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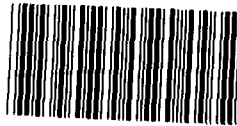
United States General Accounting Office

GAO

Transition Series

December 1992

# Food and Agriculture Issues



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United States  
General Accounting Office  
Washington, D.C. 20548

Comptroller General  
of the United States

December 1992

Speaker of the House of Representatives  
Majority Leader of the Senate

In response to your request, this transition series report discusses major policy, management, and program issues facing the Congress and the new administration in the areas of food and agriculture. These issues include (1) streamlining the U.S. Department of Agriculture, (2) transforming agricultural programs to meet global competition and conserve resources, (3) reforming farm credit and risk protection, (4) reorienting rural development policy, and (5) revamping the federal system for ensuring food safety.

As part of our high-risk series on federal program areas that are vulnerable to waste, fraud, abuse, and mismanagement, we are issuing a related report, Farmers Home Administration's Farm Loan Programs (GAO/HR-93-1, Dec. 1992).

The GAO products on which this transition series report is based are listed at the end of the report.

We are also sending copies of this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the Secretary-designate of Agriculture.

Charles A. Bowsher

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# Food and Agriculture Issues

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The U.S. Department of Agriculture (USDA), whose budget is the third largest of any civilian agency in the federal government, affects the lives of all Americans and of millions of people around the world. Created 130 years ago to conduct research and disseminate information to farmers, USDA has expanded its role greatly over time. Programs are now designed to support farm income, develop markets, boost farm production and exports, and provide consumers with food information and assistance. To carry out its mission in 1990, USDA spent about \$46 billion, controlled assets of about \$140 billion, and employed over 110,000 full-time employees in 36 agencies in over 15,000 locations worldwide.

USDA's many programs helped to make America a world leader in agriculture. In recent years, however, resource constraints at home and competition in agricultural markets abroad have created pressures to modify existing departmental structures and programs. Our recent work has emphasized the importance of streamlining USDA's organization and programs to deliver farm services more efficiently and economically. In addition, the importance of orienting U.S. farm programs away from production and income support—which currently cost about

\$10 billion annually—toward market development and global competition has grown since we discussed the need to develop strategies for exporting commodities in our 1988 transition report. The need for such a shift is clear—between 1980 and 1990, the U.S. share of world agricultural exports declined from about 29 percent to about 22 percent.

We also raised concerns in our 1988 report about farm finance programs and risk protection, which expose the government to financial losses in the tens of billions of dollars. Since 1988, fiscal pressures have enhanced the importance of reforming farm credit and risk protection, as well as of coordinating federal programs for ensuring food safety and quality. The continuing decline of rural economies has drawn more attention to the need for revising and coordinating rural development policies, and concern about the impact of agriculture on the environment has affected and will continue to affect federal policies on water quality and land use.

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# Revitalizing the Department of Agriculture

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Like a 20th-century dinosaur, USDA's cumbersome organization has survived changes in the Department's role and mission but has not adapted to current conditions. Today's USDA is an agglomeration of programs and structures that have remained virtually unaltered since the 1930s, despite evolutions in issues and advances in technology. To keep up with the times, USDA needs to simplify and streamline its organization, becoming more accessible and responsive to its highly diverse clients.

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## Reorganizing USDA

In September 1991, we issued a general management report on USDA calling for restructuring to make the Department more responsive to current conditions and more effective in managing its resources to meet domestic food and fiber needs. In our view, USDA needs not only to refocus its programs to respond to the challenges of global competition and environmental protection but also to adapt its organization to take advantage of advances in communications, computers, and transportation. At the same time, as we reported in our 1988 transition report, farm programs have become so complex that they are virtually impossible to administer.



Opportunities exist to simplify USDA's organizational structure, which currently may require farmers and others to deal with different offices, employees, and administrative procedures. We have recommended that USDA look at the efficiencies and cost savings to the U.S. taxpayer that could result from streamlining through consolidating and collocating the multiple farm service agency offices that are located in almost every county across the country. USDA and the Congress need to consider integrating the Department's farm service agency delivery system so that multiple agencies operate as a unit at local levels. While not advocating the closure of specific offices, we believe that USDA needs to examine its entire field structure in the context of its overall mission and role. To be successful in streamlining, USDA needs to use a grass-roots process to bring together a mix of agency officials, state agricultural panels, public interest groups, congressional staff, and others. Such a process can generate a wealth of ideas and facilitate acceptance of changes to follow. This process should be carried out in conjunction with efforts to simplify farm programs.

