracy of commodity program budget forecasts, (2) provide more efficient service delivery by using automated technologies better, and (3) develop budgetary reforms to enhance program oversight. (See sec. 7.)

The Congress faces a major task in its work on this year's farm bill. It must assign priorities and evaluate trade-offs among a broad array of food and agriculture policies and programs. To a large degree, the economic health of the food and agriculture sector depends on the outcome of the ongoing debate. We believe that the issues raised for congressional consideration in this report will help the Congress sort through the difficult choices that lie ahead.

In addition, while debate on the 1990 farm bill is in progress, the current round of multilateral trade negotiations is in its last year. If an agreement is reached that liberalizes agricultural trade, the Congress will have to reassess many farm bill programs.

We did not obtain formal agency comments on this report because it is based primarily on issued reports and testimonies.

We are sending copies of this report to the appropriate House and Senate committees and subcommittees; interested members of the Congress; the Secretary of Agriculture; the Office of Management and Budget; and other interested parties.

The report was prepared between January and March 1990 under the direction of John W. Harman, Director, Food and Agriculture Issues, who may be reached at (202) 275-5138.

J. Dexter Peach

for Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviations

AID	Agency for International Development
ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
FmHA	Farmers Home Administration
USDA	U.S. Department of Agriculture

Price and Income Support Programs

Developing a More Market-Oriented Dairy Industry

A more market-oriented approach can balance dairy production with demand better than do current federal dairy policies.

Background

Federal dairy policy is designed to support producers' prices and incomes, expand consumption, ensure an adequate supply of good quality milk, and stabilize dairy prices and markets. Two programs—milk marketing orders and dairy price supports—are the principal federal policies for this industry. Milk marketing orders regulate grade A milk pricing and other marketing practices in the areas of the United States where producers have voluntarily adopted them. The price-support program stabilizes milk prices by, in effect, guaranteeing a minimum price for any amount of certain dairy products that can be produced.

Analysis

The federal government first developed dairy policies when low milk prices appeared to threaten the adequacy of the nation's milk supply. The government acted to stabilize milk prices and encourage milk production. Over the last 60 years, however, milk production efficiency has greatly increased, resulting in large and costly government purchases of surplus dairy products. In addition, the price-support and milk marketing order programs have contributed to periodic surpluses by creating incentives to produce more milk than can be marketed at prevailing prices. During the 1980s, excessive milk production resulted in the government's purchasing over $17 billion of surplus dairy products, peaking at $2.6 billion during 1983.

Consequently, government policies during the 1980s have been primarily directed toward curbing milk production: reducing price-support levels, or paying producers to slaughter or export their entire herd and leave dairying for 5 years. Federal dairy surpluses have declined so much that traditional donation programs have little or no dairy products to give. In addition, the significant increases in dairy retail prices that occurred during 1989 have caught consumers' attention. These prices, which rose only 2 percent annually in the mid- and late 1980s, increased by 6 percent in 1989. GAO has concluded that efforts to control surpluses by paying producers to leave dairy farming or to reduce production would have no lasting effect.

Suggestions for Congressional Consideration

A more market-oriented approach to dairy programs would provide a more lasting solution to periodic dairy surpluses and reduce federal expenditures. Therefore, the Congress should reduce federal involvement in an orderly way by phasing out the production incentives of the milk marketing order program while continuing the use of a supply/demand adjuster (which automatically reduces price supports if surpluses are projected to exceed certain levels) to set price-support levels.

For more information, see Federal Dairy Programs: Insights Into Their Past Provide Perspectives on Their Future (GAO/RCED-90-88, Feb. 28, 1990).

Reevaluating the Need for the Wool and Mohair Program

The Congress should reevaluate the need to continue the wool and mohair program because its subsidy costs are high and it has not had any significant achievements.

Background

The government established a wool and mohair price-support program in 1954, following a decade of dramatic decline in the U.S. sheep industry. Essentially, the program was established to encourage domestic wool production in the interest of national security. At the time, wool was considered a strategic material for the military. The program's other objectives were to encourage a viable domestic wool industry, a positive balance of trade, and the efficient use of the nation's resources.

Analysis

Industry representatives and current studies contend that the wool program has assured producers of continued income, stabilized the industry, and helped slow the decline in wool production. Between 1955 and 1988, the program provided wool and mohair producers with about $2 billion. Approximately 115,000 wool and 12,000 mohair producers participate in the program, but the U.S. Department of Agriculture (USDA) reports that about 6,000 producers receive nearly 80 percent of all payments.

GAO initially questioned the program's effectiveness in 1982, finding that, despite $1.1 billion in wool payments from 1955 to 1980, U.S. wool production declined from 283 million to 106 million pounds. The wool program slowed the production decline and supported producers' incomes, but at a very high cost. In 1980 alone, the federal government spent between $2.63 to $6.01 a pound to encourage increased production; but that year's average market value for wool was only $0.88 a pound.

GAO's March 1990 evaluation of the program indicates that it is still not effective. Domestic wool production has continued to decline, reaching all-time lows in the mid-1980s. And the program's cost for additional wool output in 1988—according to GAO estimates—was $3.04 a pound, while the average market price was only $1.38 a pound. In addition, wool has not been classified as a strategic material since 1960.

The mohair program's justification is even more questionable because it has never had any specific objectives. Nevertheless, mohair producers received $47.1 million (53 percent) of the total 1988 wool and mohair program payments; wool producers received the balance of $41.4 million.

Suggestions for Congressional Consideration

The Congress should reconsider the need for the wool and mohair program. Although it has stabilized income and helped slow production declines, the program is expensive and can no longer be justified for national security reasons. Program costs vary yearly, but program termination in 1988 would have saved the government $88.5 million.

For more information, see Congressional Decision Needed on Necessity of Federal Wool Program (GAO/CED-82-86, Aug. 2, 1982), and Wool and Mohair Program: Need for Program Still in Question (GAO/RCED-90-51, Mar. 6, 1990).

Accelerating the Phaseout of the Honey Price-Support Program

The Honey Price-Support Program should be phased out by accelerating reductions in the price-support program and legislatively mandating a termination date.

Background

The U.S. honey program is designed to stabilize prices and maintain sufficient bee populations for pollinating food and fiber crops. Since 1952, USDA has used nonrecourse loans to support honey prices at between 60 and 75 percent of parity. The program supports relatively few producers. Presently, 2,000 commercial beekeepers—those who own 300 or more colonies—produce 60 percent of the annual average of 200 million pounds of honey. An additional 10,000 people are part-time beekeepers (with 25 to 299 colonies), and 200,000 are hobbyists with under 25 colonies. Approximately 1 percent of all beekeepers—mostly commercial producers—participate in the program.

Analysis

The honey program is no longer needed to ensure crop pollination because producers of crops requiring pollination have ready access to bees through rental and ownership. In addition, since the program began, beekeepers have generally emphasized honey production over crop pollination. The principal purpose of the honey program now is to support beekeepers' incomes, according to USDA.

Before 1985, the legislated price-support formula resulted in a higher support price than both the import and domestic market price, which encouraged producers to forfeit honey (under the nonrecourse loan provisions) and caused imports to rise. Program costs increased from virtually zero during the 1970s to $164 million between 1980 and 1983.

Legislative changes in 1985 eliminated the mandatory parity formula; established progressively lower support prices; and authorized a lower loan repayment option, at the discretion of the Secretary. The Secretary instituted lower loan repayment options from 1986 through 1989. As a result, government honey acquisitions and imports declined.

However, program costs remained high because high support prices induced increased production. After initially declining through 1987, government costs increased to about $100 million in 1988, largely because of the largest honey crop in 5 years. Honey production will probably remain at a relatively high level because the price-support program still provides a very strong incentive.

In 1985, GAO recommended that the Congress repeal the Honey Price-Support Program and direct the Secretary of Agriculture to reduce the price support incrementally to ensure an orderly phaseout of the program. At the time, USDA agreed that the Congress should eliminate the program.

Suggestions for Congressional Consideration

Nothing has changed since our earlier report to cause us to reconsider our recommendation. The program still serves little public purpose but to raise the income of relatively few producers at a high cost to the public. Legislatively mandating a termination date for the honey program would save as much as $40 million to $100 million annually, depending on the size of the honey crop.

For more information, see Federal Price Support for Honey Should Be Phased Out (GAO/RCED-85-107, Aug. 19, 1985).

Keeping U.S. Cotton Competitive on World Markets

The Congress should consider lower loan rates and greater administrative flexibility to keep U.S. cotton competitive in world markets.

Background

Under the cotton program, producers may pledge their cotton as collateral for a nonrecourse loan—which means that they can forfeit their cotton in lieu of paying back the loan. Eligible cotton producers are entitled to a 10-month nonrecourse loan, and 8-month extensions are routinely granted. The nonrecourse loan program—because it effectively provides a minimum price for cotton—allows producers to keep cotton under loan for up to 18 months with little financial risk. The 1985 farm bill introduced a new loan repayment plan—known as the marketing loan—that permits producers to repay their loans at world market prices whenever those prices are less than the nonrecourse loan rate. The marketing loan is intended to keep U.S. cotton competitive in world markets by encouraging producers to redeem their loans and market their cotton when world prices are low. It is critical that U.S. cotton remains competitive because historically about one-half of U.S. cotton consumed is through exports. The entire cotton program costs about $1.5 billion annually.

