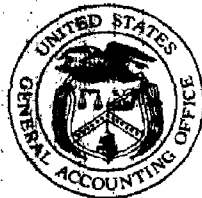


December 1991

FOOD ASSISTANCE

Processing of USDA Commodities Donated to the National School Lunch Program





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

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**Resources, Community, and
Economic Development Division**

B-243558


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Congressional Recipients

This report, mandated by Section 1173(f) of the Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624), discusses the processing of commodities donated by the U.S. Department of Agriculture to states and schools participating in the National School Lunch Program. The report provides information on the extent of processing by states and schools, differences in state processing requirements, and schools' satisfaction with access to processors and processor services. The report contains no recommendations.

We are sending copies of this report to appropriate House and Senate committees, interested Members of Congress, the Secretary of Agriculture, and other interested parties. Copies will be made available to those who request them.

This work was performed under the direction of John W. Harman, Director, Food and Agriculture Issues, who can be reached at (202) 275-5138. Other major contributors to this report are listed in appendix IV.



J. Dexter Peach
Assistant Comptroller General

List of Recipients

The Honorable Patrick J. Leahy
Chairman, Committee on Agriculture, Nutrition, and Forestry
United States Senate

The Honorable Richard G. Lugar
Ranking Minority Member
Committee on Agriculture, Nutrition, and Forestry
United States Senate

The Honorable E (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives

The Honorable E. Thomas Coleman
Ranking Minority Member
Committee on Agriculture
House of Representatives

Executive Summary

Purpose

In school year 1990 (July 1, 1989, through June 30, 1990), the U.S. Department of Agriculture (USDA) provided over \$629 million in food commodities—such as beef, poultry, cheese, and flour—to child nutrition programs. Nearly all—99 percent—of these commodities were provided to local school districts under the National School Lunch Program (NSLP). Schools use the commodities in preparing school lunches in their own kitchens or have food processing companies process the commodities into more table-ready products—such as hamburger patties, chicken nuggets, bread, and pizzas—for school lunch use.

Regarding commodities to which schools are entitled under child nutrition programs, Section 1773(f) of the Food, Agriculture, Conservation, and Trade Act of 1990 directed GAO to evaluate the extent to which (1) states are using processors to process their commodities, (2) state processing requirements vary, and (3) schools are satisfied with their access to processors and the services being provided. With the concurrence of the Senate Committee on Agriculture, Nutrition, and Forestry and the House Committee on Agriculture, GAO focused its review on commodity processing for the NSLP.

Background

For more than 50 years the federal government has purchased and distributed agricultural commodities to support various domestic food assistance programs. The National School Lunch Act of 1946 officially established the NSLP. Section 1114(a) of the Agriculture and Food Act of 1981, as amended, encouraged the use of private commodity processing companies, which can provide an opportunity to reduce the labor and equipment costs for school meal service.

USDA's Food and Nutrition Service (FNS) has overall responsibility for distributing NSLP commodities to states and local school districts and administering the NSLP. States and school districts also share administrative responsibilities for the program. States are responsible for distributing the donated food to schools, and both states and schools are responsible for using it according to FNS requirements.

FNS requires that private commodity processing be done under a contractual agreement that must include specific FNS requirements. FNS allows both states and local school districts to contract with processors and to include additional requirements in the contractual agreements to the extent that they do not conflict with USDA requirements.

States are “entitled” to receive donated commodities on the basis of the number of student meals served during the school year multiplied by a value per meal—which in school year 1990 amounted to a commodity allocation of 13.25 cents per meal. In some years, USDA also donates surplus commodities acquired through price support and surplus removal programs for the NSLP. These “bonus” commodities are not subject to restrictions on the per-meal value. GAO considered both entitlement and bonus commodities in its evaluation. In addition to receiving commodities, states are eligible to receive cash payments for meals served.