The Congress, the Office of Management and Budget (OMB), and USDA are reviewing ways

to reorganize USDA. In 1992, several congressional hearings were held on streamlining USDA and its field structure. Members of the Senate and House Agriculture committees introduced bills aimed at restructuring USDA. Although these bills were not enacted in 1992, the sponsors are expected to reintroduce them in 1993. In addition, the Secretary of Agriculture and the Director of OMB formed a joint task force on streamlining the Department. It is imperative that the new administration continue efforts to restructure the Department's organization and management and to work with the Congress to simplify farm programs.

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**Improving  
Financial and  
Information  
Management  
Systems**

Antiquated management systems further hamper USDA's ability to make needed structural and management changes, as well as carry out day-to-day management functions. The Department's financial and information management systems do not produce the timely, complete, and reliable information needed to manage the Department.

The Department's financial systems are in poor condition. Recently, USDA's Office of Inspector General issued an adverse opinion

on the Department's fiscal year 1991 financial statements, in part because of "incomplete, inaccurate, or insufficient accounting records and supporting documentation."

Effective financial management within USDA will depend largely on successfully implementing all aspects of the Chief Financial Officers Act to gain control of USDA's finances and provide accountability and stewardship for the Department's resources. Strong leadership from the Chief Financial Officer is needed to solve long-standing problems and to focus on financial management issues requiring prompt and appropriate attention.

USDA plans to spend about \$4 billion over the next few years on information systems technology to support various agricultural programs. However, USDA could waste hundreds of millions of dollars if it does not carry out the planning required to ensure that the new systems meet its current or future needs. Also, USDA needs to coordinate its major information technology investments with its pending reorganization. Strong central information resources management leadership is essential to ensure the success of USDA's future

automation efforts. In addition, USDA must finish developing its long-range business and strategic information resources plans.

In response to our recommendations on several management issues, the Secretary established the Secretary's Management Agenda as an ongoing departmentwide tracking system to monitor key departmental and agency management issues, goals, and objectives. The new administration should maintain this initiative.

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# Transforming Programs to Meet Global Competition and Conserve Resources

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The 1985 and 1990 farm bills moved U.S. agriculture towards a greater market orientation, helping to make U.S. farm commodities more competitive in the world marketplace while maintaining farm income. However, budget constraints and increased global competition are pressuring policymakers to move faster.

Decisions on how to change farm programs in response to these pressures will be complicated by conservation and environmental considerations. Although the commodity programs have intensified production at the expense of soil conservation and water quality, attention to the environmental impacts of agriculture is growing.

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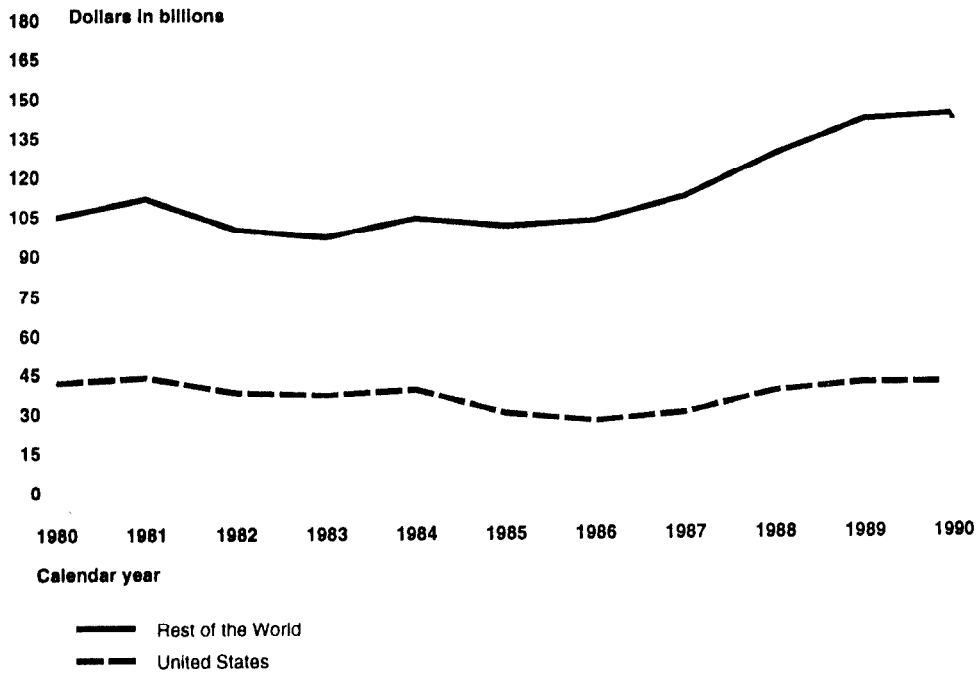
## Moving Farm Policy Toward Market Responsiveness

