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

FOR RELEASE ON
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STATEMENT FOR THE RECORD BY
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RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE
SUBCOMMITTEE ON DOMESTIC MARKETING,
CONSUMER RELATIONS, AND NUTRITION
HOUSE COMMITTEE ON AGRICULTURE

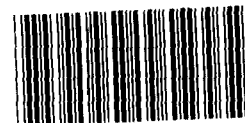
ON

DEPARTMENT OF AGRICULTURE
FOOD SURPLUS INVENTORIES AVAILABLE
FOR DISTRIBUTION TO LOW-INCOME
AND UNEMPLOYED PERSONS

This statement is being provided to assist the subcommittee in its consideration of H.R. 1590, the Emergency Food Assistance and Commodity Distribution Act of 1983. It provides information related to the Department of Agriculture's food surplus inventories available for distribution to low-income and unemployed persons. Specifically, we were asked to provide information on:

- The quantities, values, and locations of dairy, grain, and other products held in the inventory.
- Procedures the Department follows in filling orders from States for surplus dairy commodities.
- Procedures followed by the Department in processing dairy and grain commodities into usable form.
- Impediments to greater participation by Federal, State, and local organizations in providing foods for the needy.

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--Actions taken by the Department on our May 1982 report on savings possible through better management of Government-owned dairy products.

BACKGROUND

The Department's stocks of dairy, grain, and other commodities acquired under price-support programs it administers are at an all-time high. As of December 31, 1982, the Government owned dairy products valued at about \$3.4 billion, wheat and rice valued at about \$809 million, oil and oil-seed products (which include peanut butter and other peanut products) valued at about \$78 million, and honey valued at about \$22 million. The Government also owned feed grains valued at about \$1.1 billion and various other products, such as sugar and vegetable oil, valued at about \$43 million.

We obtained data on the Government-owned inventories from the Department's Commodity Credit Corporation, a wholly owned Government corporation. The Corporation has no operating personnel; its programs are carried out primarily through the personnel and facilities of the Department's Agricultural Stabilization and Conservation Service (ASCS). ASCS' Kansas City (Missouri) Field Office has management responsibilities for the acquisition, handling, storage, and processing of commodities required to carry out the Corporation's program commitments.

We obtained the requested information primarily from the Kansas City Field Office. Because of the short time we had to

obtain the inventory data, we relied extensively on the Corporation's records and did not verify the accuracy of the data. Furthermore, we did not obtain comments from the Department on the information in this statement.

Each of the subjects we were asked to provide information on is discussed below. The attachments provide more detailed statistical information.

DAIRY PRODUCTS

In summary, we found that:

- The Corporation's dairy inventories, as of December 31, 1982, consisted of about 503 million pounds of butter, about 945 million pounds of cheese, and about 1.4 billion pounds of nonfat dry milk.
- About 86 percent of the butter, 71 percent of the cheese, and 58 percent of the nonfat dry milk were less than 1-year old.
- The Corporation's cost to store dairy products has risen sharply, totaling over \$58 million for fiscal year 1982, compared with about \$36 million for 1981 and an annual average of about \$11 million for fiscal years 1977-80.
- The Corporation's cost to transport dairy products has also risen, totaling about \$54 million in fiscal year 1982, compared with about \$50 million for 1981 and an annual average of about \$16 million for fiscal years 1977-80.

--During fiscal year 1982, the Corporation purchased about 375 million pounds of butter, 592 million pounds of cheese, and 894 million pounds of nonfat dry milk.

--During fiscal year 1982, Corporation-owned products were distributed as follows:

	<u>Butter</u>		<u>Cheese</u>		<u>Nonfat dry milk</u>	
	<u>Quantity</u>	<u>Percent</u>	<u>Quantity</u>	<u>Percent</u>	<u>Quantity</u>	<u>Percent</u>
	----- (pounds in millions) -----					
Sales						
Domestic	11	6	10	3	63	12
Export	26	14	18	5	91	17
Donations						
School lunch and needy	118	63	324	88	55	10
Military	17	9	3	1	--	--
Prisons	2	1	1	--	1	--
Foreign	<u>13</u>	<u>7</u>	<u>11</u>	<u>3</u>	<u>320</u>	<u>61</u>
Total	187	100	367	100	530	100
	=====	=====	=====	=====	=====	=====

Storage and transportation costs

The Corporation spent about \$58 million in fiscal year 1982 to store dairy products: about \$19 million to store butter,

about \$26 million for cheese, and about \$13 million for nonfat dry milk.