Results in Brief

- About 12.4 percent of the commodities donated to the NSLP during school year 1990 were sent to processors to be made into more table-ready products, according to FNS data. Most states and other eligible U.S. governmental entities are using processors. However, the number of processors used and the amount of donated food processed vary widely from state to state.
- State commodity processing requirements vary widely. Although processors stated that different requirements add to processing costs and can adversely affect their operations, most processors responding to a nationwide survey conducted by GAO did not generally view these variations as major problems.
- Overall, local schools seem satisfied with their access to processors and the processor services being provided—but there were different opinions on this issue. Nearly all the local school district officials with whom GAO spoke were satisfied. State and national officials representing school districts were not as homogeneous in their responses to this issue, but the majority were satisfied.

GAO’s Analysis

Commodity Processing Is Limited

In school year 1990, 50 states, the District of Columbia, 5 U.S. territories, and Defense Department schools received a total of \$624 million in donated food commodities for use in the NSLP. Of this amount, about \$77.5 million, or 12.4 percent, was sent to processors to be made into more table-ready products. Eight states and Puerto Rico accounted for about \$59 million, or about 76 percent, of the commodities sent to processors in terms of dollar value. California sent \$26.0 million to processors; New York, \$9.8 million; Pennsylvania, \$6.2 million; and

Ohio, \$4.0 million. New Jersey, Maryland, Virginia, Florida, and Puerto Rico sent between \$2.1 million and \$2.9 million to processors.

Similarly, in terms of weight, nine states accounted for about 74 percent of the donated commodities sent to processors during school year 1990. The amount of commodities processed in a state can depend on a number of factors, including (1) the availability of statewide processing contracts for school districts to use, (2) state efforts to help local school districts participate in the program, (3) the number of processors in a state, and (4) the availability of commercial distribution systems.

Although the percentage of food being processed is small, there were a large number of processing contracts. For example, in school year 1990, states and local school districts entered into a total of 1,861 contracts for processing NSLP-donated foods.

States' Contract Requirements Vary Widely

GAO found that most states have special requirements in their processing contracts that reflect state processing preferences. For example, processing contracts for 43 states and the District of Columbia during school year 1990 contained a total of about 590 "special provisions" delineating special processing requirements. Four states had no special provisions in their contracts, and three states had no processing contracts. GAO's analysis of the special provisions in the contract forms showed that most special provisions fell into 12 categories and included such things as providing information on (1) the ingredients used in preparing the end product, (2) the labeling of the end product to indicate its nutritional value and the percentage of daily nutritional needs met, (3) states' reimbursement for the value of the donated goods, (4) quality control measures to be adhered to during processing, (5) inventory protection requirements, and (6) reporting requirements.

Despite the large number of special provisions, there was some commonality in state requirements in a number of these categories. For example, 28 states had a total of 69 special provisions regarding how byproducts and commodities left over after processing would be handled. About one-third of the special provisions in this category related to how left-over commodities would be returned to the state or school district— for example, whether they were to be returned frozen and whole for use as an ingredient in other recipes. Also, 14 special provisions pertained to the submission of processor audit reports; 12 of these provisions were identical, specifying that the reports were to be submitted within 180 days after the end of the contract year.

A majority of multistate processors responding to a nationwide GAO survey indicated few problems with the different state processing requirements. For example, about 80 percent of the 72 multistate processors responding to the survey said they had no problems or minor problems with the variety of state rules on processing payment systems. Some processors who identified problems did not consider them serious enough to warrant changes to the program. However, about 58 percent of the total 195 processors responding to GAO's survey (in addition to the multistate processors, single-state processors also responded to the survey) indicated that they would be more involved in processing if required paperwork was more standardized.

The American Commodity Distribution Association and USDA have initiatives under way to promote more standardization of state processing contracts and standardization of processor reporting requirements.

School Districts Are Generally Satisfied With Access to Processing

Officials of six of the seven local school districts GAO spoke with were generally satisfied with the availability of processors. This level of consensus, however, was not evident among statewide representatives of school districts. For example, state-level representatives in three of the six states included in GAO's review reported that they were satisfied with processor availability, representatives in two states said they were not satisfied, and representatives in the remaining state were divided.