Analysis

The marketing loan program appeared to achieve its intended effect when it began in 1986. That year, U.S. cotton—which had previously been priced higher than world cotton—became competitive when U.S. and world market prices dropped dramatically below the nonrecourse loan rate and producers could redeem their loans at the lower price.[1] Cotton exports rebounded to their previous levels, and 1986 year-ending inventories were reduced to 4.9 million bales, close to the 4-million bale

[1]For the most part, producers were permitted in 1986 to redeem their loans at less than the world market price. USDA has since required producers to redeem their loans at the world price when the marketing loan is in effect.

target level established under the 1985 farm bill. Because of this success, USDA and the cotton industry concluded that the marketing loan program was accomplishing its objectives.

This judgment was premature, however. U.S. and world cotton prices diverged in crop years 1987 and 1988, with U.S. prices exceeding world prices by as much as 10 cents a pound. As a result, U.S. cotton was no longer competitive in world markets. Under these conditions, and because 50 percent of U.S. production is for export, U.S. producers had little incentive to sell cotton at the world price because they would have received the same price regardless of whether they redeemed and sold their cotton at the world price or forfeited it to the government. Consequently, they held their cotton under loan.

Two conditions allowed the divergence of domestic and world prices to occur. First, domestic textile mills, for the most part, are prohibited from importing cotton, so U.S. prices are insulated from declines in the world price. Second, because producers can routinely obtain 18-month nonrecourse loans, they are likely to hold their cotton off the market for that period in case world market prices rise above the loan rate.

Because cotton producers generally kept their cotton under loan and waited for better market conditions, U.S. cotton inventories at the end of crop year 1988 were over 7 million bales, nearly double the carryover level established under the 1985 farm bill.

Suggestions for Congressional Consideration

The Congress should consider taking the following actions to ensure that U.S. cotton remains competitive in world markets and to help reduce government costs:

- Lower the nonrecourse loan rate to a level below market prices to ensure that producers retain some equity in their pledged collateral. This action would provide producers with a lower support price; they therefore would have less incentive to (1) keep their cotton under loan for an extended time or (2) forfeit it to the government. U.S. cotton would then compete more readily in world markets.
- Provide the Secretary of Agriculture with discretionary authority to grant 8-month extensions of the nonrecourse loan only when warranted by adverse market conditions. This flexibility would lessen producers' incentive to hold cotton under loan for extended periods or to forfeit their cotton to the government.

For more information, see GAO's report on the cotton program, to be issued in Spring 1990.

Tightening Sugar Import Loopholes

If the Congress continues the sugar price-support program, it should prevent importers from taking advantage of loopholes in the sugar quota system and tariff schedule when importing sugar-containing products.

Background

The current U.S. sugar program continues a trade policy initiated in the early 1900s. The federal government protects domestic sugar production and prices by limiting the quantity of foreign sugar available on the U.S. market. The 1988 quota was allocated to 39 countries that supplied sugar to the United States between 1975 and 1981. Other countries use similar policies to insulate domestic sugar producers from fluctuating world market conditions. The United States also operates a price-support system for sugar that provides a floor under the world market price.

Analysis

The sugar program is controversial. Proponents claim that the program benefits domestic sugar producers without imposing a financial burden on the federal government, but critics claim that the program causes artificially high prices for consumers. Critics also contend that import quotas harm the economies of lesser developed countries and encourage additional domestic production. GAO plans to evaluate the merits of the sugar program in the near future.

In the current round of multilateral trade negotiations, the United States is calling for the elimination of all agricultural subsidies, including those for sugar. The U.S. sweeteners advisory group, which is made up of industry representatives, supports this position, provided that other sugar-producing countries eliminate their protectionist policies.

Until the negotiations are completed, the United States needs to ensure that the existing program works successfully. In particular, the Congress needs to prevent importers from circumventing the sugar quota system when importing sugar-containing products.

In 1986, between 265,000 to 307,000 tons of sugar may have displaced domestic sugar by entering the United States in sugar-containing products under 46 tariff categories. This amount is more than twice that imported in 1982. For some products, the increases were much greater. For example, imports of bulk sweetened chocolate bars and certain gelatin mixes increased more than tenfold from 1982 to 1986. One reason for such increases is the complex U.S. tariff schedules. These allow resourceful businesses to "tailor" sugar-containing products to fit under different tariff classifications. Some classifications are subject to quotas but others are not. Furthermore, duties can also vary by tariff classification.

In addition, Customs paperwork controls and enforcement efforts in some free trade zones were not always sufficient to ensure compliance with Customs laws and regulations. These zones are secured areas geographically inside the United States but legally outside Customs territory where companies are authorized to bring in merchandise to be stored, distributed, mixed with other foreign and domestic merchandise, or used in manufacturing operations. Of the additional sugar that entered U.S. commerce in sugar-containing products in 1986, about 40,000 tons were in products blended in these zones. The rest was in products imported through ports of entry.

To prevent importers from taking advantage of import loopholes, the Administration should extend import restrictions, via import quotas or fees, to additional sugar-containing products. Such an action should include a comprehensive analysis of all sugar-containing products, carefully describing the products to avoid creating new loopholes.

Suggestions for Congressional Consideration

To help ensure the proper entry of sugar-containing products, the Congress should continue to oversee Customs' actions to improve free trade zone administration. The Congress should also rewrite tariff schedule descriptions so that existing loopholes are closed and the creation of new loopholes is avoided.

For more information, see Sugar Program: Issues Related to Imports of Sugar-Containing Products (GAO/RCED-88-146, June 22, 1988) and the House Subcommittee on Cotton, Rice, and Sugar hearing, Review of General Accounting Office Report "Sugar Program: Issues Related to Imports of Sugar-Containing Products; and Impact on the U.S. Sugar Program" (Serial No. 100-79, June 22 and 28, 1988).

Making Program Crop Planting More Flexible

Current practices to control production need to be made more flexible so farmers can respond better to market opportunities.

Background

Farmers qualifying for federal price- and income-support benefits—available to wheat, corn, barley, sorghum, oats, cotton, and rice producers—must establish crop acreage bases. Each farm's acreage base generally represents the 5-year average of the acreage planted for each crop. USDA recomputes each farm's acreage base annually. To limit the amount of program crops planted, USDA requires farmers, as a condition for program participation, to plant only a portion of their crop acreage base.

Analysis

To retain eligibility for the full amount of benefits, farmers usually must plant the maximum amount of acres they are allowed with their program crop. Otherwise, the amount of program payments farmers receive the next year could be reduced. For example, if a farmer with a 100-acre base for corn chose to plant that land with soybeans, the farmer's corn acreage base would be reduced to 80 acres the next year because of averaging. That is, the farmer would be eligible to receive only 80 percent of the program benefits he or she was entitled to when the base acreage was 100 acres.

These program rules discourage farmers from planting alternative crops, even when planting other crops in a particular year might make more economic sense. Farmers are thus limited in their ability to respond to changes in the commodity marketplace. These rules also deter farmers from rotating different crops on their fields, which is an environmentally preferred farm conservation practice.

As a result, Corn Belt producers lost a good marketing opportunity in 1988 when they did not react to market signals that suggested a switch to soybeans would yield higher market returns than corn. Corn producers did not switch crops because of the relatively high government subsidies for corn production and the need to maintain their corn base acreage. Consequently, the United States ended up with too much corn and not enough soybeans. Some analysts asserted that the farm program rules cost the United States significant opportunities to export soybeans, which encouraged major soybean competitors, such as Brazil and Argentina, to increase their soybean production and their world market share.

Suggestions for Congressional Consideration

The Congress should develop more flexible commodity programs, which would still retain USDA's ability to influence crop production, to help farmers take advantage of marketing opportunities. More flexible programs that are not tied so rigidly to maintaining base acreage would help reduce the influence of government payments on farmers' production decisions and federal expenditures for farm programs, and promote environmentally sound farming practices.

For more information, see Agriculture: Progress Made Toward Goals of 1985 Farm Bill (GAO/RCED-89-76BR, Mar. 30, 1989) and Transition Series: Agriculture Issues (GAO/OCG-89-12TR, Nov. 1988).

Enforcing the $50,000 Payment Limit

Until the reason for the payment limit's ineffectiveness is identified, the Congress should ensure that USDA enforces the $50,000 payment limit as vigorously as current law permits.

Background

In response both to the high cost of federal farm programs and to reports of large subsidy payments to individual producers, the Congress established in 1980 an annual $50,000-per-person limit for certain deficiency and land diversion payments to wheat, feed grains, cotton, and rice producers. Since then, it has been relatively easy for farmers to circumvent the $50,000 payment limit by reorganizing their farming operations—creating corporations, partnerships, joint ventures, or leasing arrangements—to increase the number of "persons" who can receive payments. Farmers nearing the payment limit had an economic incentive to reorganize and add new persons, who could qualify for up to $50,000 per person, to their farming operations. GAO estimated in 1987 that if the reorganization trend continued, 31,300 additional persons would be receiving payments by 1989 and total costs would increase by an additional $2.3 billion between 1984 and 1989.