The agricultural commodity programs established in the 1930s tied benefits to production. Through these programs, the government guaranteed producers a certain return and purchased all surpluses. Then, through export programs and policies, the government focused on disposing of surpluses generated by the commodity programs, paying little attention to developing and expanding markets. Today,

these programs cost about \$10 billion annually.

Major shifts in global markets have occurred in recent years. During the 1970s, export markets afforded a ready outlet for commodity program surpluses. Throughout this period, the United States benefited from an agricultural trade boom that was due in large part to expanding agricultural markets. However, this boom ended abruptly in 1981 with the onset of a world recession. Then, throughout the 1980s, the U.S. share of world markets declined as international competition increased and trade barriers went up, as figure 1 shows.

Figure 1: Agricultural Export Trends—United States and Rest of the World



Note: Data for the rest of the world exclude trade within the European Community.

Source: GAO analysis of Foreign Agricultural Service data.

We have frequently reported on the need to orient commodity programs more to the market. We have recommended the elimination of certain programs—such as the

honey and the wool and mohair programs—that are outdated and, in some instances, benefit relatively few producers.

The 1985 and 1990 farm bills contained provisions to make some commodity programs more market oriented. The bills reduced support prices and gave producers more flexibility to plant some of their acreage in crops other than their main program crop. These reforms lessened the government's role in maintaining farm prices. Yet despite these changes, overall commodity program costs have remained high. For example, although these reforms weakened the wheat program's link between benefits and production, the program cost about \$2.5 billion in 1991, compared to an average of about \$3.3 billion for the period 1982-85.

Growing budgetary constraints on federal agricultural programs, together with increasing global competition, will require agricultural policies and programs to become even more flexible and responsive to market demands. Retaining policies rooted in the 1930s emphasis on production rather than conforming policies to today's market focus is risky. If U.S. agriculture is to succeed, it requires new strategies to



respond to changing world market conditions.

Since we issued our 1988 transition report, U.S. agricultural policy has pursued a two-pronged approach aimed, first, at reducing trade barriers and, second, at enhancing the competitiveness of U.S. products in world markets. In 1988, the United States was actively pursuing the current General Agreement on Tariffs and Trade negotiations to eliminate all agricultural subsidies and import barriers that distort trade. At the same time, certain USDA programs subsidizing agricultural exports were designed to counteract the agricultural subsidies of other nations. Our 1988 report raised concerns about how some of these programs were being managed. We still have these concerns. (For more detail, see our transition report, International Trade Issues, GAO/OCG-93-11TR, Dec. 1992).

After 6 years, some progress was finally made in the multilateral, global trade negotiations when a tentative compromise was reached in November 1992 in a long-standing dispute between the United States and the European Community (EC) over oilseed subsidies. Currently, this compromise, which calls for cuts in the EC's

exports of subsidized grain and production of subsidized oilseed crops, awaits ratification.

No matter how the global trade negotiations are resolved, global competition and budgetary restrictions will continue to exert pressure on farm programs and policies. In our 1988 transition report, we reported that USDA did not have a long-term agricultural trade strategy, and we urged the Department to apply strategic marketing principles to agricultural trade. In the 1990 farm bill, the Congress also recognized the need for a long-term agricultural trade strategy. The bill directed USDA to develop such a strategy and to report its progress by October 1991. USDA has yet to complete such a strategy.

