



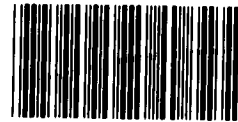
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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

September 14, 1983

RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-206763



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The Honorable Jesse Helms
Chairman, Committee on Agriculture,
Nutrition, and Forestry
United States Senate

Dear Mr. Chairman:

Subject: Operation of the Department of Agriculture's
Special Dairy Distribution Program in
Nashville, Tennessee (GAO/RCED-83-239)

In your letter of July 22, 1983, you asked for a brief written description of the results of our review of the operation of the Department of Agriculture's special dairy distribution program in Nashville, Tennessee. Your letter referred to the Mayor of Nashville's recent testimony before your committee's Subcommittee on Rural Development, Oversight, and Investigations in Denver, Colorado, concerning problems the City of Nashville encountered in obtaining butter and cheese from the Department for distribution to needy individuals. According to your letter, your understanding is that the Department contends that proper requests for the commodities were not made.

The overall objective of our review was to obtain information on Nashville's February 1983 request to the Department's Food and Nutrition Service (the Service), which administers the program, for surplus cheese to be distributed to needy individuals. Our findings are summarized below and are discussed in more detail in the enclosure to this letter.

Subsequent to a newspaper report that large quantities of Government-owned dairy products were stored in local warehouses, the Mayor of Nashville, in a February 7, 1983, letter to the Service's Southeast Regional Office in Atlanta, Georgia, requested surplus butter and cheese for distributions that the city had scheduled for late February. Although the Regional Administrator advised the Mayor in a letter dated February 14 that butter and cheese would be made available to the city (which they

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subsequently were), prior to that date there was confusion and conflicting information about the availability of uncommitted products in a Nashville warehouse and the length of time it would take to fulfill the Mayor's request. Some of the events and factors contributing to the confusion were:

- At the time of the Mayor's request, Nashville was not approved by the Service as a food bank, a prerequisite for ordering dairy products, because Tennessee had chosen to operate a centralized program with only one food bank--the State Planning Agency. On February 14, however, a city agency was designated as a food bank under the program.
- Although 35 to 45 days normally elapse between the dates a request is received and the products are delivered, the city had received dairy products in one previous case within about 2 or 3 days. This apparently led some city officials to believe that all requests for dairy products could be filled very quickly.
- Service officials in Atlanta were not aware that 372,000 pounds of uncommitted cheese were stored in the Nashville warehouse at the time of the Mayor's request. This occurred because the products were not shown on the Department's inventory listing at the time due to the warehouse's delay in sending the necessary documentation to the Department. As a result, Service regional officials had advised city and State officials that no products were readily available when, in fact, they were.
- City officials did not understand why the Department could not fulfill the Mayor's request in a timely manner when it was reported that the local warehouse contained a large amount of surplus cheese. The Department currently requires 35 to 45 days to locate the most appropriate product, considering such factors as the age and location of suitably sized products, and arrange for transporting the products to the requestor.

The result of these events was that, although Nashville received cheese and butter in time for its scheduled February distribution, city officials were concerned about the Department's management of the special distribution program.

Department of Agriculture and City of Nashville officials who provided comments on a draft of our report generally agreed that the report was a fair and objective description of the situation. They did, however, provide some additional information and

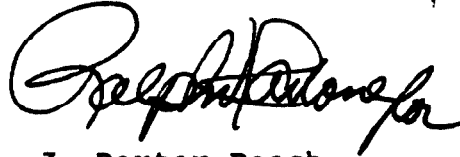
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suggested some changes that have been incorporated into the final report, where appropriate.

Our findings; the objective, scope, and methodology of our review; and Department and city officials' comments on our draft report are discussed in greater detail in the enclosure. We trust that the information provided satisfies your request.

Unless you announce the contents earlier, we plan no further distribution of this report until 2 days after its issue date. At that time we will send copies to the Secretary of Agriculture and the Mayor of Nashville. We will also make copies available to others on request.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "J. Dexter Peach".

