



UNITED STATES GENERAL ACCOUNTING OFFICE
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RESOURCES COMMUNITY
AND ECONOMIC DEVELOPMENT
DIVISION

DECEMBER 20, 1983

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RECEIVED
Accounting
by the Office of Congressional Affairs

The Honorable Dennis Eckart
The Honorable Marcy Kaptur
The Honorable Mary Rose Oakar
The Honorable James L. Oberstar
House of Representatives

RELEASED

Subject: Government-Owned Surplus Dairy Products
Held in Inventory (GAO/RCED-84-72)

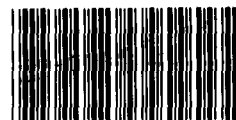
In response to your June 30, 1983, request, this report discusses the Department of Agriculture's (USDA's) dairy surplus inventory. Specifically, you asked us to provide information on the (1) quantity and value of dairy commodities in inventory, (2) most perishable commodities, and the length of time they can be stored without deterioration, (3) prices at which deteriorated surplus commodities are being resold, and the loss of revenue to the government, (4) extent of spoilage and deterioration of the commodities, (5) dollar value loss of the dairy surplus due to deterioration, and (6) general condition of the warehouses.

In summary, we found that

- USDA had about 3 billion pounds of dairy commodities in storage valued at \$3.7 billion as of September 23, 1983;
- the amount of commodity spoilage and loss to the government to date has been minimal, but according to USDA officials, future deterioration problems could occur if dairy inventories continue to increase; and
- USDA's leased warehouse facilities, in general, are in good condition.

Detailed information on each of your specific questions is included in enclosure I.

To respond to your questions, we interviewed USDA officials in Washington, D.C.; Chicago, Illinois; and Kansas City, Missouri, and an official of the American Butter and National Cheese Institute in Washington, D.C. We also reviewed pertinent documents and files,



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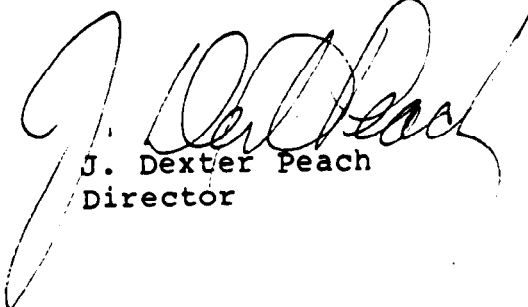
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including warehouse inspection records. We made our review in accordance with generally accepted government auditing standards, except that, as you requested, we did not obtain agency comments.

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As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from its issue date. At that time, we will send copies to interested parties and make copies available to others upon request.



J. Dexter Peach
Director

Enclosure

C o n t e n t s

ENCLOSURE

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ABBREVIATIONS

AMS	Agricultural Marketing Service
ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
OIG	Office of Inspector General
USDA	Department of Agriculture

THE DEPARTMENT OF AGRICULTURE'S
DAIRY COMMODITY INVENTORY

The Department of Agriculture's (USDA's) dairy stocks acquired under its price-support program were at an all-time high as of September 23, 1983. At that time, USDA-owned dairy commodities were valued at about \$3.7 billion, up from \$569 million in 1979.

USDA's Commodity Credit Corporation (CCC), which is a wholly owned government corporation, purchases the dairy products. CCC was created in 1933 to stabilize and protect farm prices as well as to help maintain adequate supplies and orderly distribute agricultural commodities. Since CCC has no operating personnel, its programs are carried out primarily through the personnel and facilities of USDA's Agricultural Stabilization and Conservation Service (ASCS). ASCS' Kansas City, Missouri, Field Office is responsible for acquiring, handling, storing, and processing dairy commodities required to carry out CCC's program commitments.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our review, which was conducted from July through September 1983, was to respond to the following specific questions.

1. What is the quantity and value of the dairy surplus inventory?
2. Which surplus commodities are most perishable, and what is the length of time they can be stored without deterioration?
3. At what prices are deteriorated surplus dairy products being resold, and what is the loss to the U.S. government?
4. How much of the dairy surplus is being lost due to rotting, age, or other deterioration?
5. What is the dollar value loss of the dairy surplus due to rotting, age, or other deterioration?
6. Are the food storage facilities USDA leases in good condition and properly maintained?