Almost everyone GAO spoke with at the local school district, state, or national level was satisfied with the services provided by processors. A recent USDA-sponsored study reported similar results, indicating that 98 percent of school districts receiving processed commodities were satisfied with the end products. However, some school district officials and representatives did express concern about excessive paperwork requirements and the need for more guidance and training for processors.

Recommendations

GAO is not making recommendations in this report.

Agency Comments

USDA officials reviewed a draft of this report and concurred with the information presented. They indicated, however, that in the past processors had often complained about variations in state processing requirements. For this reason they would have expected more serious complaints from processors on this topic than GAO's study showed.

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Abbreviations

ACDA	American Commodity Distribution Association
AMS	Agricultural Marketing Service
ASCS	Agricultural Stabilization and Conservation Service
ASFSA	American School Food Service Association
CN	Child Nutrition
FNS	Food and Nutrition Service
GAO	General Accounting Office
NSLP	National School Lunch Program
USDA	U.S. Department of Agriculture
WIC	Women, Infants, and Children

Introduction

For over 50 years, the federal government, through the U.S. Department of Agriculture (USDA), has purchased and distributed agricultural commodities, or products, such as fruit, vegetables, meat, and poultry to support various domestic food assistance programs. Although these commodity distributions were initially viewed as a means of distributing surplus agricultural products purchased by the government under agricultural price-support programs, today they are very important as a means of helping meet the nutritional needs of many Americans. In school year/fiscal year 1990, USDA provided about \$1.2 billion worth of food to domestic food assistance programs.¹

Over half of the donated agricultural commodities go to child-oriented food assistance programs. The National School Lunch Program (NSLP) received about \$624 million in donated commodities in school year 1990, or about 99 percent of the dollar value of food donated to children's programs. Under the NSLP, the value of commodities offered to schools is based on a prescribed rate per meal and the number of meals served. Schools either use the donated commodities themselves in preparing lunches for students, or they send the commodities to companies, referred to as "processors," for preparation into more table-ready school lunchroom products, such as bread, hamburger patties, chicken nuggets, and pizzas.

USDA's Commodity Donation Program

USDA's Food and Nutrition Service (FNS), aided by two other USDA agencies—the Agricultural Marketing Service (AMS) and the Agricultural Stabilization and Conservation Service (ASCS)—administers USDA's commodity distribution programs, including donations to the NSLP. FNS has overall responsibility for administering the commodity distribution program; its responsibilities include coordinating the distribution of donated commodities to state and/or local authorities and monitoring program operations at the federal, state, and local levels. AMS and ASCS purchase the foods to be donated. AMS purchases surplus items, such as meat, poultry, fruits, and vegetables, under USDA programs designed to encourage domestic consumption of these products in national markets while ASCS buys USDA price-supported items, which include cheese, butter, oil, peanuts, rice, wheat, and other grains.

¹ USDA data on donated food for schools are accumulated on a school year basis (July 1 to June 30). Other donated food statistics are accounted for on a fiscal year basis (October 1 to September 30).

USDA arranges and pays for an initial processing and packaging of donated food into some product form, for example, grain into flour, peanuts into peanut butter, and sides of beef into bulk ground beef. USDA also arranges and pays for the shipment of the donated foods to a point designated by the states receiving the donations. According to FNS, the shipment of foods could be to a state warehouse or directly to a processor's plant where the commodity may be processed into a more table-ready product. State agencies or local school districts are then responsible for storage, transportation, or distribution of the food. They are also responsible for contracting with processors for processing services and for complying with USDA regulations governing the food assistance program in which they are participating.

Table 1.1 shows that nearly 2.1 billion pounds of food commodities—valued at about \$1.2 billion—were donated to domestic food programs by USDA during school/fiscal year 1990. Over half of the donations—whether by weight or dollar value—went to the NSLP.