J. Dexter Peach
Director

Enclosure

C o n t e n t s

ENCLOSURE

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ABBREVIATIONS

ASCS	Agricultural Stabilization and Conservation Service
FNS	Food and Nutrition Service
USDA	U.S. Department of Agriculture

INFORMATION ON THE OPERATION OF THE
SPECIAL DAIRY PRODUCT DISTRIBUTION PROGRAM
IN NASHVILLE, TENNESSEE

THE SPECIAL DAIRY PRODUCT
DISTRIBUTION PROGRAM

The special surplus dairy product distribution program, administered by the U.S. Department of Agriculture's (USDA's) Food and Nutrition Service (FNS), was initiated in December 1981 to help reduce inventories of Government-owned dairy products and to help feed the Nation's hungry. The surplus dairy products are acquired under the dairy price-support program administered by USDA's Agricultural Stabilization and Conservation Service (ASCS). The products are stored in warehouses throughout the country.

The special distribution program is a temporary program designed to distribute surplus products to needy individuals at minimum costs and administrative burden. The costs of administering the program have been minimized through the use of volunteers. To be eligible to distribute the surplus products to needy people, a State or local governmental agency or a private organization must be approved by FNS as a food bank. Such approval is to be granted only to food banks a State recommends for approval upon its determination that the food banks have (1) proper storage facilities, (2) adequate recordkeeping systems, and (3) procedures for assuring that the products are provided only to needy persons for household consumption.

OBJECTIVE, SCOPE, AND METHODOLOGY

The overall objective of our review was to obtain information regarding a February 7, 1983, request made by the Mayor of Nashville, Tennessee, to FNS for surplus cheese to be distributed to needy individuals. We made the review in accordance with generally accepted government auditing standards. Our audit work was done between February 22 and April 27, 1983.

We obtained information about Nashville's request for surplus cheese and USDA's response thereto from the city, the State of Tennessee, and USDA. We interviewed officials of FNS headquarters in Alexandria, Virginia; the FNS Southeast Regional Office in Atlanta, Georgia (which has responsibility for FNS programs in Tennessee); the ASCS field office in Kansas City, Missouri (which, among other things, has responsibility for the transportation and storage of USDA commodities); the State of Tennessee; the City of Nashville; and a private cold storage warehouse in Nashville.

NASHVILLE'S REQUEST FOR
SURPLUS DAIRY PRODUCTS

On February 7, 1983, a Nashville newspaper reported that millions of pounds of USDA-owned cheese and butter were being stored in warehouses in Nashville and other locations throughout the State awaiting distribution to the needy but that, because of bureaucratic red tape and a lack of money, it could take months or years before the products were made available to the needy. The newspaper said that in the meantime a lot of food could spoil. After reading this newspaper report, the Mayor of Nashville, in a February 7, 1983, letter to the Regional Administrator of FNS' Southeast Region, asked that surplus butter and cheese be made available for distributions that the city had scheduled for February 23 and 24, 1983.

Although the Regional Administrator, in a February 14, 1983, letter to the Mayor, stated that 372,000 pounds of cheese and a lesser amount of butter would be made available to the city, prior to that date there was confusion and conflicting information about the availability of products in a warehouse in Nashville and the length of time it would take to fulfill the Mayor's request. Some of the major events and factors contributing to the confusion were that (1) although the city was not approved as a food bank at the time of the Mayor's request, it had previously obtained surplus dairy products from FNS under the special distribution program, (2) due to the warehouse's delay in sending the necessary documentation to ASCS, there was conflicting information about whether 372,000 pounds of cheese not committed to other purposes were stored in Nashville, and (3) city officials did not understand why the Mayor's request could not be fulfilled in a timely manner with products stored in a Nashville warehouse.

Nashville was not approved as a
food bank at the time of the request

At the time of the Mayor's request, Nashville was not an approved food bank, a prerequisite for ordering surplus dairy products from FNS under the special distribution program. Although many States have numerous food banks participating in their programs, Tennessee had chosen to operate a centralized program with only one food bank--the State Planning Office.

City officials' concern about USDA's requirements for ordering surplus dairy products may have been fostered by an earlier experience in which a city agency was able to obtain dairy products directly from FNS on very short notice without following normal FNS procedures. In December 1982 the city's Director of General Services, Metropolitan Development and Housing Agency, requested surplus dairy products from FNS for distribution to public housing residents. FNS provided the products to her agency within 2 or 3 days. Although this distribution was not in

accordance with normal FNS procedures because the city agency was not an approved food bank, the success in accomplishing the distribution appears to have led some city officials to believe that additional distributions could be carried out very quickly.