Analysis

To tighten up the $50,000 payment loopholes, the Congress amended the 1985 farm bill's $50,000 payment limit provisions in 1987. These new provisions, effective for the 1989 crop year, capped the number of new "persons" by limiting payments to (1) individuals participating in no more than three entities and (2) individuals and entities actively engaged in farming.

A recent USDA Inspector General audit, however, found that these provisions, and USDA's implementing regulations, did not effectively curtail farm reorganizations.[2] The audit reviewed 241 farm operating plans for 52 farming operations but did not identify any reduction in projected total program payments because of the 1989 payment limitation changes. Therefore, the report concluded that the 1987 amendments will not significantly limit program payments.

Capping farm program payments at $50,000 has proven to be an elusive goal. Deficiencies in the recent legislative amendments or in USDA's implementing regulations have contributed to difficulties in enforcing this payment limit. GAO is evaluating these provisions to determine the cause of the problem, and will present its findings to the Congress at a later date.

Suggestions for Congressional Consideration

Until the causes for circumvention are identified, the Congress should ensure that USDA enforces the $50,000 payment limit as vigorously as current law permits.

For more information, see Farm Payments: Basic Changes Needed to Avoid Abuse of the $50,000 Payment Limit (GAO/RCED-87-176, July 20, 1987).

Establishing Goals and Policies for Grain Stock Levels

National goals and policies are needed to improve the management of federal grain stocks.

Background

The federal government acquires its grain stocks largely as forfeited collateral under the nonrecourse loan programs, one of several programs designed to stabilize farm prices. Under the program, USDA provides farmers with loans for wheat, corn, and certain other farm commodities, and gives them the option of repaying the loan at any time (with interest) or forfeiting the commodity to the government in full payment for the loan. Farmers are more inclined to forfeit their grain when market prices are lower than loan rates.

[2]See Agricultural Stabilization and Conservation Service: Implementation of 1987 Farm Program Payment Integrity Act (Audit Report No. 03600-6-Te, Sept. 29, 1989).

Analysis

When it acquires grain stocks, the government faces significant storage and sales challenges. For example, rising loan forfeitures caused USDA's grain inventories to increase from 1 billion to 3.2 billion bushels between fiscal years 1985 and mid-1987. These grain inventories were so large that USDA had to store grain on barges in 1986, and the inventories increased USDA's annual storage, handling, and transportation costs over 300 percent, from $353 million to $1.4 billion between fiscal years 1985 and 1987.

Concerned about rising costs, the Congress in 1987 directed USDA to reduce projected commercial storage, handling, and transportation expenditures for federal inventories by $230 million for fiscal years 1988 and 1989. To comply, USDA increased grain sales, which reduced its grain inventories from about 3 billion bushels to about 1 billion bushels between fiscal years 1987 and 1989. USDA encouraged grain sales by attempting to set its prices at or below the local market price at virtually every grain storage location. In addition, the 1988 drought—one of the century's worst—contributed to corn and wheat production declines from 1987 levels of 30 and 14 percent, respectively. Consequently, the sales may have helped to moderate the impact that the drought could have had on the availability and price of grain.

Grain inventory sales in the 1980s raise questions about whether farm support programs should be modified to avoid accumulating large inventories and whether minimum and maximum grain target levels should be established. In addressing these questions, the Congress may ultimately need to establish grain stock goals. Federal grain stocks serve several purposes, including providing a cushion against times when production is not adequate to meet the nation's food requirements. These goals, however, have not been translated into actual grain target levels. Without these targets, it is difficult to develop policies to effectively and efficiently manage grain stocks.

Suggestions for Congressional Consideration

To meet grain stock goals or to prevent accumulations of excessive inventories, the Congress should consider modifying incentives in the nonrecourse loan program. The loan rate, for example, could be adjusted to the level of grain stocks so that government payments are reduced when grain stocks become too high, and vice versa. The dairy program's supply/demand price adjuster uses a similar mechanism.

For more information, see U.S. Grain Stocks: Inventory Sales Raise Issues for Legislative Consideration (GAO-RCED-90-120, Spring 1990)

Farm Finance

Reevaluating FmHA's Role and Mission

The Congress needs to reexamine the Farmers Home Administration's (FmHA) role in providing agricultural credit because (1) FmHA's financial condition continues to deteriorate, despite a general improvement in the overall agricultural economy, and (2) it faces fundamental questions about its ability to serve as a temporary source of credit while fulfilling its role as a lender of last resort.

Background

FmHA provides what is intended to be temporary credit assistance to family farmers whose financial situations prevent them from obtaining credit elsewhere at affordable rates and terms. In this capacity, FmHA must balance the competing objectives of following sound lending practices that protect the government's and, ultimately, the taxpayers' financial interests with providing assistance to financially troubled farmers.

Analysis

The financial condition of FmHA's farm loan portfolio has deteriorated. About one-half of its $23 billion in outstanding direct farm loan principal is owed by delinquent borrowers and vulnerable to future losses. In fiscal year 1988, FmHA reported $30.5 billion in unpaid principal and interest on its direct farm loan portfolio (with $19 billion established for loss allowances), and $3.6 billion in guaranteed unpaid principal on guaranteed farm loans (with $1.2 billion established for loss allowances.) Since its inception, the revolving fund from which all farmer program loans are made shows a cumulative deficit of nearly $29 billion.

Deterioration has occurred, in part, because FmHA's loan-making policies have provided farm loans to borrowers who are unable to repay them. These farmers then require FmHA to take extensive loan-servicing actions. In short, FmHA is on a loan-making and -servicing treadmill. The Congress, in enacting the Agricultural Credit Act of 1987, directed FmHA to consider reducing delinquent borrowers' debt if, because of inadequate collateral, it was less costly for the government than foreclosing on loans. FmHA has estimated that it will write down or write off about $9.4 billion of its farmer program debt to implement the act's debt-restructuring provisions. The Congress allows the agency to revise certain FmHA loan-making criteria if it adequately studies the effect of such a revision on its borrowers and provides the Congress with sufficient time to review the results.

In addition, FmHA has become a continuous rather than a temporary source of subsidized credit for many borrowers—many of whom have loans that will never be repaid. For example, as of September 30, 1989, about 35 percent of all FmHA farm program borrowers had had at least one FmHA loan continuously for 10 years or more. The benefits FmHA borrowers receive are substantial. GAO estimated that during 1986 the government subsidized the interest rate for FmHA farm program borrowers at a cost of between $612 million and $1.6 billion. Further, the financial advantage FmHA borrowers gained over other farmers who borrow money from non-FmHA lenders amounted to between $1.2 billion and $2.2 billion in 1986.

Finally, FmHA's shift from direct to guaranteed farm loans will not solve its financial problems. Most guaranteed loans are being made to existing commercial customers. Few direct farm loan borrowers have shifted to guaranteed farm loans, and most probably will not because of their poor financial condition. As a result, continued substantial budget outlays are likely to be needed to finance direct loans. In addition, the increase in outstanding principal for guaranteed loans has outpaced the decrease in outstanding principal for direct loans, by about $570 million between fiscal years 1986 and 1988. Consequently, the government's overall financial exposure has increased.

Suggestions for Congressional Consideration

Only the Congress can make the necessary basic policy decisions on how FmHA should balance its role as both an assistance and loan-making agency. These decisions should consider how FmHA's programs affect the budget; how much credit assistance can help farmers who are facing extreme financial stress; how long such credit should continue; how continued credit affects farmers' financial viability; and what these decisions mean for rural communities.

The Congress has indicated that it wants to continue to assist financially stressed farmers and keep them in business if at all possible. However, current conditions raise fundamental questions about how FmHA can fulfill its mandate to serve as a temporary source of credit while fulfilling its role as a lender of last resort. Unless FmHA's role and mission are reevaluated, its farm loan portfolio will continue to deteriorate and losses will mount. The Congress can reevaluate FmHA's role by focusing on several key issues:

- Are the continuation and debt restructuring policies the best means of assisting already heavily indebted farmers?

- At what point will the cost of providing continuous credit assistance to financially marginal farmers—including the cost of loan losses, interest rate subsidies, and administrative expenses—outweigh the benefits to the government, rural communities, and the farmer?
- If FmHA is to serve as a temporary source of credit, should specific criteria be developed—such as time limits and/or measurable financial improvement—to decide when a borrower has had a sufficient opportunity to become financially sound and to graduate to non-FmHA sources of credit?
- For those borrowers who, after a period of time, show little or no prospect for succeeding, would it be more appropriate to provide other forms of assistance, such as job training, to aid in making a transition to other employment opportunities?

For more information, see Issues Surrounding the Role and Mission of the Farmers Home Administration's Farm Loan Programs (GAO/T-RCED-90-22, Jan. 25, 1990 and GAO/T-RCED-90-27, Feb. 8, 1990).

Crop Disaster Assistance Program

Providing Disaster Assistance Better Through Crop Insurance

A strengthened crop insurance program, without competition from loan and direct payment programs, can provide disaster assistance more effectively than alternative approaches.