Table 1.1: Amount and Value of Commodities Donated to Domestic Food Programs by USDA in School/Fiscal Year 1990

Pounds and dollars in millions

Program	Volume of orders		Value of orders	
	Number of pounds	Percent of total	Dollar value	Percent of total
Child Nutrition Programs				
National School Lunch Program ^a	1,079.9	51.9	\$624.0	54.1
Child Care Program	7.6	0.4	4.5	0.4
Summer Food Service Program	1.9	0.1	1.1	0.1
Supplemental Food Program				
Commodity Supplemental Food Program	131.5	6.3	79.2	6.9
Food Distribution Programs				
Needy Families	105.1	5.0	54.9	4.8
Nutrition Program for the Elderly	10.4	0.5	6.5	0.6
Charitable Institutions	245.2	11.8	100.5	8.7
Temporary Emergency Food Assistance Program	408.6	19.6	235.8	20.4
Disaster Feeding	1.6	0.1	1.3	0.1
Summer Camps	6.0	0.3	3.1	0.3
Soup Kitchen Food Bank	76.5	3.7	38.4	3.3
Food Bank Development Project	1.9	0.1	0.8	0.1
Area Assistance for the Aging Program	6.0	0.3	3.6	0.3
Total^b	2,082.1	100.0	\$1,153.7	100.0

^aIncludes minimal commodities used for School Breakfast Program.

^bTotals may not add up to 100 percent because of rounding.

National School Lunch Program

USDA donations of agricultural commodities to schools were first authorized under Section 32 of the Act of August 24, 1935. These donations predated the NSLP, which was established by the National School Lunch Act of 1946. The goals of the 1946 act were to safeguard the health and well-being of the nation's children and to encourage the domestic consumption of nutritious agricultural commodities. Although not specific to the NSLP, other legislation has focused on the use of processors to prepare USDA-donated food commodities. For example, Section 1114(a) of the Agriculture and Food Act of 1981, as amended, encouraged commodity processing through private companies.

Under USDA's commodity distribution programs, commodities donated to states fall into one of two categories: entitlement commodities and bonus commodities. Entitlement commodities are those that, by law, USDA must provide to states. These commodities are supplied in limited amounts,

and FNS is mandated to ensure that a certain dollar value of commodities be distributed to each state. Under the NSLP, the amount of entitlement commodities sent to each state is determined by the number of meals served to children during the school year. In school year 1990, states were entitled to receive 13.25 cents in entitlement commodities for each meal served.

Bonus commodities are those commodities that USDA makes available under its discretionary authority to dispose of surplus commodities to prevent waste or spoilage. FNS is not mandated to allocate a prescribed amount of bonus commodities to each state, and states are not limited in the amount of bonus commodities they can receive. Bonus commodities do not count against the entitlement commodities due a state. However, the types and quantities of bonus commodities available change from year to year.

As shown in table 1.2, of the \$624 million in food donated to schools through the NSLP in school year 1990, about 83 percent (\$516.5 million) were entitlement commodities and 17 percent (\$107.5 million) were bonus commodities.

Table 1.2: Dollar Value of Entitlement and Bonus Commodities Provided to Schools Nationwide in School Year 1990

Dollars in millions		
Type of commodity	Dollar value	Percent of total value
Entitlement	\$516.5	83.0
Bonus	107.5	17.0
Total	\$624.0	100.0

According to FNS, under the NSLP, schools either use the commodities themselves to prepare lunches in their own kitchens or send the commodities to a processor where they are turned into more table-ready products, such as bread, pizza, ice cream, chicken nuggets, and hamburger patties. Processing of USDA-donated commodities into more finished or table-ready products can be very important to some schools. For example, processing can help schools reduce meal-service labor and equipment costs and can also help reduce food waste.

In school year 1990, 50 states, the District of Columbia, Defense Department schools, and 5 U.S. territories received donated commodities under the NSLP. Table 1.3 shows that 21 states received 75 percent of the \$624 million worth of donated commodities distributed in school year 1990. A

complete list showing the amount of donated commodities received by each state or U.S. entity through the NSLP is shown in appendix I.