To respond to the specific questions, we interviewed ASCS officials in Washington, D.C., and Kansas City, Missouri, and reviewed pertinent documents and data. Since USDA's Agricultural Marketing Service (AMS) personnel are responsible for inspecting CCC dairy inventory (normally every 6 months) and the warehouses

where the inventory is stored, we interviewed AMS officials in Washington, D.C.; Kansas City, Missouri; and Chicago, Illinois, and we reviewed AMS inspection records and files to evaluate the condition of the inventory and facilities. In addition, we interviewed officials of USDA's Office of Inspector General (OIG) in Chicago to obtain information on dairy inventory and warehousing audits that they were conducting. We interviewed the executive director of the American Butter and National Cheese Institute to obtain estimates on how long dairy commodities could be stored without any appreciable spoilage. We also visited the Inland Cave Storage Facility in Kansas City, Kansas, to observe the actual storage of USDA dairy commodities.

QUESTIONS AND RESPONSES

The six specific questions and our responses are as follows.

1. What is the quantity and value of the dairy surplus inventory?

<u>Commodity</u>	<u>Pounds</u>	<u>Price per pound</u>	<u>Value</u>
	(000 omitted)		(000 omitted)
Butter	524,300	\$1.50	\$ 786,450
Cheese	1,019,700	1.48	1,509,156
Nonfat dry milk	<u>1,524,700</u>	0.93	<u>1,417,971</u>
Total ^a	<u>3,068,700</u>		<u>\$3,713,577</u>

^aAs of Sept. 23, 1983.

Age of Dairy Products in Storage
as of June 30, 1983^a

	<u>Butter</u>	<u>Cheese</u>	<u>Nonfat dry milk</u>
	----- (thousands of pounds) -----		
1-6 mo	232,405	328,799	389,965
6 mo-1 yr	77,013	199,621	228,243
1-2 yr	156,034	261,369	488,953
2-3 yr	16,447	47,888	184,052
3-4 yr	5	2	17,575
4-5 yr	19	-	-
5-6 yr	<u>31</u>	<u>-</u>	<u>-</u>
Total	<u>481,954</u>	<u>837,679</u>	<u>1,308,788</u>

^aThis information illustrates the significant buildup of the inventory over the last 2 years.

2. Which surplus commodities are most perishable, and what is the length of time they can be stored without deterioration?

USDA officials said that they were not sure at what age dairy commodities begin to deteriorate. According to the officials, butter and cheese, if stored at the proper temperature (0°F for butter and 28°F-32°F for cheese), can hold their quality for long periods of time. The only real problem is nonfat dry milk, which is subject to moisture and rodent and insect infestation problems. We could not obtain aging statistics from the commercial sector because commercial firms do not hold products for long periods of time.

According to the executive director of the American Butter and National Cheese Institute, butter and cheese can be stored for 1 to 2 years without any appreciable spoilage, and nonfat dry milk can be stored for 2 to 3 years.

Although a USDA official did not dispute the above statistics, he pointed out that cheese the federal government purchased in May 1981 (2-1/2 years ago) is still holding its quality, and butter 3 to 4 years old is also maintaining its quality. As for nonfat dry milk, ASCS policy is to sell all nonfat dry milk bought in

1980 and 1981 that has a moisture content of 4 percent or higher as animal feed.

ASCS officials pointed out that dairy stocks are growing faster than they can reasonably be given away or otherwise disposed of. They said that, if dairy inventories continue to increase over the next 2 years, deterioration could become a serious problem.

3. At what prices are deteriorated surplus dairy products being resold, and what is the loss to the U.S. government?

Fiscal year 1983 (as of Aug. 31, 1983)

Butter:	
Cost	\$ 374,757 ^a
Sales	<u>263,560</u>
Loss	<u>\$(111,197)</u>
Quantity	215,779 lb
Cheese:	
Cost	\$ 56,872
Sales	<u>40,563</u>
Loss	<u>\$(16,309)</u>
Quantity	38,632 lb
Nonfat dry milk:	
Cost	\$ 56,265,000
Sales	<u>30,250,000</u>
Loss	<u>\$(26,015,000)</u>
Quantity	60,500,000 lb

^aThe average cost of the deteriorated butter of \$1.74 per pound includes costs that CCC incurred to process the butter into household size units, according to the Chief of ASCS' Financial Reports and Analysis Branch.