Butter is stored in freezer warehouses. In December 1982 butter was stored in warehouses in 26 States. Most warehouses storing butter charged between 26 and 33 cents a month per hundredweight.

Cheese is stored in cold storage warehouses. In December 1982 cheese was stored in warehouses in 36 States. Most warehouses storing cheese charged between 23 and 33 cents a month per hundredweight.

Nonfat dry milk is stored in dry storage warehouses. In December 1982 nonfat dry milk was stored in warehouses in 32 States. Most warehouses storing nonfat dry milk charged between 6 and 9 cents a month per hundredweight.

In fiscal year 1982, costs to transport butter totaled about \$12 million; cheese, about \$21 million; and nonfat dry milk, about \$21 million for a total of about \$54 million.

GRAIN PRODUCTS

The Corporation owns substantial quantities of various types of grains, and even greater quantities are stored as collateral for price-support loans. Much of the grain, however, may not be available for use in an emergency food program and some is not of the type that could be made into products that would be readily acceptable for use by many people. The Corporation-owned grain is in bulk stock and, according to an ASCS official, is not of the best quality.

Although the Corporation had about 185 million bushels of wheat in its inventory as of December 31, 1982, most--147 million bushels--was committed to the Wheat Food Security Reserve. The remainder was committed for export sales.

The Corporation had about \$3.9 billion in outstanding price-support loans for wheat as of December 31, 1982. The collateral for these loans consisted of about 1.1 billion bushels of wheat. The proportion of the collateral that will be acquired by the Corporation may be much less than it has been in the past because much of it is expected to be used for the payment-in-kind (PIK) program.

The Corporation had about 1.8 billion pounds of rough rice in its inventory as of December 31, 1982. The Deputy Director for Commodity Operations, Kansas City Field Office, ASCS, told us that, because the rice is of poor quality, large processing losses would result. According to this official, ASCS has estimated that in milling bulk rice to the standard export grade (no. 5), there would be a 40-percent loss. For a higher grade (no. 2), there would be a 70- to 80-percent loss.

The Corporation's inventory of feed grains (barley, corn, oats, rye, and sorghum) acquired under the price-support program totaled about 481 million bushels as of December 31, 1982. These commodities are not in a readily usable form as food items and would have to be processed. Even then, according to the Deputy Director, there would probably be a very low demand for

the type of food products that could be made from these grains (for example, corn meal and grits). Further, much of this grain could be used in the PIK program. For example, ASCS estimates that 1 to 2 billion bushels of corn will be needed for PIK, some of which may have to come from Corporation-owned stocks.

Other food products

The Corporation had nearly 39 million pounds of honey and about 8 million pounds of peanut butter in its inventory as of December 31, 1982. Honey is stored in a raw state in 55-gallon drums and would have to be blended and repackaged in smaller containers to be usable in a food donation program. The Corporation currently has a contract for processing and repackaging honey for use in other Food and Nutrition Service donation programs. Under this contract, the lead time (the time between ordering and delivering) for processing the honey is 2 months. The peanut butter on hand was not acquired under a price-support program but was purchased directly from suppliers specifically for the donation programs.

PROCEDURES USED TO FILL ORDERS

The procedures the Corporation uses to fill orders with price-support acquired commodities for the established donation programs, such as school lunch, differ from those used to fill orders for the special butter and cheese distribution program.

For the school lunch program, the Corporation receives quarterly estimates of the States' needs compiled by the Department's Food and Nutrition Service's regional offices.

After receiving these estimates, ASCS personnel identify the oldest dairy products in inventory and the locations of the warehouses in which they are stored. This information, along with the destination points, is fed into a computer which selects one or more firms to process the products based on transportation costs.

According to the Dairy Branch Chief, ASCS' Kansas City Field Office, however, actual quantities ordered by the States often vary substantially from their estimates. In such cases, the procedure's purpose--that is, the minimization of transportation costs--can be negated. This official said that to correct this situation, more accurate estimates or longer lead times for orders are needed.

The procedures used for filling orders under the special butter and cheese distribution program are less formal. No estimates of needs are made. Orders are placed by the States through the appropriate Food and Nutrition Service regional office. According to the Dairy Branch Chief, the orders are usually filled in the fastest way possible. He said that ASCS tries to use the oldest stocks first but is not always able to do this. He said that ASCS does consider transportation distance, time, and costs for all shipments.