Table 1.3: Recipients of 75 Percent of USDA-Donated Commodities in School Year 1990 (Based on Dollar Value Received)

State	Total dollar value received	Cumulative percent of total value
California	\$58,871,496	9.43
Texas	52,222,632	17.80
New York	39,221,759	24.09
Florida	28,058,531	28.58
Pennsylvania	24,490,390	32.51
Georgia	24,284,141	36.40
Ohio	23,785,842	40.21
Illinois	23,681,729	44.01
North Carolina	19,174,708	47.08
Michigan	18,120,558	49.98
Louisiana	17,664,597	52.81
Tennessee	16,244,021	55.42
Indiana	15,899,441	57.97
Alabama	15,180,294	60.40
Virginia	14,337,597	62.70
Missouri	13,398,812	64.84
Kentucky	13,005,566	66.93
Minnesota	12,628,158	68.95
Massachusetts	12,356,780	70.93
Wisconsin	12,209,726	72.89
South Carolina	11,546,589	74.74
	\$466,383,367	

In addition to commodities, states are eligible to receive cash payments for meals served. These reimbursements are based on the number of meals served and the number of meals served free or at reduced prices to students from low-income families.

Objectives, Scope, and Methodology

Concerned about the processing of agricultural commodities donated to child nutrition programs, the Congress, in Section 1773(f) of the Food, Agriculture, Conservation, and Trade Act of 1990, directed us to evaluate the extent to which

- processing of entitlement commodities occurs in the states,
- governmental requirements for processing vary among states, and

- schools are satisfied with their access to processors and the services being provided by processors.

In addition, the act required us to consult with representatives of federal and state commodity distribution authorities, local school authorities, and experienced food processors regarding our report's scope and design and to report the results of our review to the Senate Committee on Agriculture, Nutrition, and Forestry and the House Committee on Agriculture no later than January 1, 1992. With the Committees' agreement, we limited our review to the NSLP because it is the major child nutrition program that receives donated commodities.

As required, we consulted with various federal, state, and local government authorities as well as officials from the food processing industry regarding our review. At the federal level we consulted with program officials in USDA's FNS office. We included six states in our review—California, Illinois, Maryland, Ohio, Pennsylvania, and Wisconsin—in which we consulted with the state officials responsible for administering the NSLP. Although these six states were judgmentally selected for our review to give us geographical dispersion, as shown in table 1.3, five of the six states are among those receiving the larger amounts of NSLP-donated food nationwide. In each of the six states, we also consulted with at least one local school district food authority involved in the NSLP. These officials were judgmentally selected based on recommendations from state level officials. We also consulted with local elected school officials in California and Maryland. Initially we consulted with representatives of two processing companies and an official of a national association representing processors in designing our review.

To determine the extent to which commodity processing occurs in the states, we obtained state commodity processing data for school year 1990 (which was the most recent year for which data were available) prepared by FNS' seven regional offices. At our request, the seven FNS regions summarized data from each of the states in their respective regions on the amount and value of NSLP donated food sent to processors in school year 1990. We analyzed the data collected by FNS to determine the amount of processing done nationwide, the amount processed by individual states, and the percent of state commodities that are processed. We included both entitlement and bonus commodities in our review to provide a more complete analysis of NSLP-donated food being processed.

To determine the extent to which state government requirements vary, we obtained, examined, and compared the "special provisions" clause of processing contract forms of the 47 states and the District of Columbia that used processors in school year 1990. The special provisions clause of the contract is the section of the contract that identifies particular processing requirements that a state may require. According to an American Commodity Distribution Association (ACDA) spokesperson, the majority of the states are using a standard ACDA prototype contract that contains a special provisions clause. ACDA is an organization of state commodity distribution officials that promotes more standardized state processing contracts and standardized processor reporting requirements. According to a 1991 ACDA survey, 36 of 42 respondents reported using the prototype contract for fiscal year 1990. We did not review the contract clauses of each state's contract to identify any other special requirements. Furthermore, we did not review actual contracts in force, written by a state or a school district within a state, to determine whether state prototype contract forms were being used by contracting officials. In addition, we interviewed USDA and state officials in the six states included in our review to identify special state requirements in processing contracts.