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**Facing  
Environmental  
and Resource  
Conservation  
Challenges**

U.S. agriculture has come under increasing attack for its contribution to environmental degradation. Studies have indicated that the environment is being degraded, in part, by the agricultural system it supports. Over the years, commodity programs have encouraged the intensive production of crops through methods that erode the soil and rely on the use of chemical fertilizers and pesticides. As a result, sediment and chemical residues are carried in runoff from

cropland to the nation's waters. Today, polluted runoff from agriculture affects 50 to 70 percent of the nation's monitored waters.

By the 1980s, agriculture's impact, both on and off the farm, was recognized as a key environmental problem. As a result, the Congress, in the 1985 and 1990 farm bills, significantly changed the nation's policies for conserving agricultural resources. For example, both farm bills created or expanded conservation programs to transfer over 40 million acres of environmentally fragile lands from production to conservation and wetland reserves. The bills also required farmers to comply with USDA-approved conservation plans on 142 million acres or lose their farm support payments. The annual cost of these programs, however, is about \$2.4 billion.

Although the 1985 and 1990 farm bills created environmental and conservation initiatives, many challenges lie ahead because these initiatives are still in transition. As budget and other pressures influence farm policies, economic incentives to get farmers to participate voluntarily in these conservation programs may become too expensive and/or lose viability as a policy tool. Thus, new approaches that

combine education, research, technical assistance, technological innovation, and regulation will be needed to sustain agricultural and environmental goals simultaneously.

One of the many challenges facing USDA is in the area of water quality. Even though 10 of the Department's 36 agencies have water quality responsibilities, USDA does not have a comprehensive approach for addressing these responsibilities. To date, USDA has not effectively coordinated dozens of separate agency water quality programs, despite congressional direction and our recommendations to do so.

Other upcoming legislative initiatives, such as the reauthorization of the Clean Water Act, could directly influence agricultural practices. The Congress is paying close attention to nonpoint source pollution and to the role of agriculture as the main contributor to this problem.

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# Reforming Farm Credit and Risk Protection

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Several USDA programs are aimed at helping farmers by providing loans, crop insurance, and disaster assistance. These programs expose the federal government to high risks of large financial losses. An extended discussion of the risks to the federal government posed by the Farmers Home Administration's (FmHA) farm loan programs appears in our high-risk series. Highlights of that discussion immediately follow.

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## Farm Credit

The Farmers Home Administration's (FmHA) farm loan programs are intended to provide temporary credit for farmers who are unable to obtain funds elsewhere. However, these loan programs continue to expose the government to large financial losses. In recent years, FmHA reduced or forgave delinquent debt totaling about \$7.6 billion.

As part of our effort to examine government programs that are especially vulnerable to waste, fraud, abuse and mismanagement, we reported in April 1992 on FmHA's farm loan programs. As of September 30, 1990, almost 70 percent of the agency's \$20 billion direct loan portfolio was held by borrowers who were either delinquent or whose loans had been restructured as a result of, or to avoid, delinquency.

FmHA has evolved into a continuous—rather than a temporary—source of subsidized credit for nearly half of the agency's borrowers. As repeated loan servicing has increased their debt and reduced their equity, some FmHA borrowers have actually seen their financial condition worsen.

Despite the influence of some factors beyond their control, FmHA and the Congress share responsibility for many of FmHA's problems. These problems stem from (1) ineffective implementation of loan-making, loan-servicing, and property management standards by the agency's field office lending officials and (2) loan and property management policies, some congressionally directed, that are in conflict with fiscal controls designed to minimize risk and financial loss. The Congress addressed some of FmHA's problems in the 1990 farm bill. However, FmHA's losses can be expected to continue until the Congress tells the agency how to better balance its mission of assisting financially troubled farmers with its obligation to provide that assistance in a businesslike and fiscally responsible manner.

Also, it is important to recognize that not all financially stressed farms can be saved and

that not all farm families can be expected to benefit from a government assistance program intended to keep them in farming. With this in mind, the Congress should, among other things, establish guidance on the following: (1) the level of loan losses that the Congress is willing to accept; (2) the length of time over which borrowers should be allowed to receive FmHA assistance; and (3) the kind of assistance, if any, that should be made available to unsuccessful borrowers who are ready to leave farming.

Resolving these issues is critical to demonstrating that the federal government can manage its programs and spend taxpayers' dollars efficiently. But correction of the problems in the high-risk areas can only be achieved with the full and sustained support of the Congress and the administration.