IMPEDIMENTS TO GREATER PARTICIPATION

In accordance with a request from Representative Dennis Eckart of Ohio, we are currently reviewing public and private

efforts to feed the country's poor. Our review, which is being done in the Washington, D.C. area and portions of California and Ohio, has indicated a number of problems at various levels in the overall process of providing food assistance. These problems relate generally to funding, transportation, and staffing. We have neither examined these problems in depth nor determined their significance or prevalence Nationwide. We generally learned of them through discussions with food policy analysts and officials from over 30 emergency food institutions and/or through examination of various correspondence, studies, and documents.

Both the public and private sectors are involved in responding to the food assistance needs of the poor. In the current economic climate of high unemployment, an increasing number of Americans are seeking food assistance. Some analysts, as well as people involved in providing food assistance, believe that financial cuts in Federal- and State-social programs, together with the recession, has significantly contributed to the increased need for food.

Funding is a problem cited by officials of many nonprofit, charitable organizations, including food banks, soup kitchens, and food pantries. Officials of several organizations told us that--because of limited resources--they lack the storage space and warehouse facilities, office equipment, and/or food varieties and quantities needed to improve and increase the assistance they provide.

Transportation is another problem that was mentioned frequently, particularly by officials of California and Ohio organizations. Food banks must continuously address the problem of quickly arranging transportation by third parties to collect industry-donated foodstuffs. Officials of many organizations that prepare meals for delivery to "home-bound" clients cited a lack of adequate transportation. The transportation industry has, on many occasions, donated its services to help move food to the needy.

Staffing was also frequently cited as a problem. The operational success of many of the nonprofit, charitable organizations requires large numbers of dedicated volunteers and at least a core of paid staffers adept at getting the most out of very limited resources. According to these organizations' officials, however, they often must deal with volunteers who tend to be less than reliable, work irregular hours, do not possess needed skills, and whose enthusiasm wanes over time. We were told that the need is great for additional paid staffers who are on the job each day to coordinate and direct activities and who are generally more skillful than volunteers in soliciting donations of food and other resources.

Concerning the Department's special cheese and butter distribution program initiated in December 1981, officials of many of the organizations we contacted said that they were pleased to receive and distribute the commodities to the poor. They

cited a number of problems with the program, however, centering in three areas.

--The first was insufficient coordination at various levels. Officials of some emergency food centers told us that they were sometimes given too little advance notice of pending cheese and butter shipments. We were told that in some cases as little as 24-hours notice was received, which is too little time to make adequate arrangements for needed staffing, transportation, and storage. Also, some organizations complained that the distribution of cheese and butter was uneven and sporadic.

--The second area involved insufficient facilities, staffing, and funding resources to adequately handle and distribute the cheese and butter. Officials of some local organizations said that they could not participate in the program because they lacked cold storage or enough staff and volunteers to help in the actual distribution. Other organizations complained that the program, as locally administered, was cumbersome and more costly than they had initially anticipated. Some organizations reportedly dropped out of the program because of what it was costing them, and others had to finance their participation with funds that otherwise would have gone to other food assistance activities.

--The third area involved the quantities and variety of food commodities that were made available. Officials of a number of organizations told us that additional quantities of cheese and butter could always be used because the need for food is tremendous. They said that there is also a need for a greater variety of wholesome, nutritious food. A number of these officials expressed hope that the Department could offer a wider range of commodities for distribution to the poor.

We would like at this point to emphasize that our review for Representative Eckart is not complete and that we have not examined these problems in depth nor determined their application Nationwide.

SAVINGS POSSIBLE THROUGH BETTER MANAGEMENT
OF GOVERNMENT-OWNED DAIRY PRODUCTS

On May 18, 1982, we issued a report to the Secretary of Agriculture (GAO/RCED-82-79) in which we concluded that the Department could save up to \$1.4 million annually if it purchased all of its requirements for 1-pound packages of butter directly from suppliers, thereby avoiding the costs involved in having to repackage butter purchased in bulk (such as 60-pound blocks).

We recommended that the Secretary direct the ASCS Administrator to establish a policy to buy the Department's requirements for 1-pound packages of butter directly from suppliers

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

The Administrator concurred in our conclusion that savings were possible by purchasing the butter in 1-pound packages directly from suppliers. At the time of our review, the Administrator said that he disagreed with our recommended timing for implementing the process. During a followup on this matter, we found that ASCS began purchasing butter in 1-pound packages for use in domestic donation programs in June 1982.