Background

Throughout the 1980s, USDA provided disaster assistance to farmers through direct cash payments, subsidized loans, and subsidized insurance. Each of these programs helps farmers deal with a loss of income if their crops are damaged or destroyed by natural causes. Between fiscal years 1980 and 1988, these programs cost the government about $17.6 billion: $6.9 billion for direct cash payments, $6.4 billion for disaster emergency loans, and $4.3 billion for crop insurance.[1]

Analysis

Before 1980, USDA provided disaster assistance mainly through direct payments and loans. The Congress expanded the crop insurance program in 1980, believing that an expanded program covering more crops and a larger part of the nation would alleviate the need for expensive, ad-hoc disaster assistance programs. This has not proven to be the case, however. The Congress has continued to provide disaster assistance to farmers through direct payment and emergency loan programs, in part because crop insurance participation rates have remained relatively low. Since 1980, the amount of eligible acres enrolled in the program has risen from 9.6 percent in 1980 to 24.5 percent in 1988, well below the 50-percent target established for the program in 1980. Participation rates rose to about 40 percent in 1989 in response to the severity of the 1988 drought and requirements for some disaster assistance recipients to purchase crop insurance.

Crop insurance is a more equitable and efficient way to provide disaster assistance compared with the ad hoc disaster assistance and emergency loan programs of the 1980s. This conclusion is based on two principles: disaster victims should be treated equitably and consistently over time, and overall program and society costs should be minimized. An equitable disaster assistance policy ensures that aid is provided consistently to victims suffering from similar losses over time, and an efficient disaster assistance policy ensures that overall program and societal costs are minimized.

[1] Includes disaster payments paid in 1989.

The crop insurance program addresses these principles, for example, by ensuring that (1) the amount of disaster assistance provided is determined by the farmer's loss, and not by the severity of the disaster; (2) it is consistently available over time to allow for long-range planning; and (3) it helps farmers withstand and recover from the effects of natural disasters in the way it provides assistance.

Despite these characteristics, the crop insurance program faces two critical problems. First, it has had a history of management problems that, in the short term, makes it difficult to justify it as the sole source of disaster assistance to farmers. Consequently, if the Congress chooses to rely on the crop insurance program exclusively to provide crop disaster assistance, a transition period for strengthening the program probably will be necessary.

Second, the program had to compete throughout the 1980s with direct assistance and loan programs that received larger amounts of federal funds and offered farmers more attractive terms. Consequently, the crop insurance program's participation rates have remained low, and it has never been actuarially sound. Restructuring the agriculture disaster assistance programs to remove this disadvantage will help determine how effective the crop insurance program can be.

Suggestions for Congressional Consideration

The Administration, in its 1990 farm bill proposals, recommends replacing the crop insurance program with a legislated disaster assistance program similar to the 1988 and 1989 disaster payment programs. The new program would provide direct payments for individual losses on a crop-by-crop basis whenever countywide harvested yields fell below 65 percent of normal yields.

GAO has not studied the Administration's proposal in detail. However, because the Administration's proposal is similar to previous disaster payment programs, GAO believes that it would not provide disaster assistance as equitably and efficiently as a well-designed and well-managed crop insurance program.

For more information, see Disaster Assistance: Crop Insurance Can Provide Assistance More Effectively Than Other Programs (GAO/RCED-89-211, Sept. 20, 1989) and Roles, Cost, and Criteria for Assessing Agriculture Disaster Assistance Programs Between 1980 and 1988 (GAO/T-RCED-90-37, Mar. 6, 1990).

Conservation and Environment

Making the Conservation Reserve Program More Effective

Although the Conservation Reserve Program has achieved substantial reductions in soil erosion, it has not effectively addressed all of its objectives.

Background

In 1985, the Congress authorized the Conservation Reserve Program—a multibillion-dollar program to remove 40 million to 45 million acres of highly erodible cropland from production by 1990—to (1) reduce soil erosion, which causes long-term losses in land productivity, sedimentation of water bodies, and damage to surface water and groundwater; (2) curb the production of surplus commodities; and (3) provide farmers with income support. The program's legislation established specific acreage enrollment goals for each year from 1986 to 1990—up to a total of 45 million acres. The legislation also established a goal of planting trees on at least 12.5 percent of program acres. The program was open to all producers with highly erodible land. Beginning in 1986, USDA, under a competitive bid system, held periodic sign-ups during which farmers offered their highly erodible crop land for program enrollment in return for an acceptable annual per-acre rental rate.

Analysis

Farmers have enrolled about 34 million acres of land in the Conservation Reserve Program—now one of the largest federally sponsored tree-planting programs ever. The program will reduce soil erosion by hundreds of millions of tons a year, decreasing sedimentation in reservoirs and streams, increasing protection of recreational resources, and preserving long-term productivity of the land. Furthermore, the amount of damaging chemicals washed into streams and lakes will decrease, and fish and wildlife habitat will be improved because of more trees and grasses and reduced chemical use. Finally, the program will reduce the production of surplus commodities and federal price and income support payments, and provide additional income support to farmers.

Although the Conservation Reserve Program's benefits are substantial, USDA could have made the program more effective if it had taken the following actions:

- Managed the program to address the full range of its objectives. Instead, USDA focused on the need to enroll prescribed acreage amounts. For example, USDA relaxed the soil erosion eligibility criteria for enrolling land to increase the number of trees planted. Although USDA's decision to seek more tree acreage has merit because of the program's tree-planting goal, the overall effectiveness of the program suffered. The relaxed criteria allowed more acreage that was not highly erodible into the program. As a result, the soil savings on tree acres decreased, and other benefits, like reduced sedimentation and improved water quality, were not attained.

- Targeted cropland eroding at the highest rates. Although USDA officials have stated that reducing soil erosion was the Conservation Reserve Program's primary objective, program managers chose not to focus on the land experiencing the worst soil losses. As a result, only about 30 percent of the most highly erodible land is now enrolled in the program.
- Targeted cropland that contributed most to surface water and groundwater contamination. Although USDA has taken some steps to address these problems, more could have been done. For the most part, USDA accepted improved water quality as a residual benefit of getting acreage enrolled in the program.

In addition, the Conservation Reserve Program's effectiveness was limited by a legislative provision capping enrollments at 25 percent of a county's cropland. The cap was designed to cushion local farm economies from the economic effects of large amounts of acreage being taken out of production. However, this acreage cap excludes about 30 percent of all highly erodible cropland from program participation and makes the more limited pool of eligible acreage more expensive to enroll. Although eliminating the cap may not be feasible, modifying the acreage cap under certain criteria—by enrolling cropland that contributes most to surface or groundwater contamination, for example—would be an effective compromise.

Suggestions for Congressional Consideration

To improve the Conservation Reserve Program's effectiveness, the Congress should consider (1) requiring USDA to include such factors as the land's contributions to reducing soil erosion and other program objectives in its competitive bid system for enrolling land in the program, (2) allowing flexible annual and overall acreage goals that would better enable USDA to focus on the full range of program objectives rather than primarily on meeting the acreage goals, and (3) modifying the 25-percent cap on acreage that can be enrolled in a county so USDA can have more flexibility in targeting the most highly erodible acres or those that contribute to water quality problems.

For more information see, Farm Programs: Conservation Reserve Program Could Be Less Costly and More Effective (GAO/RCED-90-13, Nov. 15, 1989).

Expanding Conservation Compliance for Environmental Benefits

Gradually extending the conservation compliance provisions to additional cropland would achieve significant environmental benefits.

Background

The conservation compliance program covers about 140 million highly erodible acres, or about one-third of the 423 million acres of U.S. croplands. Land eroding at 40 tons per acre per year is generally classified as highly erodible. To continue receiving farm program benefits on highly erodible lands not enrolled in the program, producers must develop conservation plans. As of January 1990, over 1.3 million conservation plans have been prepared, and about 27 percent of these have been implemented. The remainder must be implemented by 1995.

Analysis

Millions of acres do not meet the current definition of highly erodible. Nevertheless, they may still be experiencing moderate to severe erosion each year. Given USDA funding and staffing constraints, attacking erosion on the most highly erodible land was a good first step. It may be time, however, to consider addressing the problem of land eroding at a lower, but still high, rate. Gradually requiring conservation planning for all eroding cropland can yield considerable environmental benefits.

Suggestions for Congressional Consideration

The Congress should gradually expand conservation planning to include additional croplands that are eroding at moderate to high levels.

For more information, see General Accounting Office's View on the Conservation Provisions of the 1990 Farm Bill (GAO/T-RCED-90-49, Mar. 15, 1990).

International Programs

U.S. international agricultural programs encompass both the development and cultivation of overseas markets for U.S. food and agricultural services and products, and the provision of food assistance throughout the world.

In the 1985 farm bill, a primary objective was to increase the competitiveness of U.S. agricultural commodities overseas. Two new programs were enacted—the Export Enhancement Program and the Targeted Export Assistance Program. In addition, the act established a minimum annual program level for short-term export credit guarantees and a maximum annual program level for intermediate-term credit guarantees.

Although the Administration points to the large increases in U.S. agricultural exports as evidence that these programs are successful, there are macroeconomic factors that have figured significantly in the increased competitiveness of U.S. agricultural commodities. These include the decline in the value of the U.S. dollar, the decreased loan rates mandated in the 1985 farm bill, and the generally tighter supply conditions that now prevail.

