

118412 ~~21858~~

BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of Agriculture

Savings Are Possible Through Better Management Of Government-Owned Dairy Products

Government-owned stocks of butter, cheese, and nonfat dry milk increased from just over 0.7 billion pounds in 1979 to over 2 billion pounds in 1981. The Department of Agriculture successfully located sufficient storage space for the tremendous increase in the Government stocks.

Better management of these stocks would save up to \$1.4 million annually. The Department spends more to repackage its bulk butter for various domestic programs than if it initially bought the butter in 1-pound packages. Furthermore, many public warehouses storing these dairy products are examined more often than necessary.

GAO recommends that the Department establish a policy to buy its 1-pound package butter requirements directly from suppliers whenever possible and that the Department identify those warehouses with good performance records and reduce the examination frequency accordingly.



118412

GAO/CED-82-79

MAY 18, 1982

022079 / 118412

Request for copies of GAO reports should be sent to:

**U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760**

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are \$3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are \$1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-207223

The Honorable John R. Block
The Secretary of Agriculture

Dear Mr. Secretary:

We reviewed the Department of Agriculture's policies and procedures for storing dairy products acquired through the dairy price-support program. Our purpose in this review was to evaluate how these products were managed because Government-owned inventories of butter, cheese, and nonfat dry milk increased substantially during fiscal years 1980 and 1981, and these products comprise the largest share of Government-owned commodities.

The Department successfully located sufficient storage space for these products which increased from about 705 million pounds in September 1979 to more than 2 billion pounds by September 1981. This report, however, discusses several ways we believe the Department can improve its management of the stored products. (See app. I.)

We concluded that the Department would realize estimated annual savings of up to \$1.4 million if it purchased its requirements for 1-pound packages of butter directly from suppliers. Butter in 1-pound packages is used in domestic school lunch and food-for-the-needy programs and is supplied by repackaging 60- to 68-pound blocks of bulk butter. The recommendation to buy 1-pound packages is not new. The Kansas City Commodity Office suggested it in May 1978 and the Department's Office of the Inspector General recommended it in a June 1979 report. The Department did not act on the recommendation because of the large inventory of bulk butter on hand and its concern that the older stock would deteriorate before it was used.

We also concluded that many of the warehouses storing the dairy products are examined more often than necessary. Based on our sample, we estimated that about 2,600 staff hours of warehouse examiners' time could be saved annually if the frequency of examinations was reduced from three times to two times a year for warehouses that have good performance records. This would provide much-needed time for the decreasing staff of examiners to cope with an ever-increasing workload.

We recommend that the Department establish a policy to buy its requirements for 1-pound packages of butter directly from suppliers whenever possible and identify those warehouses having good performance records in order to reduce the examination frequency accordingly.

- - - -

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the above committees; the House Committee on Agriculture and its Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition; the Senate Committee on Agriculture, Nutrition, and Forestry and its Subcommittee on Agriculture Production, Marketing, and Stabilization of Prices; and other committees and Members of Congress. We are also sending copies to the Director, Office of Management and Budget; the Under Secretary for International Affairs and Commodity Programs; the Administrator, Agricultural Stabilization and Conservation Service; and your Inspector General.

Sincerely yours,



Henry Eschwege
Director

C o n t e n t s

Page

APPENDIX

I	SAVINGS ARE POSSIBLE THROUGH BETTER MANAGEMENT OF GOVERNMENT-OWNED DAIRY PRODUCTS	1
	The dairy price-support program	1
	Objectives, scope, and methodology	2
	Reducing the cost of donating butter to domestic programs	3
	Reducing warehouse examination frequencies would allow more effective use of examiners	8
	Conclusions	10
	Recommendations to the Secretary	10
	Agency comments	11
II	LETTER DATED APRIL 22, 1982, FROM THE ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE	13



SAVINGS ARE POSSIBLE THROUGH BETTER MANAGEMENT
OF GOVERNMENT-OWNED DAIRY PRODUCTS

THE DAIRY PRICE-SUPPORT PROGRAM

The dairy price-support program was created by the Agricultural Act of 1949 (7 U.S.C. 1421 et seq.) and requires the Secretary of Agriculture to support the price of milk. The program's purpose is to set a price-support level that will (1) assure an adequate supply of milk to meet current needs, (2) reflect changes in the cost of production, and (3) assure a level of farm income that will maintain enough production capacity to meet future needs.