The city agency was designated as a food bank on February 14, 1983, and is now eligible to arrange to receive dairy products from FNS in accordance with the city's own distribution plans.

Confusion existed about availability of
dairy products in Nashville warehouse

There was confusion and conflicting information about whether 372,000 pounds of uncommitted surplus cheese, packaged in household-size (5-pound) blocks, were stored in the Nashville warehouse at the time of the Mayor's request. Although FNS regional officials in Atlanta told city and State officials that no uncommitted cheese was available in the Nashville warehouse, 372,000 pounds were stored there that FNS officials were unaware of. The FNS officials were unaware of the uncommitted cheese because, due to a delay in the recordkeeping process, the cheese was not on ASCS' inventory records at the time. (A discussion on why this cheese was not shown on ASCS inventory records at the time begins on p. 4.)

The city's Director of General Services, Metropolitan Development and Housing Agency, who is responsible for managing the city's surplus food distribution effort, told us that State officials advised her shortly after the Mayor's letter was sent to FNS that FNS had advised the State that dairy products stored in the local warehouse were committed for other purposes and that it could take up to 90 days to meet the Mayor's request for surplus dairy products. At this time the FNS officials were unaware of the 372,000 pounds of uncommitted cheese stored in the Nashville warehouse.

The Regional Administrator, in his February 14 letter to the Mayor, also stated that no cheese was readily available to meet the Mayor's request and said that, at the time of the request, all the cheese stored in the Nashville warehouse was either committed to other purposes or stored in packages too large for distribution to households. The Regional Administrator told the Mayor, however, that FNS was subsequently advised that 372,000 pounds of uncommitted cheese, in transit at the time of the Mayor's request, had arrived at the Nashville warehouse.

The former Chief, Operations and Assistance Section, FNS Special Nutrition Programs, also told us that the 372,000 pounds of cheese were in transit at the time of the Mayor's request. He said that the cheese was shipped to the Nashville warehouse based on anticipated demand and therefore was uncommitted.

Also adding to the confusion, after the Regional Administrator advised the Mayor that the 372,000 pounds of cheese had arrived at the Nashville warehouse, the Mayor contacted the warehouse manager and was told that no such shipment had arrived. The warehouse manager told us that he made this statement to the Mayor because he did not know that three separate shipments of cheese that he had received in January were the shipments USDA intended to give Nashville. (See schedule of arrival dates below.)

USDA officials did not know that the 372,000 pounds of cheese were stored at the Nashville warehouse at the time of the Mayor's request because, due to a delay in the recordkeeping process, the cheese was not shown on ASCS' inventory listing of dairy products stored in warehouses throughout the country until sometime between February 17 and February 27. ASCS, which manages the surplus inventory, uses the inventory listing to decide what products are available for distribution. Products are not entered on the listing until ASCS' Kansas City Field Office receives the shipping receipts from the warehouse. Products being shipped are included on a separate listing. In the case of the 372,000 pounds of cheese, the warehouse delayed sending the shipping receipts to ASCS, and consequently, USDA officials mistakenly told State officials, who in turn told Nashville officials, that no cheese was available from the Nashville warehouse.

The 372,000 pounds of cheese arrived at the Nashville warehouse on 3 different days in January 1983. Shipping documents provided by the warehouse manager and inventory listing dates provided by the Dairy Branch, ASCS Kansas City Field Office, showed that about 3 to 6 weeks elapsed from the time the shipments arrived until they were entered on ASCS' inventory listing. The actual dates are shown below.

<u>Dates cheese arrived at warehouse</u>	<u>Dates cheese shown on ASCS inventory</u>	<u>Days elapsed</u>	<u>Quantity of cheese shipped</u> (pounds)
Jan. 12	Feb. 22	42	111,600
Jan. 14	Feb. 22	40	111,600
Jan. 25	Feb. 17/18	24/25	<u>148,800</u>
Total			<u><u>372,000</u></u>

One of the reasons it took as long as 3 to 6 weeks for the cheese to be entered on ASCS' inventory listing was that, according to the warehouse manager, the warehouse took longer than usual to send the warehouse receipts to ASCS. He said that although it usually takes warehouse employees about 2 or 3 days to send the

receipts to ASCS, in the case of the three January shipments, it took about 2 weeks because of a staffing shortage.