Overseas food assistance is provided through the Public Law 480 program, which was established in 1954. The program's multiple objectives not only include providing humanitarian assistance to combat hunger and malnutrition, but also developing and expanding export markets for agricultural commodities, encouraging economic development in developing countries, and promoting U.S. foreign policy objectives.

While the Congress debates the 1990 farm bill, the current round of multilateral trade negotiations—known as the Uruguay Round—is in its last year. The United States has made liberalizing agricultural trade its top priority in the Uruguay Round. If a multilateral agreement that liberalizes agricultural trade is reached, the Congress will have to consider making major legislative changes to U.S. export programs. Notwithstanding an agreement to liberalize trade, these programs could be administered more efficiently and effectively.

GAO identifies opportunities for improving program performance in the analyses that follow.

Enhancing USDA's Commitment to Marketing

To strengthen the U.S. position in world agricultural trade, USDA needs to improve its commitment to marketing by developing strategic plans and by changing its organizational structure to better carry out its marketing responsibilities.

Background

World agriculture trade has changed significantly—becoming more market-oriented and involving many nations in the buying and selling of agricultural commodities and products. In this new context, the United States may not be well-positioned to compete effectively. The United States has traditionally relied on low prices to compete, but this approach is only part of an integrated marketing approach to trade. Such an approach coordinates market research, production, and distribution to provide products that meet consumer demand. Our major competitors use this approach to a greater extent.

Analysis

USDA is pursuing market-oriented trade objectives through multilateral trade negotiations, trade legislation, and budget reallocations. However, it has not developed a strategic plan to provide the long-term commitment and organizational structure needed to compete in a market-oriented, global economy. Instead, USDA continues to develop short-sighted trade policies that are driven by its farm policy.

Because it has not planned strategically, USDA is poorly equipped to deal with increased competition in world trade. For example:

- Only two of the four USDA agencies with marketing responsibilities that GAO examined—the Extension Service and the Agricultural Research Service—have developed specific goals to meet their international trade objectives. Such approaches allowed these agencies to allocate limited resources more efficiently. The Foreign Agricultural Service and Agricultural Marketing Service, however, have not done so. As a result, these two agencies allocate resources inefficiently and do not respond effectively to changing world markets.
- USDA's preference for marketing bulk commodities and production technology, reflecting U.S. agriculture's tendency to produce more than can be consumed domestically, does not respond to growth opportunities in value-added products.[1] USDA's inability to adapt to these opportunities in world trade has resulted in a low U.S. share in this multibillion dollar

[1] Value added generally refers to the processing of commodities for consumption, or to make food items more attractive to consumers. Cheese, for example, is a value-added milk product.

market. Better marketing of value-added products would also have a multiplier effect on rural development. The Economic Research Service estimated that the United States would have generated an additional $9 billion in value-added exports and 350,000 marketing and processing jobs if the country had maintained the same rate of growth in value-added exports as in bulk commodity exports.

USDA's independent agency structure, which lacks strong central management, contributes to the Department's inability to achieve a marketing orientation. The Foreign Agricultural Service, for example, does not regularly coordinate with the Economic Research Service, Agricultural Research Service, and Extension Service. In addition, the Agricultural Research Service and the Extension Service, which have initiated proactive interagency planning, have been frustrated by USDA's traditionally reactive coordination, in which agencies use single contact points to coordinate policies among agencies.

Suggestions for Congressional Consideration

The Congress should require USDA to develop a Department-wide strategic plan for trading in global markets to improve its marketing performance. Strategic planning would establish a firm organizational commitment, develop commonly accepted goals and programs, and reorganize agency resources. Such a planning effort would enhance USDA's ability to respond to changing world markets and strengthen the United States' position in world agricultural trade, especially in the growing area of value-added products.

For more information, see U.S. Department of Agriculture: Interim Report on Ways to Enhance Management (GAO/RCED-90-19, Oct. 26, 1989), and International Trade: Foreign Market Development for High Value Agricultural Products (GAO/NSIAD-90-47, Jan. 17, 1990).

Continuing to Use the Export Enhancement Program More Selectively

USDA should continue to use the Export Enhancement Program selectively as leverage in negotiating a more liberal agricultural trade agreement. The Congress should reassess the need for the program when a trade agreement is negotiated.

Background

The Export Enhancement Program provides U.S. exporters with government-owned surplus agricultural commodities as bonuses, which enables them to lower commodity prices and compete with subsidized foreign agricultural exporters, especially those of the European Community. The Secretary of Agriculture established the program in May 1985, in reaction to continuing decreases in U.S. agricultural exports. Later that year, the Congress authorized the program in the farm bill. As of February, 1990, the Foreign Agricultural Service, which manages the program, had announced 105 initiatives, involving 65 countries and 12 commodities, and resulting in over $9 billion in sales. USDA had made approximately $2.7-billion worth of surplus agricultural commodities available to exporters.

Analysis

USDA targets Export Enhancement Program sales to markets where agricultural exports can be increased. Initially, USDA targeted program sales to countries purchasing significant quantities of European Community-subsidized commodities. As the program expanded, USDA began targeting countries where the European Community countries had a limited presence. In the past year, however, USDA has again begun using the program more selectively to further trade policy objectives.

The Export Enhancement Program's effectiveness is problematic. U.S. agricultural exports have increased significantly since the program's inception, but it is difficult to determine how much of this increase is due to the program. Its effect cannot be easily isolated from other policy and economic variables influencing exports, such as lower loan rates, export financing and other government assistance, the U.S. dollar's depreciation against major competitors' currencies, and production shortfalls. For example, recent studies agree that the Export Enhancement Program has increased U.S. wheat exports, but they disagree on how much of the increase was due to the program, with estimates ranging from 2 to 30 percent. The studies' conclusions are significantly influenced by the assumptions made and time period covered.

The Export Enhancement Program is now operating in an environment that contrasts sharply with 1985, when U.S. agricultural exports were decreasing and government-owned grain surpluses were rising. For example, in the past year, the world supply of wheat has become relatively tight because of adverse weather conditions and decisions by some producing countries to reduce production. World prices have risen as a result.

Despite the difficulty of measuring the Export Enhancement Program's effectiveness, the U.S. government views it as a valuable trade policy tool that has encouraged the European Community to negotiate more liberal agricultural policies in the Uruguay Round of the multilateral trade talks. Moreover, the program has probably increased the resolve of other trade competitors, such as Australia, Canada, and Argentina, to press for an agricultural trade agreement. The U.S. government has therefore continually reaffirmed its position that any unilateral concession would weaken the U.S. negotiating position.

In recognition of the Export Enhancement Program's usefulness to the U.S. negotiating position, USDA should continue to use the program selectively to increase the export of specific agricultural commodities in specific markets.

Suggestions for Congressional Consideration

The Congress should reassess the need for the Export Enhancement Program at the conclusion of the current negotiating round—scheduled for December 1990—in light of any agreement reached on agricultural trade liberalization.

For more information, see International Trade: Activity Under the Export Enhancement Program (GAO/NSIAD-90-59FS, Feb. 12, 1990); International Trade: Export Enhancement Program Bonus Overpayments (GAO/NSIAD-90-83, Feb. 7, 1990); Status Report on GAO's Reviews of the Targeted Export Assistance Program, the Export Enhancement Program, and the GSM-102/103 Export Credit Guarantee Programs (GAO/T-NSIAD-90-02, Feb. 21, 1990); and International Trade: Implementation of the Agricultural Export Enhancement Program (GAO/NSIAD-87-74BR, Mar. 17, 1987).

Combining the Targeted Export Assistance and Cooperator Programs

Combining the Targeted Export Assistance Program and Cooperator Market Development Programs (Cooperator Program) would make USDA's market development programs more effective and improve program administration.

Background

USDA uses both the Targeted Export Assistance and Cooperator Programs for its market development activities. The Congress established the Targeted Export Assistance Program in 1985 to increase U.S. agricultural exports by countering or offsetting the adverse effects of foreign competitors' unfair trade practices, such as subsidies and import quotas. In administering the program, the Foreign Agricultural Service chose to focus on the promotion of high-value products and horticultural crops that, according to some commodity groups, were not benefiting from USDA export programs. It was funded at $200 million for fiscal years 1989 and 1990, and $110 million annually for fiscal years 1986 through 1988. In contrast, the Cooperator Program, in effect for 35 years, focuses primarily on developing and maintaining overseas markets for U.S. bulk commodities. The program, also administered by the Foreign Agricultural Service, is funded annually at approximately $35 million. The private sector also provides funding for these market development programs.

Analysis

Combining the Targeted Export Assistance Program with the Cooperator Program would make USDA's market development activities more effective. Both programs fund the same types of activities, such as consumer promotion, trade servicing, and technical assistance. A combined program could continue to tailor the activity to the commodity or product being promoted. Because approximately half of the Targeted Export Assistance Program participants are also in the Cooperator Program, coordination of activities would prevent duplication of effort and would provide more complete and accurate information to management concerning the scope of market development activities worldwide.

Combining the two programs would also probably be a more efficient use of the Foreign Agricultural Service's resources. Marketing specialists and other Service officials presently manage the two programs separately because they operate under different deadlines and use different programming criteria. A combined program would facilitate decision-making for program specialists because they would then have one set of criteria for funding allocations, participant contributions, program evaluations, and other aspects of program administration.