The Department of Agriculture's Commodity Credit Corporation is a wholly owned Government corporation which, among other things, purchases and stores butter, cheese, and nonfat dry milk under the authority of the dairy program. The Corporation purchases any butter, cheese, and nonfat dry milk that is offered in carlot quantities and meets specifications. These purchases, at milk support prices plus allowances for processing costs, reduce commercial supplies which enables commercial vendors to buy milk at the price-support level from the farmer. The dairy program, however, has contributed significantly to creating the current large surpluses. ^{1/} The Agriculture and Food Act of 1981 (Public Law 97-98) was passed December 22, 1981, to reduce the price-support levels and to encourage farmers to produce less, but production is expected to remain high for several years.

Government-owned dairy products are stored in public warehouses until used in various programs, primarily through export sales and donations to school lunch and food-for-the-needy programs. The Department's Agricultural Stabilization and Conservation Service administers the storage activities. Between September 30, 1979, and September 30, 1981, the Government-owned inventory increased from 174 million to 500 million pounds of butter, from 4 million to 619 million pounds of cheese, and from 527 million to 886 million pounds of nonfat dry milk. Most of this inventory was stored in public warehouses. The storage costs for these commodities rose from \$10.4 million in fiscal year 1979 to \$36.1 million in fiscal year 1981. The transportation costs also rose from \$12.8 million in fiscal year 1979 to \$49.9 million in fiscal year 1981.

^{1/}In a July 1980 report, "Alternatives To Reduce Dairy Surpluses" (CED-80-88, July 21, 1980), we recommended changes in the dairy program to help reduce dairy surpluses.

Examiners employed by the Department's Agricultural Marketing Service periodically check the care and condition of the stored dairy products. The number of periodic examinations was reduced in October 1981 from four times to three times a year because of increasing workloads. The purpose of the examinations is to check on such things as cleanliness and rodent control and to verify the quantities stored.

Other periodic inspections are made by the Service to verify the quality of the stored dairy products. These inspections are made by licensed inspectors who determine, on a sample basis, whether the stored products continue to meet the Department's grading requirements.

The dairy program prevents the Department from disposing of its dairy products in ways that will adversely affect commercial activity. Historically, most of the dispositions have been through donations to domestic school lunch and food-for-the-needy programs and to foreign assistance programs. However, the Department sold substantial quantities for export in fiscal year 1981 which accounted for 55 percent of all the Government-owned dairy products used.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective in this review was to evaluate the Department's policies and procedures for managing dairy products acquired through the dairy program. The review was undertaken because Government-owned inventories of butter, cheese, and non-fat dry milk increased substantially during fiscal years 1980 and 1981 and comprise the largest share of Government-owned commodities. We reviewed the Department's storage policies and practices and evaluated its effectiveness in acquiring and using public storage facilities and the care provided stored commodities through periodic inspections. We also inquired into the Department's disposition of Government-owned dairy products through sales and donations.

We conducted the review at the Department's headquarters in Washington, D.C., and at two of its service units located in Kansas City, Missouri--the Agricultural Stabilization and Conservation Service's Kansas City Commodity Office, which manages the acquisition, movement, and storage of dairy products; and the Agricultural Marketing Service's National Warehouse Service Center, which provides warehouse examination and quality inspection services. We interviewed Federal officials and examiners and managers of public warehouses. Also, we reviewed and analyzed documents and data relating to the acquisition and disposition of Government-owned dairy products. This included storage contracts and records; data relating to acquiring, selling, and donating dairy products; and warehouse inspection reports.

We did not use statistical sampling methods in our analyses because the large number of individual transactions would have required an extensive number of time-consuming computations. However, we did use random selection procedures in our analysis of warehouse examination results, and we selected representative transactions for our analysis of savings available in the butter donation program. Accordingly, our estimates of savings serve as indicators rather than statistical projections.

The review was performed in accordance with our "Standards for Audit of Government Organizations, Programs, Activities, and Functions."