4. How much of the dairy surplus is being lost due to rotting, age, or other deterioration?

Officials of ASCS' Kansas City Commodity Office prepared an analysis of total inventory losses that occurred in calendar year 1982, excluding losses due to fire, storms, and acts of God. The

following schedule is based on the results of the Commodity Office's analysis.

Calendar Year 1982 Inventory Losses of Dairy Products

	<u>Butter</u>	<u>Cheese</u>	<u>Nonfat dry milk</u>	<u>Total all commodities</u>
	----- (pounds) -----			
Physical damage	166,666	60,732	183,630	411,028
Infestation/ mold	13,984	346,630	229,285	589,899
Water damage	-	1,106	2,100	3,206
Rancid	509,586	-	-	509,586
Lipase ^a	<u>-</u>	<u>1,086,998</u>	<u>-</u>	<u>1,086,998</u>
Total	<u>690,236</u>	<u>1,495,466</u>	<u>415,015</u>	<u>2,600,717</u>
Inventory as of 12/31/82 ^b	503,000	945,000	1,377,000	2,825,000
Percentage of inventory lost	0.137%	0.158%	0.03%	0.092%

^aChange in the chemical content of cheese.

^bThousands of pounds.

NOTE: The above analysis shows the relative significance of losses due to various categories of problems. However, the percentage losses shown were developed by dividing all losses occurring in calendar year 1982 by ending year inventory totals. The ending inventories were made up of a high proportion of relatively new products due to recent increased purchases of dairy products. The percentage losses in the future could be higher as this inventory ages.

5. What is the dollar value loss of the dairy surplus due to rotting, age, or other deterioration?

Value of Calendar Year 1982 Inventory Losses

	<u>Butter</u>	<u>Cheese</u>	<u>Nonfat dry milk</u>	<u>Total</u>
Total inventory as of 12/31/82 ^a	503,000	945,000	1,377,000	2,825,000
Total pounds lost ^a	690	1,495	415	2,601
Quantity loss percentage of inventory	0.137%	0.158%	0.03%	0.092%
Total inventory value ^b	\$751,000	\$1,393,000	\$1,280,000	\$3,424,000
Total value lost ^b	\$283	\$715	\$422	\$1,420
Total percentage of inventory ^c	0.038%	0.051%	0.033%	0.041%

^aThousands of pounds as revised in Mar. 1983.

^bThousands of dollars. Some of the butter and cheese lost was due to negligence on the part of warehouses and handlers; they reimbursed USDA for these losses. In its analysis, however, USDA reduced the value lost by the reimbursements received but did not adjust the figures on the number of pounds lost.

^cSee note on p. 5.

6. Are the food storage facilities USDA leases in good condition and properly maintained?

A recent OIG audit of USDA contract warehouses, which was conducted from May through July 1983, found them generally in good condition. In addition, our 1982 report¹ of fiscal years 1980 and 1981 AMS examination results showed that 87 percent of the warehouses examined had either no problems or only minor ones.

USDA warehouse inspection reports we reviewed noted one or more problems with 90 warehouses during the period January 1980 through September 1983. The reports showed that the most frequent

¹Savings Are Possible Through Better Management of Government-Owned Dairy Products, GAO/CED-82-79, May 18, 1982.

problem inspectors noted was that these warehouses did not meet one of USDA's criteria; that is, a warehouse needs a net worth of at least \$250,000 to qualify for a USDA warehouse contract. Additionally, ASCS officials told us that since the dairy surplus has grown so large, individuals with no warehousing experience are obtaining government storage contracts. The officials said that they believed this situation could cause future warehousing problems because individuals with warehousing experience make a big difference in how well the government's property is cared for.