In addition to combining the programs, the Foreign Agricultural Service can also improve USDA's market development efforts by ensuring program accountability through better documentation and evaluation. The Service cannot, for example, clearly show how funding criteria are applied and set in priority order for major program decisions. Because GAO and USDA's Office of Inspector General have expressed concern about these problems, the Service has submitted proposed regulations for the Targeted Export Assistance Program to the Office of Management and Budget for review.

The Foreign Agricultural Service has also not fully utilized evaluations for oversight and management. It needs to consistently track and enforce compliance with evaluation requirements and use the results of participant evaluations in making subsequent funding allocations. It also needs to more thoroughly evaluate the overall effectiveness of these market development programs.

Suggestions for Congressional Consideration

The Congress should consider requiring USDA to combine the Targeted Export Assistance Program and the Cooperator Program to make them more efficient. In addition to the Foreign Agricultural Service's making greater use of evaluations for oversight and management, combining the programs would help ensure that market development funds are used more effectively.

For more information, see Status Report on GAO's Reviews of the Targeted Export Assistance Program, the Export Enhancement Program, and the GSM-102/103 Export Credit Guarantee Programs (GAO/T-NSIAD-90-02, Feb. 21, 1990); Agricultural Trade: Review of the Targeted Export Assistance Program (GAO/NSIAD-88-183, May 24, 1988); and International Trade: Review of Effectiveness of FAS Market Development Program (GAO/NSIAD-87-89, Mar. 17, 1987).

Controlling Export Credit Guarantee Programs Better

Export credit guarantee programs need better controls to ensure program integrity and minimize the government's financial risk.

Background

Through the Commodity Credit Corporation (CCC), USDA manages export credit guarantee programs designed to encourage U.S. agricultural commodity and product exports. Under these programs, about $5.5 billion in loan guarantees are made available annually to exporters or their assigned financial institutions. These guarantees ensure that the exporters, or their consignees, will be repaid for credit sales made to foreign buyers. Like other guarantee programs, the government incurs no direct costs—except for program administration—unless defaults occur and claims for repayments are made. Although GAO was unable to quantify the amount of additional exports resulting from these programs, the CCC credit guarantees appear to enhance agricultural exports because they enable those with limited financial resources to buy commodities.

Analysis

CCC does not adequately control the participation of financial institutions nor ensure that only U.S. agricultural commodities are exported and that they reach their destination. Instead, CCC officials have traditionally taken a hands-off management approach; they view the programs as primarily private sector transactions, subject to the normal private sector business controls. As a result, CCC does not (1) review financial institutions' internal controls to ensure that appropriate banking standards are met; (2) ensure that financial institutions spread their loan portfolio among many countries, to avoid concentrating loans in one country, which can expose the U.S. government to undue risk; or (3) physically verify that exporters use guaranteed loans only for U.S. agricultural commodities and that commodities reach their intended destinations.

Without adequate controls, guaranteed credit funds can be misused. In one case, now under a Department of Justice criminal investigation, employees of a U.S. bank made billions of dollars of loans to a foreign country—a significant portion of which derived from the CCC credit guarantee programs—without the authorization of high-level bank officials. The amount of loans greatly exceeded the bank's approved risk exposure for that country. In addition, it has been alleged that the country is not using the loans for their intended purposes. Because of its inadequate controls, CCC does not know if the loans were used for U.S. agricultural commodities, and if they were, whether the commodities were actually delivered to the country.

Finally, CCC does not recognize in its financial statements the amount of estimated losses in its loan guarantee programs. Losses since the programs began, as of September 30, 1988, are estimated to range from $2.3 billion to $3.5 billion on guarantees of outstanding loans to foreign countries of $6 billion. A policy of recognizing estimated losses in financial statements has been adopted by the Export-Import Bank, which manages similar programs.

Establishing better controls over guaranteed credit funds would minimize the government's loan-guarantee risk by ensuring that only approved commodities are guaranteed and delivered. Tightening up the $5.5-billion export guarantee programs can prevent defaults and save the government millions of dollars in future costs.

Suggestions for Congressional Consideration

The Congress should consider requiring CCC to adopt a policy of recognizing in its financial statements the amount of estimated losses in its loan guarantee programs. Recognizing estimated losses in CCC's financial statements will more accurately reflect CCC's financial condition.

For more information, see International Trade: Commodity Credit Corporation's Export Credit Guarantee Programs, (GAO/NSIAD-88-194, June 10, 1988), Commodity Credit Corporation's Export Credit Guarantee Programs (GAO/T-NSIAD-89-2, Oct. 6, 1988; GAO/T-NSIAD-89-9, Mar. 2, 1989; and GAO/T-NSIAD-89-41, June 14, 1989); Status Report on GAO's Reviews of the Targeted Export Assistance Program, the Export Enhancement Program, and the GSM-102/103 Export Credit Guarantee Programs, (GAO/T-NSIAD-90-12, Nov. 16, 1989); and Financial Audit: Commodity Credit Corporation's Financial Statements for 1988 and 1987 (GAO/AFMD-89-83, Aug. 4, 1989).

Clarifying Accountability Over P.L. 480 Local Currencies

The Agency for International Development (AID) needs to clarify how much accountability its overseas missions should exercise over local currencies generated from food sold under Public Law 480 (P.L. 480).

Background

Under title I of P.L. 480, developing countries may receive long-term, low-interest credits to purchase U.S. agricultural commodities that they sell in-country. The host country must agree with AID on the use of these sales proceeds, which traditionally have been viewed as owned by the host country. AID is to ensure that host countries use the local currencies for economic development.[2] Developing countries spent the equivalent of $562 million in P.L. 480-generated currencies in fiscal year 1988.

Analysis

AID and its Office of Inspector General differ on the agency's role in administering P.L. 480's local currency provisions. AID argues that, although it must be satisfied that local currency is used for appropriate economic development, host countries are ultimately accountable for the proper use of these funds because they own them. Consequently, AID has its missions rely as much as possible on host governments to account for

[2]Under certain provisions, title II of P.L. 480 also generates local currencies, which must be used for similar development purposes.

the use of the local currencies. AID maintains that increasing demands for accountability create friction because host countries view the currencies as their own.

In contrast, the Inspector General contends that AID's missions must maintain accountability for these funds because they are generated as a result of U.S. assistance. Using this criterion, the Inspector General audits have found that many AID missions, because of accounting and monitoring weaknesses in the mission or host government, cannot always ensure that local currencies are being used for economic development.

Because host countries vary in their development needs and management capabilities, AID's policies provide missions with substantial flexibility in designing local currency programs. Consequently, AID's guidance for monitoring local currency is written to provide maximum flexibility, and is therefore sometimes ambiguous. For example, AID missions are sometimes required to take a "more active" monitoring role when they are not reasonably assured that host countries have adequate implementation and monitoring capabilities.

According to AID officials, lack of universally accepted accountability requirements has created frustration and uncertainty at overseas missions. These missions also say they do not have staff to significantly increase their monitoring of local currency. They acknowledge, however, that they need to better account for local currency use in some areas.

To effectively implement local currency programs, AID needs to establish clear and practical accountability guidelines. These guidelines should be sufficiently flexible to allow the missions to negotiate local currency uses according to each country's development needs and managerial capabilities, and should take AID's limited mission resources into consideration. Most importantly, the guidelines should emphasize assessing and improving the financial management systems of host country agencies so that AID can be reasonably assured that the currencies will be properly used.

Suggestions for Congressional Consideration

Although GAO makes no suggestions for congressional consideration, the Congress should satisfy itself that AID administratively resolves this accountability issue.

For more information, see Status Report on GAO's Reviews of P.L. 480 Programs (GAO/T-NSIAD-90-23, Mar. 21, 1990)

Food Stamp Program

Providing Full Food Stamp Benefits After Late Applications Are Received

The Congress should consider providing a full month's worth of benefits to participants who file recertification applications up to 1 month late.

Background

The food stamp application process is complex, in part because of the need to ensure that only eligible applicants participate in the program. Applicants are primarily responsible for substantiating their eligibility. They must provide at least 60 pieces of information about household size, income, living expenses, and assets. Not surprisingly, eligible program participants do not always comply with these procedures in a timely manner and therefore can be temporarily terminated from the Food Stamp Program. These eligible households could then be without food assistance.

Analysis

For households temporarily terminated (from 1 day to 3 months) from the Food Stamp Program for procedural noncompliance, GAO estimated that 49 percent of the households in one state and 68 percent of the households in another experienced breaks in benefits in fiscal year 1987. About 87 percent of the breaks represent proper changes that the program is designed to adjust for. The remaining 13 percent, however, were due to either households' or state agencies' not complying with procedural requirements. As a result, these otherwise eligible households lost benefits of between $800,000 and $5.3 million in the two states. Other states GAO contacted indicated that they may face similar conditions.

To continue in the program, a participant must submit either timely monthly reports or new applications for recertification by specified dates. Participants in both states, however, did not always complete and submit monthly reports or new applications on time, or complete other requirements, causing an estimated 29,100 temporary terminations from the program and loss of benefits. The majority (88 percent) of these breaks occurred because participants did not file timely or complete applications for recertification.