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Crop Insurance  
and Disaster  
Assistance

Two other costly programs linked to commodity production and farmers' financial needs are the federal crop insurance program and the disaster assistance program. The Congress expanded the federal crop insurance program in 1980 to provide a subsidized but actuarially sound nationwide crop insurance program for

farmers and to permanently replace direct disaster assistance programs.

Notwithstanding these goals, since 1981, crop insurance payments to farmers have exceeded the subsidized premiums by more than \$2 billion. The Congress has continued to provide disaster assistance through ad hoc legislation, paying more than \$9 billion for crop losses.

Although crop insurance was intended to replace disaster assistance payments, participation in the crop insurance program has remained relatively low. Even in years when the Congress required farmers to participate in the insurance program as a condition for receiving disaster assistance payments, participation did not reach the congressional goal of 50 percent. Our 1992 crop insurance report concluded that the Congress will have to make fundamental policy decisions involving trade-offs among crop insurance participation, actuarial soundness, and the continuing provision of ad hoc disaster payments.



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# Reorienting Rural Development Policy

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Sources of rural America's economic vitality—such as farming and industries based on natural resources—have undergone major restructuring. As a result, many rural communities are no longer thriving.

Since 1969, rural per capita income has consistently been lower than urban income while rural unemployment rates have consistently been higher. These economic conditions may, in part, explain why so many people are leaving rural areas. Over the past 5 decades, the nation's rural population has declined from over 43 percent of the total population to only 22 percent.

Relative decline in rural populations may be a telling measure of the limited success that federal rural development assistance programs have had. In fact, according to experts in our June 1992 symposium, current federal programs are not meeting the needs of rural America. Many of the federal assistance programs target the agricultural sector even though farming is no longer a major economic base for many rural communities: In 1990, about 22 percent of the nation's approximately 2,400 rural counties relied on agriculture as an

economic base, and only about 6 percent of the rural population lived on farms.

The symposium experts also noted that even nonagricultural federal programs may not effectively serve rural areas. Such programs often (1) assume that "one size fits all," ignoring the diverse conditions of rural areas; (2) require coordination and expertise that are unavailable in some rural communities; and (3) focus on process rather than results.

USDA is the lead federal agency in rural development. Ultimately, the challenge is for the Congress and USDA, as the lead agency, along with other federal and state partners, to revise its policies for rural America to better reflect changes that have taken place over the last 50 years. This effort would include examining whether the federal funds that are already being spent in these areas are targeted as effectively as possible to ensure rural America's revitalization.

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# Revamping the Federal Food Safety System

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A high-quality, safe, and nutritious food supply sustains public health in America. Yet our reports, as well as work by congressional committees, blue ribbon panels, and others, have consistently documented structural flaws in the federal government's food safety system. These flaws can affect public health, erode consumers' confidence in the federal government's ability to ensure food safety and quality, and damage the competitiveness of U.S. agricultural trade.

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## Fragmentation in the Food Safety System

Currently, 12 federal agencies spend about \$1 billion annually to administer about 35 laws governing food safety and quality. Fundamental differences in agencies' missions, responsibilities, and authorities have led to inconsistent oversight, inefficient use of resources, and poor interagency coordination.

The greatest problems lie in the division of responsibility between USDA, which oversees meat and poultry, and the Food and Drug Administration (FDA), which oversees most other food products. Because these two agencies operate under different mandates, food products that pose similar health risks may undergo different levels of scrutiny. For

example, USDA carries out a massive “continuous inspection” program at slaughterhouses, which by law may operate only when one of the Department’s 7,350 field inspectors is on duty. In contrast, FDA and state inspectors cover less than one-third of the 53,000 food manufacturers each year.

Overlapping responsibilities, together with resource constraints, lead in some cases to duplication and in other cases to gaps in coverage. Food establishments are sometimes inspected by both USDA and FDA because they process foods, such as soups and frozen dinners, that are regulated under different laws or because they participate in voluntary grading service programs. Federal inspections also overlap some state inspections of food companies. Meanwhile, fish—including shellfish, which is often linked with food-borne illness—is subject to voluntary inspection.

USDA and FDA have different enforcement authorities. Whereas USDA can require food processors to register for inspection, FDA cannot. Consequently, FDA is not aware of and does not inspect some food processors. For example, even though consumers are drinking billions of gallons of bottled water

every year, FDA does not have a complete list of domestic bottled water plants and therefore inspects only those plants that it does know about.