REDUCING THE COST OF DONATING
BUTTER TO DOMESTIC PROGRAMS

Butter in 1-pound packages is used in domestic school lunch and food-for-the-needy programs and is supplied by repackaging 60- to 68-pound blocks of bulk butter. The Department could realize estimated annual savings of up to \$1.4 million if it purchased its requirements directly from butter suppliers. Because the Department has a large inventory of bulk butter that needs to be rotated to prevent losses, it could not buy all of its 1-pound needs at this time. However, it should immediately begin buying some 1-pound packages and work toward obtaining a balanced mixture of direct purchases and repackaging bulk stocks. Hopefully, over time, the large inventory can be reduced and the Department can manage its butter inventory so that it can buy the majority of its 1-pound package needs.

Before May 1978, some butter in 1-pound packages was purchased directly from suppliers and some was repackaged from bulk stocks. In May 1978, the practice of buying 1-pound packages was stopped because Government-owned butter stocks reached 250 million pounds, the largest amount since 1962, and the Department was concerned that the quality of its bulk butter would deteriorate if not used. The Department therefore chose to fill its need for 1-pound packages by repackaging bulk stocks. Since May 1978, Government-owned stocks of butter increased even more to 500 million pounds by September 1981; however, undelivered quantities committed for export sales left an uncommitted inventory of about 218 million pounds.

In fiscal year 1981, the Department awarded repackaging contracts to nine companies at a cost of \$3.6 million. Approximately 77.7 million pounds were delivered to program users. Between 1963 and 1981, these donations averaged 120 million pounds annually.

Potential savings

Savings are possible for several reasons. First, buying 1-pound packages direct from suppliers costs about 0.5 cent a pound less than buying bulk butter and paying to have it repackaged. Second, buying 1-pound packages requires less transportation and handling charges. For example, bulk butter has to be shipped from the warehouse to a processor for repackaging, then to the user; whereas, 1-pound packages purchased direct can be shipped from the warehouse directly to the user.

Transportation savings were possible in each of the 10 shipments in fiscal year 1981 that we examined. For example, the Department shipped 38,400 pounds of butter in 1-pound packages from a processor in Pennsylvania to a user in Marlboro, New York. The cost for shipping the butter originally from a Holley, New York, warehouse to the processor and then to the user was \$1,080. On the other hand, it would have cost only \$612 if 1-pound packages were purchased in the beginning and shipped from the same warehouse where the bulk butter was stored. In another example, the Department shipped 76,800 pounds from a processor in Wisconsin to a user in Butner, North Carolina. Shipping costs from a Kansas City warehouse to the processor and then to the user were \$4,977. This, too, is substantially more than the \$3,339 it would have cost if 1-pound packages were purchased and shipped from the Kansas City warehouse.

Some repackaged butter is put back into storage before it is shipped to users. In fiscal year 1981, 17.3 percent of all repackaged butter shipped to users came from storage. This method of distribution is even more costly than shipping the butter from the processors. For example, the Department shipped 38,400 pounds of butter in 1-pound packages from storage in Cleveland, Ohio, to a user in Canton, Ohio. The cost of shipping the bulk butter from a Chicago warehouse to the processor, then shipping the 1-pound packages to the Cleveland warehouse and then to the user was \$1,603. This compares to only \$685 if the 1-pound packages were purchased direct, placed in the same Chicago warehouse where the bulk butter was stored, and then shipped to the user.

Using the 10 selected fiscal year 1981 actual shipments, we computed that savings of nearly \$1.4 million were possible if the Department had purchased all its requirements for 1-pound packages.

	<u>Potential savings</u>	
	Rate per	Annual
	<u>lb.</u>	<u>amount</u>
		(note a)
Cost difference between buying bulk butter and repackaging it and buying 1-lb. packages directly	0.5 cent	\$ 388,000
Cost difference in transportation and handling charges	1.3 cents	<u>1,010,000</u>
Total potential savings		<u>\$1,398,000</u>

a/The annual amount equals the rate of savings per pound times the 77.7 million pounds distributed to users during fiscal year 1981.