We also sent a nationwide questionnaire to 272 state commodity processors to obtain their views on how differing state contract requirements affected their operations. FNS identified these processors as being the major companies involved in NSLP processing. We received responses from 195 processors—a 72-percent response rate. We also obtained information from an ACDA questionnaire sent to state commodity distribution officials to collect information on state requirements for processors and processing policies. We also discussed differing state requirements with 11 processors. We judgmentally chose these processors from different commodity processing sectors, for example, pizza, poultry, beef, and bread.

To determine the extent to which commodity recipients are satisfied with access to processing and the processing services provided, we gathered information from national and state organizations and representative local school food authority officials in the six states selected for review rather than randomly sampling the approximate 15,300 school districts nationwide for this information. We used this approach for two reasons: (1) we did not have sufficient reporting time to conduct a survey that would fairly represent the demographic differences in schools across the country and (2) a draft report on a USDA-contracted survey on child nutrition programs, dated February 1991, that included

a section on school food authority satisfaction with commodity processing provided information to help meet our objective.²

Using this approach we obtained information from two organizations at the national level: the American School Food Service Association (ASFSFA) and USDA's National Advisory Council on Commodity Distribution. The ASFSFA represents school food leaders engaged in food service or related activities. ASFSFA seeks to encourage and promote the maintenance and improvement of school food and nutrition programs. The National Advisory Council on Commodity Distribution, which is established under section 3(a) of the Commodity Distribution Reform Act and WIC Amendments of 1987, advises the USDA Secretary on regulations and policy development with respect to specifications for commodities. The council reports to the Congress. Three of the 15 council members are school food service directors. We also reviewed the Council's first two annual reports to the Congress issued in 1989 and 1990.

At the state level we contacted representatives from state school food service associations and state advisory councils in the six states included in our review. The state school food service associations are affiliates of the national ASFSFA. The state councils, which are mandated by the National School Lunch Act and Child Nutrition Amendments of 1977, advise state distributing agencies on matters concerning commodity selection and distribution. The state councils include representatives that participate in the NSLP. We also contacted at least one local school district official in each of the six states for information on this objective. These officials were selected on the basis of recommendations made by state commodity processing officials.

We performed our work from December 1990 through November 1991 in accordance with generally accepted government auditing standards. We relied extensively on data provided by FNS, state agencies, and processors. Time constraints did not allow us to verify these data. Responsible program-level USDA officials provided oral comments on a draft of this report which have been incorporated into this final report.

² Child Nutrition Program Operations Study: First Year Report, U.S. Department of Agriculture.

Extent of Commodity Processing

In school year 1990, only a small amount of the dollar value of food donated to states through the NSLP, about 12.4 percent, was sent to processors to be made into more table-ready products. According to information provided by FNS, the states sent about \$77.5 million of the \$624 million worth of donated food to processors. Some states make more use of processors than others. Although 47 states, 2 U.S. territories, and the District of Columbia entered into at least one processing contract during 1990, 8 states and 1 territory accounted for about 76 percent of the food sent to processors.

Extent of Commodity Processing Nationwide

As discussed in chapter 1, USDA donated about \$624 million in food commodities to states for use in the NSLP during 1990. As shown in table 2.1, states sent about \$77.5 million, or 12.4 percent, of the donated food to processors for conversion into more table-ready products.

Table 2.1: Percent of Donated Food Processed Nationwide in Terms of Dollar Value in School Year 1990

Dollars in millions		
	Dollar value	Percent of total value
Processed	\$77.5	12.4
Not processed	546.5	87.6
Total	\$624.0	100.0

In terms of weight, the amount of food sent to processors is also relatively small. As shown in table 2.2, about 152 million pounds, or 14.1 percent, of the 1,080 million pounds of food donated to the states in school year 1990 were sent to processors.