ENDING INVENTORIES OF DAIRY PRODUCTSFISCAL YEARS 1979-83 (THROUGH FIRST QUARTER)

	<u>1979</u>		<u>1980</u>		<u>1981</u>		<u>1982</u>		<u>1st Quarter 1983</u>	
	<u>Pounds</u>	<u>Value</u>	<u>Pounds</u>	<u>Value</u>	<u>Pounds</u>	<u>Value</u>	<u>Pounds</u>	<u>Value</u>	<u>Pounds</u>	<u>Value</u>
	(millions)									
Butter	174	\$188	300	\$ 385	500	\$ 709	525	\$ 781	503	\$ 751
Cheese	4	4	227	309	619	887	946	1,395	945	1,393
Nonfat dry milk	<u>527</u>	<u>377</u>	<u>690</u>	<u>572</u>	<u>886</u>	<u>799</u>	<u>1,365</u>	<u>1,266</u>	<u>1,377</u>	<u>1,280</u>
Total dairy products	<u>705</u>	<u>\$569</u>	<u>1,217</u>	<u>\$1,266</u>	<u>2,005</u>	<u>\$2,395</u>	<u>2,836</u>	<u>\$3,442</u>	<u>2,825</u>	<u>\$3,424</u>

ENDING INVENTORIES OF SELECTED COMMODITIES

FISCAL YEARS 1979-83 (THROUGH FIRST QUARTER)

	<u>Corn</u>		<u>Oats</u>		<u>Wheat</u>		<u>Rough rice</u>		<u>Peanut butter</u>		<u>Honey</u>	
	<u>Quantity</u> (bushels)	<u>Value</u>	<u>Quantity</u> (bushels)	<u>Value</u>	<u>Quantity</u> (bushels)	<u>Value</u>	<u>Quantity</u> (cwt.)	<u>Value</u>	<u>Quantity</u> (pounds)	<u>Value</u>	<u>Quantity</u> (pounds)	<u>Value</u>
	----- (millions) -----											
1979	100	\$ 209	3	\$3	50	\$118	8	\$ 73	.8	\$.5	0	\$ 0
1980	256	596	3	3	202	705	2	19	2	1	0	0
1981	238	555	2	2	192	679	.05	.5	.2	.2	.7	.3
1982	302	709	.6	.7	191	679	16	130	8	6	18	10
First quarter 1983	429	1,019	.7	.8	185	669	18	140	8	6	39	22

AGE OF DAIRY PRODUCTS IN STORAGE AS OF DECEMBER 31, 1982

<u>Age</u>	<u>Butter</u>		<u>Cheese</u>		<u>Nonfat dry milk</u>	
	<u>Bulk</u> <u>(note a)</u>	<u>1-pound</u> <u>packs</u>	<u>Bulk</u> <u>(note b)</u>	<u>2- and</u> <u>5-pound</u> <u>packs</u>	<u>Nonfortified</u> <u>50-pound</u> <u>bags</u> <u>(note c)</u>	<u>Fortified</u> <u>50-pound</u> <u>bags</u>
	(thousand pounds)					
1 to 6 months	81,411	489	198,255	58,059	214,705	41,134
6 months to 1 year	222,979	66	250,960	22,178	426,588	—
1 to 2 years	50,846	35	189,073	16,944	401,403	—
2 to 3 years	—	4	4,671	3,493	96,118	—
3 to 4 years	4	—	—	—	—	—
4 to 5 years	19	—	—	—	—	—
5 to 6 years	<u>31</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>355,290</u>	<u>594</u>	<u>642,959</u>	<u>100,674</u>	<u>1,138,814</u>	<u>41,134</u>

a/Packed in 60- to 68-pound blocks.

b/Packed in 40- and 60-pound blocks and 500-pound drums.

c/Does not include 43 50-pound bags of nonfat dry milk purchased in Oct. 1976 and 8.7 million pounds of instantized nonfat milk in 4-pound boxes.