City officials did not understand why Mayor's request could not be fulfilled as quickly as they desired

City officials did not understand why FNS initially said that it could not meet the Mayor's request in a timely manner, particularly since products reportedly were stored in a local warehouse.

At the time of the Mayor's request, USDA required a minimum of 60 days from the time it received a request until the product was delivered. This requirement was subsequently revised to 35 to 45 days. According to the Regional Director, Special Nutrition Programs, FNS Southeast Region, and other USDA officials, the lead time of 35 to 45 days is needed so that USDA can locate the most appropriate product to fill the order, considering such factors as the age and location of products, and contract with a transportation firm to ensure that deliveries coincide with the local entities' distribution plans.

The Regional Administrator, in his February 14 letter to the Mayor, also discussed the matter of lead time, saying that FNS procedures call for orders to be placed 45 days prior to the month of planned distribution so that the product can be located and transportation arranged to ensure arrival in accordance with local distribution plans. He said that without an assured delivery date, local plans could be negated, resulting in a waste of volunteer services and confusion on the part of the intended recipients.

According to the former Chief, Operations and Assistance Section, Special Nutrition Programs, the fact that USDA-owned products are stored within a State or city does not necessarily mean that the products can or will be used for the special distribution program within that State or city. According to USDA officials most of the cheese USDA stores is in barrels or blocks too large for distribution to individuals. Consequently, the bulk cheese must be transported for processing before it can be distributed. Also, the USDA officials said that some cheese may be unsuitable for household distribution because of its age or condition. These officials explained that the older cheese is donated to institutions under other programs because institutions are considered to be better able than individuals to safely handle any cheese that may have deteriorated slightly.

One question raised by city officials was why a local government entity cannot deal directly with FNS in arranging for products to distribute, thereby eliminating the time required to go through the State. According to the former Chief, Operations

and Assistance Section, Special Nutrition Programs, under program procedures, each State consolidates the requests it receives for surplus dairy products from the various local entities approved to distribute food (food banks) within the State and submits one consolidated order to FNS. He said that if FNS had to deal directly with each local entity, FNS' workload would increase greatly and the distribution system would operate less efficiently.

AGENCY AND CITY COMMENTS
AND OUR EVALUATION

The Director, Food Distribution Division, FNS headquarters, and the former Chief, Operations and Assistance Section, FNS Special Nutrition Programs, who provided comments on a draft of our report for the Department, said that the report was a fair and objective description of USDA's handling of the Nashville request, but added clarification on two issues.

First, although we said that city officials did not clearly understand the program's procedural requirements, FNS officials had explained the procedures to the city's Director of General Services, Metropolitan Development and Housing Agency, in December 1982 and advised her to apply for food bank status.¹ Second, FNS officials kept State officials fully apprised of FNS' actions in response to Nashville's December 1982 and February 1983 requests because, in accordance with FNS' agreement with the State, Nashville's requests should have been made through the State.²

The FNS officials also said that, despite the problem caused by the warehouse's delay in submitting shipping receipts, ASCS' requirement that products not be entered on its inventory listing until the shipping receipts are received is in keeping with sound inventory management practices.

The Director, General Services, Metropolitan Development and Housing Agency, who provided comments on a draft of this report for the City of Nashville, said that, overall, the report accurately described the circumstances involving Nashville's request. She said, however, that contrary to what we had said in the draft report, she knew what FNS' procedures were at the time of the Mayor's February request but believed that there were problems that could have been avoided. (See footnote 1.) She said, for example, that although she had sent a letter to the State in

¹The statement made in our draft report that city officials did not fully understand the program's procedural requirements was deleted based on comments made by agency and city officials.

²Our report was revised to reflect State officials' involvement in Nashville's dairy product distributions.

December 1982 asking that the State designate the Metropolitan Development and Housing Agency as a food bank, the State had not acted on her request until after the Mayor's February request to FNS. She said that, in her opinion, the program's administration could be improved, particularly the time required to fill orders, if major cities were allowed to deal directly with FNS in obtaining surplus products for distribution.