To overcome the fragmentation of responsibility for food safety and quality and to make more economical use of limited resources, federal agencies have reached over 50 cooperative agreements. However, jurisdictional disputes and disagreements between agencies have stymied these efforts. For example, USDA and FDA—both of which have authority to regulate egg products—did not develop a unified approach for reducing bacterial contamination in eggs until 1992.

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Options for Revamping the System

Past efforts to correct deficiencies in the federal food safety inspection system have fallen short because the responsible agencies have continued to operate under different food safety statutes and appropriation acts. The structure of the federal regulatory system for food, which has evolved over the past century and will continue to evolve as food safety concerns emerge, may now be due for a review. It is time to examine the number of laws and agencies involved and the priorities that have governed their regulatory approaches.

Without such changes, structural problems can be expected to make major, long-overdue improvements highly unlikely.

To develop a uniform, risk-based inspection system, we recommended that the Congress hold oversight hearings to evaluate options for revamping the federal food safety and quality system, including (1) creating a single food safety agency responsible for administering a uniform set of food safety laws, (2) creating a uniform set of food safety laws that are administered by the current federal food safety agencies, or (3) establishing a blue ribbon panel to develop a model for inspection and food safety enforcement based on the public health risks posed by the products and processes. While creating a single food safety agency may be the most effective way to resolve long-standing problems, obstacles stand in the way of such a major structural change. Therefore, it may be more realistic to create a blue ribbon panel as a mechanism for developing broad-based agreement on organizational and legislative changes for modernizing the food safety system.

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## Related GAO Products

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### Management

U.S. Department of Agriculture: Revitalizing Structure, Systems, and Strategies (GAO/RCED-91-168, Sept. 3, 1991).

U.S. Department of Agriculture: Strengthening Management Systems to Support Secretarial Goals (GAO/RCED-91-49, July 31, 1991).

U.S. Department of Agriculture: Improving Management of Cross-Cutting Agricultural Issues (GAO/RCED-91-41, Mar. 12, 1991).

U.S. Department of Agriculture: Farm Agencies' Field Structure Needs Major Overhaul (GAO/RCED-91-9, Jan. 29, 1991).

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### Farm and Export Programs

Crop Insurance: Program Has Not Fostered Significant Risk Sharing by Insurance Companies (GAO/RCED-92-25, Jan. 13, 1992).

Agriculture Payments: Effectiveness of Efforts to Reduce Farm Payments Has Been Limited (GAO/RCED-92-2, Dec. 5, 1991).

Agricultural Trade: Determining Government Support Under the U.S.-Canada Free Trade Agreement (GAO/RCED-91-63, Feb. 11, 1991).

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U.S. Department of Agriculture: Strategic Marketing Needed to Lead Agribusiness in International Trade (GAO/RCED-91-22, Jan. 22, 1991).

1990 Farm Bill: Opportunities for Change (GAO/RCED-90-142, Apr. 10, 1990).

Wool and Mohair Program: Need for Program Still in Question (GAO/RCED-90-51, Mar. 6, 1990).

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

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Conservation

Sustainable Agriculture: Program Management, Accomplishments, and Opportunities (GAO/RCED-92-233, Sept. 16, 1992).

Agriculture: USDA Needs to Better Focus Its Water Quality Responsibilities (GAO/RCED-90-162, July 23, 1990).

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Farm Credit

Farmers Home Administration's Farm Loan Programs (GAO/HR-93-1, Dec. 1992).



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Related GAO Products

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Farmers Home Administration: Billions of Dollars in Farm Loans Are at Risk  
(GAO/RCED-92-86, Apr. 3, 1992).

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Rural  
Development

Rural Development: Rural America Faces Many Challenges (GAO/RCED-93-35, Nov. 20, 1992).

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Food Safety

Food Safety and Quality: Uniform, Risk-based Inspection System Needed to Ensure Safe Food Supply (GAO/RCED-92-152, June 26, 1992).

Food Safety and Quality: Salmonella Control Efforts Show Need for More Coordination  
(GAO/RCED-92-69, Apr. 21, 1992).

Food Safety and Quality: Who Does What in the Federal Government (GAO/RCED-91-19A and 19B, Dec. 21, 1990).

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General

Agriculture Issues (GAO/OCG-89-12TR, Nov. 1988).

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