DISPOSITION OF DAIRY PRODUCTS
OWNED BY THE COMMODITY CREDIT CORPORATION
FISCAL YEARS 1979-82

	<u>Sales</u>		<u>Donations</u>				<u>Total</u>
	<u>Domestic</u>	<u>Export</u>	<u>Schools and needy</u>	<u>Military</u>	<u>Prisons</u>	<u>Foreign</u>	
(million pounds)							
<u>1982:</u>							
Butter	10.5	26.1	117.5	16.5	2.1	13.2	185.9
Cheese	10.4	17.7	324.5	2.5	0.7	11.0	366.8
Nonfat dry milk	<u>62.8</u>	<u>90.9</u>	<u>54.9</u>	<u>0</u>	<u>0.5</u>	<u>319.8</u>	<u>528.9</u>
Total	<u>83.7</u>	<u>134.7</u>	<u>496.9</u>	<u>19.0</u>	<u>3.3</u>	<u>344.0</u>	<u>1081.6</u>
<u>1981:</u>							
Butter	0.1	291.9	107.9	9.2	1.2	0	410.3
Cheese	6.6	0.9	164.3	2.6	0.3	0	174.7
Nonfat dry milk	<u>60.8</u>	<u>183.0</u>	<u>44.9</u>	<u>0</u>	<u>0</u>	<u>219.2</u>	<u>507.9</u>
Total	<u>67.5</u>	<u>475.8</u>	<u>317.1</u>	<u>11.8</u>	<u>1.5</u>	<u>219.2</u>	<u>1092.9</u>
<u>1980:</u>							
Butter	5.1	0	100.5	9.2	1.1	0	115.9
Cheese	2.1	0	145.1	1.0	0.2	0	148.4
Nonfat dry milk	<u>81.9</u>	<u>121.8</u>	<u>52.1</u>	<u>0</u>	<u>0.2</u>	<u>216.8</u>	<u>472.8</u>
Total	<u>89.1</u>	<u>121.8</u>	<u>297.7</u>	<u>10.2</u>	<u>1.5</u>	<u>216.8</u>	<u>737.1</u>

	<u>Sales</u>		<u>Donations</u>				<u>Total</u>
	<u>Domestic</u>	<u>Export</u>	<u>Schools and needy</u>	<u>Military</u>	<u>Prisons</u>	<u>Foreign</u>	

(million pounds)

1979:

Butter	14.2	0	92.8	8.1	1.5	0	116.6
Cheese	0.3	0	40.9	0	0.1	0	41.3
Nonfat dry milk	<u>81.6</u>	<u>3.2</u>	<u>79.4</u>	<u>0</u>	<u>0.3</u>	<u>168.6</u>	<u>333.1</u>
Total	<u>96.1</u>	<u>3.2</u>	<u>213.1</u>	<u>8.1</u>	<u>1.9</u>	<u>168.6</u>	<u>491.0</u>

STORAGE AND TRANSPORTATION COSTS FORGOVERNMENT-OWNED COMMODITIESFISCAL YEARS 1979-83 (THROUGH FIRST QUARTER)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1st quarter 1983</u>
	----- (thousands) -----				
<u>STORAGE COSTS:</u>					
Dairy products:					
Butter	\$ 4,983	\$ 6,499	\$ 15,017	\$ 18,752	\$ 4,916
Cheese	343	1,994	12,481	25,835	9,245
Nonfat dry milk	<u>5,030</u>	<u>5,338</u>	<u>8,595</u>	<u>13,467</u>	<u>4,135</u>
Subtotal	\$10,356	\$ 13,831	\$ 36,093	\$ 58,054	\$18,296
Feed grains	37,511	67,517	99,838	109,485	39,743
Wheat and wheat products	13,309	39,125	61,571	65,185	15,104
Rice, rough and milled	8,023	5,057	970	5,026	5,334
Oils and oilseeds	1,033	1,233	546	577	1,072
Other (note a)	<u>2,329</u>	<u>6,151</u>	<u>1,213</u>	<u>904</u>	<u>244</u>
Total	<u>\$72,561</u>	<u>\$132,914</u>	<u>\$200,231</u>	<u>\$239,231</u>	<u>\$79,793</u>

TRANSPORTATION COSTS:

Dairy products:					
Butter	\$ 2,665	\$ 6,550	\$11,530	\$12,326	\$ 2,720
Cheese	1,918	7,124	17,993	21,322	5,042
Nonfat dry milk	<u>8,244</u>	<u>13,100</u>	<u>20,337</u>	<u>21,037</u>	<u>4,043</u>
Subtotal	\$12,827	\$26,774	\$49,860	\$54,685	\$11,805
Feed grains	9,378	39,931	20,336	11,839	8,035

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	1st quarter <u>1983</u>
	----- (thousands) -----				
<u>TRANSPORTATION COSTS:</u>					
Wheat and wheat products	1,028	17,758	15,925	12,568	1,223
Rice, rough and milled	1,026	790	749	1,524	124
Oils and oilseeds	1,102	892	387	574	543
Other (note a)	<u>2,108</u>	<u>5,248</u>	<u>3,173</u>	<u>1,839</u>	<u>247</u>
Total	<u>\$27,469</u>	<u>\$91,393</u>	<u>\$90,430</u>	<u>\$83,029</u>	<u>\$21,977</u>

a/ Includes commodities such as cotton, vegetable oil products, and sugar.