The 10 shipments we selected as our basis for potential savings included shipments from five of the nine processors. These five processors handled 72 percent of the bulk butter repackaged in fiscal year 1981.

Other savings may be available through reduced storage costs. The Department stores large quantities of bulk butter in the Chicago area to be near the processors and thus reduce transportation costs. Average storage rates for the Chicago area are from 14 percent to 60 percent higher than neighboring States, and if the need to store substantial quantities of butter in the Chicago area is reduced or eliminated, the Department would be able to reduce its storage costs.

Prior suggestions to buy 1-pound packages

Suggestions to buy butter in 1-pound packages are not new. A Department employee suggested in December 1976 that the Government could save money by purchasing additional 1-pound packages. The Department's Acting Deputy Administrator for Commodity Operations did not accept the suggestion because of (1) the potential harm to the industry if repackaging bulk butter stopped and (2) concern about keeping large quantities of 1-pound packages in storage.

On May 12, 1978, the Acting Director of the Kansas City Commodity Office suggested to the Deputy Administrator for Commodity Operations that 1-pound packages could be purchased at substantial cost savings without sacrificing basic price-support objectives. This suggestion was rejected because the Department had issued a policy statement on May 16, 1978, stating that all

its 1-pound package needs would be acquired by repackaging bulk butter. The policy was changed because of a large buildup of butter in inventory and the need to rotate the stock.

A June 1979 Office of the Inspector General report discussed the first two suggestions and recommended that the Department should buy butter in 1-pound packages when bulk stocks are reduced. The Department's October 26, 1979, reply stated that consideration would be given to such direct purchases only when Government-owned stock were no more than 50 million to 70 million pounds and were no more than a year old.

Prior Department objections

The Department's objections to the prior suggestions included two basic arguments. The main argument was the concern over the large quantities of butter on hand and that its quality could deteriorate before it was used. The second was the potential harm to the industry if the Department began buying 1-pound packages again. We believe the Department's obligation to promote economy in its programs takes precedence in this instance, and it should seek to acquire needed goods at the lowest reasonable cost to the Government.

When the Department decided in May 1978 to meet all its 1-pound needs by repackaging bulk butter, the Government-owned inventory was 250 million pounds, the largest amount since 1962. Of this amount, 73 million pounds were in 1-pound packages, the largest amount ever held up to that time. Since then, the Government-owned inventory has increased even more. On September 30, 1981, the inventory totaled 500 million pounds; but the quantity of 1-pound packages in storage was only about 8 million pounds, slightly more than a month's supply. Thus, stock levels of 1-pound packages were down to a point where the Department could at least start buying some of its 1-pound requirements.

Long-term storage of butter can be a problem. The September 30, 1981, inventory was more than a 3-year supply based on fiscal year 1981 sales and donations. The Department recommends an optimum storage period of 12 months for bulk butter and 6 months for 1-pound packages. However, since the amount of 1-pound packages in storage is so low, the only real concern is rotating the bulk stock.

On September 30, 1981, the Department's 500 million pound inventory included 438 million pounds of bulk butter in storage. The remainder included the 8 million pounds of 1-pound packages in storage and the 54 million pounds that were either in transit or were sales or donations for which accounting records had not cleared. Our analysis of the bulk butter in storage shows that a small quantity (31,620 pounds) was over 4 years old before it

was downgraded from Department of Agriculture grade AA or A to a condition that did not meet grading requirements. Furthermore, only 401,000 pounds were more than 2 years old.

Further analysis shows that very little butter has deteriorated while in storage to the point that it had to be sold. Even then, deteriorated butter has some value and is usually sold for conversion into butter oil. An average of 471,000 pounds a year was sold as deteriorated butter during fiscal years 1977 through 1980. Thus, even though inventories were very high, the Department could rotate the stock. Rotating the bulk stock is still necessary, and the Department could not immediately start buying all its 1-pound requirements. Some bulk (that is, the portion not sold or donated as bulk) would still have to be repackaged to rotate the stock.

The second argument concerning potential harm to industry consisted of three different concerns:

- Processors that cut and package the 60- to 68-pound blocks of bulk butter into 1-pound packages would go out of business if not provided a continuous supply of work and would no longer be available if needed later.
- Small creameries that produce only bulk butter would be forced out of business.
- Changes between buying bulk and 1-pound packages would disrupt the industry.