When the food stamp office does not receive a new application before the certification of eligibility expires, it terminates the participant and provides a prorated benefit based on the date it receives the new application. If this provision was changed to allow participants an extra month to submit a new application, as is the case for monthly reporting, most participants filing late would receive a full month's worth of benefits. To ensure those participants' eligibility for the full month's benefits, however, the state would not issue the actual benefit until the participant had submitted a new application for recertification and met all other program requirements.

Suggestions for Congressional Consideration

If the Congress believes that the benefits to participants from such a change would outweigh the cost increases, it should exclude from the proration provisions of the Food Stamp Act those participants who file new applications for recertification within a month of their expiration date. Such an exclusion would be consistent with present provisions governing monthly reporting.

This change would increase program costs. GAO estimated, for example, that households in one state would have received between $18,400 and $158,000 more during fiscal year 1987, while households in another state would have received between $50,000 and $1.5 million more for the same period.

For more information, see Food Stamp Program: Participants Temporarily Terminated for Procedural Noncompliance (GAO/RCED-89-81, June 22, 1989).

Discontinuing the 75-Percent Funding Level for Food Stamp Automation

The 75-percent funding level for food stamp automation should be discontinued because it has accomplished the objective established by the originating congressional committee.

Background

Food stamp automation helps state and local agencies reduce program errors, manage large caseloads, and improve services to participants. Since 1980, state agencies have spent about $524 million in federal and state funds to automate. In addition to the normal 50-percent rate of federal funding for developing and operating automated systems, the Food Stamp Act Amendments of 1980 increased the federal share to

75 percent to encourage states not yet automating to begin automating their food stamp programs.

Analysis

The House Committee on Agriculture intended that the 75-percent federal cost-sharing would be a one-time incentive to encourage state agencies not computerizing their programs to automate. USDA, however, approved 75-percent funding to 37 state agencies—sometimes more than once—to upgrade, modify, or replace existing automated systems. Only four of these state agencies received the 75-percent funding to automate for the first time. The other 33 state agencies received 75-percent funding to upgrade, modify, or replace automated capabilities that were similar to those the Department approved for other state agencies at the 50-percent rate.

These 33 state approvals represented a broader interpretation of the act than the drafters of the 75-percent provision expected. Once the initial development of automated data processing with the 75-percent funding had been achieved, all future development was to be funded at 50 percent.

USDA disagreed with GAO's position that it has acted in a manner inconsistent with the originating Committee's intention. Given the difference in views, GAO brought this issue to the Congress' attention for its consideration and for any additional direction. The Congress has not yet given such guidance, and USDA continues to state that it can approve 75-percent funding to upgrade and modify automated systems.

More importantly, states no longer need enhanced federal funding to begin automating their systems. All state agencies have begun automating their food stamp programs.

Suggestions for Congressional Consideration

Because all state agencies have automated their systems to some extent, thereby accomplishing the originating committee's objective, GAO recommends that the Congress discontinue the 75-percent level of federal funding for food stamp automated systems.

For more information, see Food Stamp Program: Progress and Problems in Using 75-Percent Funding Automation (GAO/RCED-88-58, Apr. 28, 1988) and Food Stamp Automation: Some Benefits Achieved; Federal Incentive Funding No Longer Needed (GAO/RCED-90-9, Jan. 24, 1990).

Targeting Food Stamp Outreach Better

Outreach to enroll people in the Food Stamp Program should be tailored to those groups that would most benefit from it.

Background

On average, about 50 percent of eligible households receive food stamp benefits, according to GAO's review of nine studies. GAO's own study of food stamp participation showed an estimated food stamp participation rate of 43.8 percent,[1] which generally agrees with the other studies' findings.

Analysis

Of the households that GAO determined were eligible for food stamps but that did not participate, (1) 38 percent did not do so because they did not want benefits (2) 37 percent because they lacked information about the program, and (3) 25 percent because they had problems with the program or with gaining access to it.

Reasons for not participating also varied according to household characteristics. Households reporting a lack of desire for benefits were those in which the head of the household was, for example, a white, married individual, or a Social Security recipient. Households that reported a lack of information about the program were those headed by white, single males, or by single females. Households reporting problems with the program or access to it were, for example, those receiving Supplemental Security Income or receiving other welfare benefits, or headed by a single male.

From a policy viewpoint, eligible households that choose not to participate may not be a problem if they do so fully knowing the benefits they are declining. On the other hand, difficulty with the program, access to it, and lack of information about it, are problems that can be remedied. The Hunger Prevention Act of 1988 specifies many actions USDA can take to reduce program or access problems, including outreach for low-income households.

Nationally, different population groups are more likely to lack information about the program than others. Although the exact mix of nonparticipants and reasons for nonparticipation will vary from locale to

[1]Based on questions included as part of the 1986 Panel Study of Income Dynamics, a nationally representative sample of households.

locale, GAO found that households headed by single individuals are most likely to be influenced by effective outreach.

The Food and Nutrition Service should encourage states to target outreach to those groups that would most benefit from it and tailor the type of outreach to the needs and characteristics of these groups. Such an effort should maximize the returns on investments in outreach at the state and federal levels. The Service agreed with our recommendation.

Suggestions for Congressional Consideration

Although congressional action is not required to implement this recommendation, successful implementation could increase food stamp participation and program costs.

For more information, see Food Stamps: Examination of Program Data and Analysis of Nonparticipation (GAO/PEMD-88-21, July 5, 1988); Food Stamps: Reasons for Nonparticipation (GAO/PEMD-89-5BR, Dec. 8, 1988); and Food Stamp Program: A Demographic Analysis of Participation and Nonparticipation (GAO/PEMD-90-8, Jan. 19, 1990).

Management

The Secretary of Agriculture faces a formidable task in mobilizing over 110,000 full-time employees spread among 36 agencies to implement policies and programs under rapidly changing conditions and outside pressures. Faced with these organizational constraints, the Secretary and USDA managers must struggle to adapt their systems to new policy requirements. These adaptations, however, have often resulted in poorly developed and implemented programs. These difficulties place USDA at risk of being unable to effectively fulfill its missions to deal with the growing number of emerging missions concerning the environment, food safety, and biotechnology.

To overcome these constraints, USDA must more effectively manage its human resources, information systems, and finances. The absence of strong central direction and leadership perpetuates long-standing weaknesses in these basic management areas. Absent more attention to fundamental management, USDA's capacity to develop and implement food and agriculture policies and programs will continue to be severely weakened.

Several analyses follow that highlight a number of important management issues facing USDA. Although many of these suggestions and recommendations can be addressed by the Secretary of Agriculture, the Congress should be aware of these issues—which affect USDA's ability to carry out congressionally mandated programs—as it develops new programs for the 1990 farm bill.

Improving the Accuracy of Commodity Program Budget Forecasts

Until USDA improves the accuracy of its forecasts of commodity program benefits, the Congress should view these forecasts skeptically.

Background

USDA budget estimates for commodity programs provide policymakers with a forecast of commodity program costs before money is spent. These estimates help the Congress monitor these programs, debate proposed revisions, and manage the national budget deficit. Commodity program expenditures must be estimated because, among other things, they depend on the number of acres enrolled in the program and production levels, which are difficult to predict because they are influenced by uncontrollable factors such as weather and expected world market prices, as well as by the payment rates set by the Secretary of Agriculture.

Analysis

USDA's budget estimates for commodity programs between 1972 and 1986—which have been included in the President's budgets—have often substantially underestimated the cost of program benefits. During this period, absolute errors totaled $64.1 billion. Between 1981 and 1986, USDA underestimated these costs by between 40 percent and 80 percent in 5 of the 6 years.

Consequently, the Commodity Credit Corporation (CCC)—which disperses commodity payments—spent on average considerably more than USDA had predicted. Although aware of the estimates' weaknesses, USDA has never systematically informed the Congress about them.

Several types of errors have affected USDA's forecasting accuracy. In some cases, USDA made assumptions about program implementation that differed from actual implementation. In addition, erroneous economic assumptions, such as forecasts of inflation or growth in the gross national product, could have also caused errors.

USDA's management of its forecast preparation is also deficient for several reasons:

- USDA has not systematically attempted to identify the source of its forecasting errors. Identifying previous mistakes cannot guarantee accurate future forecasts. However, evaluation techniques are available that can improve USDA's forecasting and identify its limitations.
- USDA has not maintained records of the data used for supply-and-demand forecasts, or documented why in some cases official forecasts were not always used in developing budget estimates.
- USDA has generally not documented its forecasting methods, depriving users of information they need to evaluate the forecasts' quality.
- USDA lacks a structured quality control program to correct weaknesses in various forecasting components, although it has taken action to correct some weaknesses.

To improve the accuracy of USDA's forecasts, GAO recommended that the Secretary of Agriculture designate a single organization to manage the forecasting program and establish a quality control program. Although USDA generally agreed with these recommendations, it will take time to improve its forecasts.

Suggestions for Congressional Consideration

Until improvements are made, the Congress should view USDA's forecasts of commodity program costs skeptically, especially because of USDA's recent record of often underestimating these costs by between 40 percent and 80 percent.

For more information, see USDA's Commodity Program: The Accuracy of Budget Forecasts (GAO/PEMD-88-8, Apr. 21, 1988).