Table 2.2: Percent of Donated Food Processed Nationwide in Terms of Pounds in School Year 1990

Pounds in millions		
	Pounds	Percent of total pounds
Processed	152	14.1
Not processed	928	85.9
Total	1,080	100.0

Appendix I shows the dollar value of commodities (entitlement and bonus) received and the amount sent to processors for each state and U.S. entity participating in the NSLP in 1990. Appendix II shows the same information for each state and territory but in terms of pounds of commodities.

Extent of Commodity Processing Varies Among States

According to FNS data, 47 states, the District of Columbia, Puerto Rico, and American Samoa made use of processors in 1990. However, in terms of dollar value, eight states and Puerto Rico accounted for about 76 percent of the donated food that was sent to processors. Table 2.3 shows the dollar value of food sent to processors by these eight states and Puerto Rico and the percent of the total dollar value of donated commodities processed nationwide by each.

Table 2.3: Top States and Territory Providing Food to Processors in Terms of Dollar Value in School Year 1990

State/ territory	Dollar value processed	Percent of dollar value processed nationwide
California	\$25,971,438	33.49
New York	9,839,568	12.69
Pennsylvania	6,214,801	8.02
Ohio	3,972,860	5.12
New Jersey	2,914,330	3.76
Maryland	2,822,506	3.64
Virginia	2,545,562	3.28
Florida	2,207,310	2.85
Puerto Rico	2,108,010	2.72
Total	\$58,596,385	75.57

As shown in table 1.3 in chapter 1, California, New York, Pennsylvania, Ohio, Virginia, and Florida were among the top states receiving commodities under the NSLP. In terms of dollar value, these same states are also among the leaders in sending commodities to processors.

In terms of weight, nine states were responsible for about 73.6 percent of the total number of pounds of donated food sent to processors on a nationwide basis. Table 2.4 shows the amount of donated food pounds sent to processors and the percent of the total pounds processed nationwide by these nine states. California, New York, Pennsylvania, Ohio, and Virginia are among the leaders in terms of the pounds of food sent to processors.

Table 2.4: Top States Providing Food to Processors in Terms of Pounds in School Year 1990

State	Pounds processed	Percent of pounds processed nationwide
New York	31,062,009	20.37
California	17,160,762	11.26
Pennsylvania	16,749,615	10.99
Ohio	13,000,693	8.53
New Jersey	10,308,627	6.76
Virginia	6,532,577	4.28
Maryland	6,289,836	4.13
Connecticut	5,861,265	3.84
Massachusetts	5,288,573	3.47
Total	112,253,957	73.63

Our analysis of FNS data showed that only 12 states, 2 U.S. territories, and the District of Columbia sent a higher percentage of their donated foods to processors than the 12.5 percent national average. The states and entities are shown in table 2.5.

Table 2.5: States and U.S. Entities That Processed More Than the National Average (12.5 Percent) Of Their Donated Food in Terms of Dollar Value in School Year 1990

State/ territory	Total dollar value received	Dollar value processed	Percent processed
California	\$58,871,496	\$25,971,438	44.12
American Samoa	335,437	124,038	36.98
Maryland	8,330,342	2,822,506	33.88
Rhode Island	1,470,835	407,342	27.70
Connecticut	5,890,165	1,519,598	25.80
Pennsylvania	24,490,390	6,214,801	25.38
New Jersey	11,504,215	2,914,330	25.33
New York	39,221,759	9,839,568	25.09
Puerto Rico	9,331,548	2,108,010	22.59
District of Columbia	1,337,870	251,792	18.82
Virginia	14,337,597	2,545,562	17.75
Ohio	23,785,842	3,972,860	16.70
Massachusetts	12,356,780	1,830,213	14.81
Nebraska	4,982,316	658,521	13.22
Arizona	7,875,560	1,022,257	12.98

Factors Affecting the Use of Processors

The six states we contacted provided various reasons for the extent of their use of food processors. As shown in table 2.5, four of the six states—California, Maryland, Pennsylvania, and Ohio—processed a

large percentage of their donated food during school year 1990. California, Maryland, and Pennsylvania state officials said they support processing and actively help local school districts participate in the program.