First, repackaging bulk butter for the Department is not the only business of the nine companies performing such work in fiscal years 1980 and 1981. Although the two largest did 62 percent of the repackaging, the fiscal year 1981 contracts awarded to them amounted to only \$1,327,000 and \$743,000, respectively, and in one case, the repackaging amounted to only about 4 percent of the company's annual sales.

In 1978 the Kansas City Commodity Office explained in its recommendation to the Department to buy 1-pound packages that the potential harm to the two largest processors was largely due to their obsolete plants. That is, they could only provide 1-pound packages by cutting bulk butter. At the same time, more and more of their competitors were modernizing their plants through a more economical and efficient continuous churn and soft print process. This process makes it possible to manufacture, form, and package butter in one continuous operation.

The other processors have repackaged on a limited basis, some only infrequently. Therefore, sources would most likely still be available to meet any limited repackaging requirements even if the two largest ones stopped.

Second, the small creameries that only produce bulk butter would probably not go out of business. They do not sell directly to the Government because it purchases only carload lots under the price-support program, and the larger vendors to which they sell can process bulk butter.

Third, the Department's changes in procurement from bulk butter to a combination of bulk and 1-pound packages would be no more of a burden to industry than the previous change in 1978 to buying only bulk. Many vendors that sell to the Government can provide both bulk and 1-pound packages. For example, 24 of the 39 vendors that sold bulk butter to the Government in fiscal year 1979 either produced butter in 1-pound packages or sold their bulk butter to those that could.

Apparently with little regard for any effects on the industry or concern about managing two different types of inventory of the same commodity, the Department has acquired both cheese and nonfat dry milk in a ready-to-use form in addition to the bulk or regular form. In times of budget reductions and limited resources, we believe the Department is obligated to seek greater economy in managing its butter inventory.

REDUCING WAREHOUSE EXAMINATION FREQUENCIES WOULD ALLOW MORE EFFECTIVE USE OF EXAMINERS

Examiners employed by the Department's Agricultural Marketing Service are required to examine the condition of each warehouse storing Government-owned dairy products three times a year. Our analysis of fiscal years 1980 and 1981 examination results showed 87 percent of these warehouses had either no problems or only minor ones. In our opinion, warehouses that have demonstrated a good performance record do not need to be examined that often. However, we believe at least two examinations are needed because of the perishable nature of dairy products and the need to assure that the warehouses are exercising proper care. On the basis of the fiscal year 1981 examination workload, we estimate that about 2,600 staff hours of examiners' time could be saved by reducing the examination frequency to twice a year.

The Service's examiners are located nationwide to check on warehouses storing Government-owned commodities. They examine warehouses storing many different types of commodities, such as grain, cotton, and processed commodities. In fiscal year 1981, 9 percent of their work effort was spent on examining warehouses which store the dairy products. In fiscal year 1976, 150 of these examiners were employed. The number declined to 114 in fiscal year 1979 and to 103 in fiscal year 1981, but periodic examinations increased from 914 to 1,030, respectively.

The Service has taken steps to reduce the amount of time required to examine these warehouses because of the declining staff and increasing workload. In October 1980, it reduced the requirement for annual physical inventories by examiners from a 100-percent verification to a 10-percent verification. Effective October 1981, it reduced the periodic examinations required for each warehouse storing dairy products from four times to three times a year.

We based our analysis of the fiscal years 1980 and 1981 examination results on a 10-percent random sample of the 316 warehouses storing dairy products on June 30, 1981. The analysis showed 87 percent of the warehouses had either no problems or only minor ones. The remaining 13 percent had what we classified as moderate-to-major problems.

<u>Type of problem</u>	<u>Number of warehouses</u>
None	10
Minor	18
Moderate	3
Major	<u>1</u>
Total	<u>32</u>

Minor problems included such things as recordkeeping errors, a few damaged items, and slight humidity control problems. Moderate problems included such things as stacking goods incorrectly, stock missing from inventory, stock placed in the wrong warehouse, and periodically allowing storage temperatures to exceed limits. The major problem involved numerous and continued temperature deviations of up to 18 degrees too high. The storage contract in this case was canceled and all stocks were removed. Officials at the Kansas City Commodity Office generally agreed with these classifications.