Accurately Tracking Costs of the Commodity Certificate Program

A set of new budget terms and totals are needed to ensure proper congressional scrutiny of commodity certificate costs.

Background

In April 1986, the Commodity Credit Corporation (CCC) began issuing commodity certificates, in lieu of cash payments, to eligible farmers who chose to participate in certain price- and income-support farm programs. Close to $25 billion in certificates were issued through December 31, 1989. These certificates are negotiable and can be exchanged for cash from CCC, for CCC-owned commodities, or for commodities under nonrecourse loan agreements.

Analysis

The government has not included commodity certificates in its totals for budget authority, outlays, or obligations because certificates are not currently treated as cash. The federal budget generally operates on a cash-basis for receipts and outlays, and budget authority generally provides authority to incur obligations that will result in cash outlays. Consequently, by not treating certificates as cash in the budget, the government has been able to issue billions of dollars in certificates without reporting any budget authority, outlays, or obligations.

The commodity certificate program is but 1 of 27 programs (as of August 1988) with authority to use noncash assets as a means of financing. This form of financing is especially attractive in the current budget environment, when there is heightened concern over federal spending. The Office of Management and Budget is currently studying the budget treatment of all noncash asset transactions to develop a standard budget treatment that can be applied to all of them.

Suggestions for Congressional Consideration

To enable it to systematically review commodity certificates, the Congress should require the Administration to include the issuance of certificates in budget totals reviewed by the Congress. Developing a set of new budget terms and totals to include commodity certificates would be the preferred way to present the budget. However, simply including certificates in the budget authority and outlay totals without changing the way current budgets are reported would be an improvement over the current budget treatment of commodity certificates, which records their issuance in a supplementary table in the budget appendix.

For more information, see Budget Issues: USDA's Commodity Certificates Should Be Recognized in Budget Totals (GAO/AFMD-88-27, Aug. 16, 1988) and Commodity Certificates: Backlog of 200,000 Unreconciled Certificates Affects Financial Reporting (GAO/RCED-89-14, Oct. 25, 1988).

Reducing the Cost of USDA's Farm Service Delivery System

Because resources are increasingly scarce, USDA will need to deliver its field services more cost effectively in order to maintain the level and quality of its farm services.

Background

In fiscal year 1988, USDA spent over $2.1 billion and used over 63,000 staff years to administer the programs in its five farm service agencies. This highly decentralized field system has endured since the 1930s, when the Department first established numerous small offices to service the large number of small, widely dispersed, family-owned farms.

Analysis

Unlike many public and private organizations that periodically reorganize in response to external changes, USDA has made few adjustments to its field structure since it was established. Largely out of concern that the quality of service to constituents might suffer, proponents of the existing field delivery system have successfully resisted change. Taking action that may affect local offices is a highly sensitive issue that generates concern not only in the local area, but in the Congress as well—much like closing a post office. Given this opposition, USDA has been reluctant to embark on a course of change. This resistance continues in the face of several trends—emerging information technologies, the declining farm population, budgetary pressures, and programs requiring increased interagency coordination—that suggest USDA needs to improve the way it provides field services and reduce administrative costs.

To move toward changing the field structure, USDA needs to marshal the proper mix of leadership from headquarters and input from its state and local offices. Commitment from USDA's top management in pursuing a more streamlined and efficient Department is a necessary first step.

Management analysts in both the private and public sectors generally believe that a well-run organization is responsive to changes in its overall environment and conscious of controlling costs. USDA needs to periodically engage its top management, county offices, state and local Food and Agriculture Councils, farm clients, and the Congress in seeking more cost-effective methods for delivering its field services in an ever-changing agricultural environment. As part of this process, an assessment of the mission, design, and service delivery system of its present field structure could help USDA foster an attitude receptive to change. The Department risks a serious erosion in the quality and level of farm services resulting from large-scale, ad hoc work force reductions if it does not begin this task soon.

GAO is evaluating USDA's farm service delivery system and will present its findings and recommendations to the Congress at a later date.

Suggestions for Congressional Consideration

With its ability to create, abolish, restructure, and fund federal departments and agencies, the Congress has a pervasive influence over executive branch organization. The Congress should work more closely with USDA management to identify cost-saving opportunities in the delivery of USDA programs and services. Even modest reductions in the size of USDA's $2.1-billion farm services delivery system can result in millions of dollars in savings.

For more information, see U.S. Department of Agriculture: Interim Report on Ways to Enhance Management, (GAO/RCED-90-19, Oct. 29, 1989) and U.S. Department of Agriculture: Status of the Food and Agriculture Councils Needs to Be Elevated, (GAO/RCED-90-29, Nov. 20, 1989), and the forthcoming report on USDA's field structure.

Providing More Planning Time for Developing Automated Systems

The time between the approval of legislation and program implementation dates sometimes does not provide USDA agencies with sufficient time to adequately design, develop, and test computer software.

Background

USDA, especially the Agricultural Stabilization and Conservation Service (ASCS) and the Farmers Home Administration (FmHA), use information technology and systems extensively in managing their programs. Since the early 1980s, ASCS and FmHA have spent about $300 million to install computers in their approximately 5,000 state, district, and county offices. The two agencies—having developed software systems to implement legislative and other program requirements—depend on these systems to provide loan-making, price-stabilization, income-support, and conservation services to farmers and other clients.

Analysis

FmHA and ASCS must often change their computer software to comply with program changes directed by legislation. The Congress sometimes requires USDA to implement these changes in a relatively short amount of time—sometimes within 30 to 75 days after legislation is approved. This amount of time is insufficient for the agencies to prepare and issue implementing regulations and instructions and then design, develop, and test the computer software needed to implement these changes.

To implement legislation quickly, FmHA and ASCS must shortcut the software development and testing process, which results in inadequately tested computer software that contains errors when sent to the field offices. The field office staff have to "make do" with this flawed computer software or revert to less efficient manual procedures until the software is corrected. This results in increased administrative burdens.

Using flawed software can result in inaccurate loans or farm payments. Relying on imperfect software for farm program information can also cause farmers to make incorrect production decisions during enrollment. Consequently, farm legislation, if implemented too quickly, may not have its intended effect on crop production or conservation practices.

Additionally, insufficient development time limits how well system developers can document changes to software systems. Without proper documentation, system analysts have difficulty correcting errors and understanding how the software functions, which can cause subsequent system changes to be susceptible to more errors.

Suggestions for Congressional Consideration

In setting deadlines for implementing farm program legislation, the Congress should provide USDA with sufficient time to design, develop, test, and document computer software. Doing so would improve service quality, help ensure that the legislation is properly implemented in field offices, and reduce USDA's administrative burden.

For more information, see Agriculture: Progress Made Toward Goals of 1985 Farm Bill (GAO/RCED-89-76BR, Mar. 30, 1989).

Improving Program Management Through More Data-Sharing

Increased data-sharing among agencies can help USDA provide services more efficiently and effectively.

Background

USDA's farm agencies use administrative and operational information systems to deliver program benefits—primarily credit, commodity support, and soil and water conservation programs—at state and county offices. Beginning in the early 1980s, in response to increasing work loads, USDA automated these systems to improve productivity and increase efficiency. However, little attention was paid to integrating these data bases. For the most part, these agencies still use separate data bases to collect, process, and report program data. Over the next 5 years, USDA projects that it will spend $3.2 billion for information resource management.

Analysis

Farm programs are becoming more interdependent and thus require more data-sharing. The 1985 farm bill, for example, requires USDA agencies to share conservation data with state governments and other federal agencies. The Agricultural Stabilization and Conservation Service (ASCS) and the Soil Conservation Service also have increasing needs to share data to accomplish their missions, and the new farm bill's expected emphasis on the environment and food safety will require additional data-sharing. In addition, to avoid paying benefits to ineligible farmers, ASCS and the Farmers Home Administration must share program information. A recent USDA Office of Inspector General audit uncovered millions of dollars in payments made to ineligible farmers—payments that might have been avoided with an integrated data base shared by ASCS and the Farmers Home Administration.[1] New design, integration, and data transmission technologies offer USDA opportunities to establish common data bases and share data more effectively.

In addition, during USDA's 1985 streamlining initiative, five state Food and Agriculture Councils submitted proposals to improve data-sharing among USDA agencies operating in the field. One council reviewed the data needs of each USDA agency operating within its state and identified 12 areas where common data bases could improve the operations of 2 or more of 5 USDA agencies.

USDA agencies have begun to plan to share data among programs and agencies, but so far they have made little progress. USDA, for example, has not agreed on common data definitions, which is a critical first step in sharing data. Furthermore, management information needs are not specified in agencies' 5-year plans. As a result, the data bases that have been developed do not support the basic management need to share data.

GAO is evaluating USDA's management of information resources and will present its findings and recommendations to the Congress at a later date.

Suggestions for Congressional Consideration

To improve USDA's management planning for information resources, the Congress should encourage USDA to share data among programs and agencies to the maximum extent possible.

For more information, see USDA: Interim Report on Ways to Enhance Management (GAO/RCED-90-19) and the forthcoming report on USDA management.

[1] Audit of the Unauthorized Use of Farmers Home Administration Inventory Farm Property (Audit Report No. 50099-20-AT, May 17, 1989).

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