We believe that warehouses with no more than minor problems have demonstrated good performance and do not need three examinations a year. Two examinations, however, is the least that can be allowed considering the perishable nature of the dairy products and comments obtained from Service officials and examiners and warehouse operators we interviewed. For example, a National Warehouse Service Center official stated that these dairy products are perishable and must be checked occasionally to assure that the warehouses are exercising proper care; a warehouse examiner stated that temperature and humidity are critical for these products, and that warehouses must be checked periodically

to make sure storage requirements are met; and a warehouse operator stated that examinations are necessary because they would tend to grow lax if warehouses are not examined.

We computed the effect a change from three examinations a year to two would have on the examiners' workload. The computation considered the 1,030 periodic examinations completed in fiscal year 1981 and the average time spent on each examination. The Department's reduction from four to three examinations a year will reduce the 1,030 periodic examinations to 772. A further reduction of 224 examinations would result if the Department made only two examinations a year for the warehouses (87 percent) that had no deficiencies or only minor ones within the last 2 years. The direct examination and travel time averaged 11.8 hours. Thus, we estimate that a reduction of about 2,600 staff hours could be realized if warehouses with good performance records were examined only twice a year.

CONCLUSIONS

The Government would save up to \$1.4 million a year if the Department purchased all its requirements for 1-pound packages of butter directly rather than repackaging bulk butter. It may be a while, however, before the full amount of the savings can be realized. Current Government-owned inventories of bulk butter are very high. Unless other uses are found, such as increasing export sales or developing alternative uses for dairy products through research, the large inventory is expected to continue because the dairy price-support program is forcing the Department to buy more butter than it can use. In the meantime, some savings can be achieved by purchasing 1-pound packages and also repackaging some of the older bulk butter in storage. For example, \$140,000 could have been saved if the Department had bought only 10 percent of its fiscal year 1981 requirements for 1-pound packages. In any event, tight Government budgets and the need for economy demand that the Department achieve savings wherever possible.

Warehouse examinations is another area in which savings can be realized. Warehouse examination reports over the last 2 years show the majority of warehouses storing dairy products have a good performance record and do not need examining more than twice a year. A change from three times to two times a year would make 2,600 staff hours available that could be used by the examiners to more effectively handle their increased workloads.

RECOMMENDATIONS TO THE SECRETARY

We recommend that the Secretary direct the Administrator, Agricultural Stabilization and Conservation Service, to establish a policy to buy the Department's requirements for 1-pound packages of butter directly from suppliers whenever possible. The

Administrator should implement this policy immediately so that part of the requirement for the next full quarter could be acquired in this manner based on an analysis of projected needs and present inventory. For each succeeding quarter, the Administrator should reevaluate Government-owned butter inventories to determine the amount such purchases can be increased so that eventually all requirements can be obtained by direct purchases.

Furthermore, we recommend that the Secretary direct the Administrator to identify those warehouses that have good performance records and reduce the examination frequency for these warehouses to twice a year.

Budgetary impact of our recommendations

Implementing our recommendation to buy 1-pound packages of butter should eventually result in substantial savings. Although initial savings may be small because the need to rotate large stocks of bulk butter now on hand restricts direct purchases, full implementation will provide savings of up to \$1.4 million annually.

<u>Agency, bureau, and program</u>	<u>Appropriation account</u>	<u>Budget function/subfunction</u>	<u>Projected annual reduction in net realized losses</u>	<u>Authorizing committees</u>
Department of Agriculture	-	-	\$ 0	-
Commodity Credit Corporation Fund	12(05-66)4336	351	\$1,400,000	House and Senate Committees on Agriculture

AGENCY COMMENTS

We requested and received comments from the Administrator, Agricultural Stabilization and Conservation Service, on a draft of our report. As a result, we changed our report to read "warehouse examinations" in lieu of "warehouse inspections."

The Administrator concurred with our conclusion that savings were possible by purchasing the butter in 1-pound packages directly from suppliers but disagreed with our recommended timing for implementing the process. The primary reason for this disagreement is the possibility that the aging butter stock, which

is currently estimated to double or even triple in the next 2 years, would deteriorate before it could be used. We do not believe that donations of Government-owned butter to domestic programs will totally solve this problem. However, if the Department began immediately buying some butter in one-pound packages, it would still be able to rotate its older stock until the one-pound butter inventory reaches the optimum level needed to fill projected requirements. We fully recognize the need to rotate the stocks of aging butter on hand, but we believe that the Service is missing an immediate opportunity to control and reduce its program costs by phasing in a direct purchase program.

The Administrator concurred with our recommendation to reduce the examination frequencies at those warehouses with good performance records and is taking actions to notify the appropriate offices of the change.



United States
Department of
Agriculture

Agricultural
Stabilization and
Conservation Service

P.O. Box 2415
Washington, D.C.
20013

22 APR 1982

TO : Henry Eschwege, Director, GAO
FROM : Acting Deputy Administrator, Commodity Operations
THROUGH: Administrator, ASCS
SUBJECT: Comments on GAO Draft Report Entitled "Savings Are Possible Through Better Management of Government-Owned Dairy Products"

At the outset, it should be noted that, as pointed out in the draft report (Appendix I, p. 7) only negligible quantities of butter owned by Commodity Credit Corporation (CCC) have ever spoiled or been lost due to improper handling or management. It is our position that CCC has only been able to maintain the quality of its inventory by rotating its aging butter stocks through 1-pound printing contracts. As of April 16, CCC's uncommitted butter inventory stands at 372.3 million pounds. We estimate that CCC's uncommitted inventory will be 479 million pounds at the end of fiscal year (FY) 1982, and 683 million pounds by the end of FY 1983. Under these conditions we believe it is highly inadvisable to resume purchasing some butter in 1-pound packages directly from suppliers as the draft report suggests.

We are fully aware of the potential savings that can be realized by direct purchases of 1-pound prints and in the past have purchased prints when bulk stocks were such that it was prudent to do so.

The draft report concentrates only on potential saving by buying 1-pound prints direct and completely ignores possible consequences and costs if such action results in our inability to dispose of aging stocks before spoilage. For example, if CCC purchased some 1-pound prints directly, its ability to rotate existing stocks would be reduced by that quantity. With the present and projected stocks of butter it is quite possible that some butter may deteriorate to the point where it cannot be used as butter. The only available alternative then would be to convert such butter to butteroil. While the present costs for printing CCC-owned butter are between 4.75 to 5 cents per pound, conversion to butteroil would cost between 14 to 17 cents per pound, depending on the type of package used. Costs of converting CCC-owned butter to butteroil would quickly exceed savings realized by direct purchases of prints.

Henry Eschwege, Director, GAO

2

The Department is keenly aware of the urgency of the present dairy price support situation. A dairy symposium was held in Kansas City on March 22 and 23, to obtain information and ideas from a wide range of people on possible solutions to the present dairy situation. A Departmental Task Force has been appointed to evaluate the proposals and recommendations presented at the symposium. The Task Force has also been charged with developing recommendations on how to dispose of the current CCC-owned inventories in the most efficient and economical manner. The Task Force is expected to report to the Secretary shortly.

Page 8 of the report discusses "reducing warehouse inspection frequencies would allow more effective use of inspections."

This recommendation refers to reducing warehouse examination frequencies by Agricultural Marketing Service (AMS) warehouse examiners.

We agree with this recommendation and will notify the Warehouse Division, AMS, and the Kansas City ASCS Commodity Office (KCCO) of the change. We will make the frequency requirement to read "at least two examinations per year of warehouses having CCC-owned inventory in store." We will notify both offices that the frequency of examinations should remain flexible and that they can determine which warehouses should be examined more frequently and how frequent the examinations should be made. This will apply to those warehouses which have moderate or major problems or otherwise have a history of poor performance. We would classify any temperature deviation whatsoever in freezer warehouses storing CCC-owned butter as a major problem.

(022740)

21858

AN EQUAL OPPORTUNITY EMPLOYER

**UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548**

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300**

**POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE**



THIRD CLASS