California, Maryland, and Pennsylvania officials also attribute the extensive use of commodity processing to their states' policies of asking USDA to send commodities directly to processors rather than have them delivered to the states first and then sent to the processors. This arrangement is known as diversion. As discussed in chapter 1, USDA pays the cost of transporting commodities to the recipient state or, if a state elects, directly to a processor. By choosing to divert commodities directly to a processor, states and local school districts avoid the cost of transporting the food from state locations to the processor. California, Maryland, and Pennsylvania have policies that encourage diversion, thus making processing easier and cheaper for local school districts.

According to Pennsylvania and Ohio officials, other factors, such as the availability of commercial distributions systems, the number of processors within the state, the use of "pre-plating" companies,¹ and large statewide processing agreements, also lead to extensive use of commodity processing. A Pennsylvania state official told us that his state has contracts for the distribution of commodities; these contracts facilitate the delivery of processed commodities to local schools throughout the entire state. Pennsylvania requires processors to accept donated food from schools, regardless of school size. This system encourages local school districts to participate in the commodity processing program. In addition, we were told that the many small regional processors located in Pennsylvania give local school districts convenient access to processing services.

Several large school districts in Ohio use a pre-plating company to process their donated food. According to an Ohio state official, pre-plating reduces school lunchroom food preparation and serving cost. The Ohio official told us that his state also has nine state processing agreements for bakeries. These agreements allow school districts throughout the state to order bread under the state contracts rather than spend the time and incur the expense of negotiating their own individual contracts with bread processors. Since Ohio has USDA send donated flour directly to the

¹ Pre-platers provide almost table-ready individual meals, normally consisting of more than one food item, which generally only need to be heated and served. Pre-plating companies can accept commodities in bulk, process and pre-cook the end products, and package the end products as individual servings. TV dinners are an example of pre-plated meals.

processors, individual school districts also avoid the cost of transporting commodities to the processor.

Two of the states that we contacted, Wisconsin and Illinois, did not process a large amount of their NSLP commodities during 1990. According to Wisconsin officials, their state did not process extensively because there was little interest among schools in processing. We were told that Wisconsin's only statewide processor contract was a contract for salad oil. In the absence of statewide agreements, school districts must contract with processors on their own and pay the associated administrative costs of entering these agreements. We were told that processing had not been encouraged in Wisconsin for two reasons. First, the state did not want to tell local school districts what they had to do with their food. Second, the schools themselves generally lacked the information needed to initiate their own processing contracts. Wisconsin officials also noted that their state processing activity has changed since school year 1990. Because a 1990 survey of schools showed that a majority wanted the state to set up more processing contracts, Wisconsin officials arranged three poultry contracts for school year 1992.

According to an Illinois state official, the lack of cooperation between school districts in his state regarding the types of end products desired has affected the state's use of processors. We were also told that such agreements would be to the advantage of school districts that do not receive enough donated food to meet minimum order requirements set by processors. For example, one beef processor said that it would not accept processing contracts for beef shipments of less than 500 pounds.

State Requirements Vary but Are Not a Major Problem to Processors

In school year 1990, states and local school districts entered into 1,861 commodity processing contracts. FNS requires that commodity processing be done under a contractual agreement and that certain requirements be included in the agreements. States develop their own contracts and have the prerogative of adding to FNS requirements. Nearly all states have also added special provisions clauses to their contracts delineating varying special processing requirements for individual states.

Our analysis showed that most special requirements fell into 12 contractual areas. These areas included requirements related to such things as providing information on the ingredients used in preparing the end product, labeling the end product to indicate its nutritional value in meeting meal-pattern requirements, and outlining quality control measures to be adhered to during processing. Within these areas we found varying degrees of commonality between state requirements. For example, 28 states had a total of 69 special provisions regarding how byproducts leftover after processing would be handled. Over one-third of the special provisions in this category related to how leftover commodities would be returned to the state or school district, such as in a frozen wholesome condition for use as an ingredient in other recipes.

Despite the differences, most processors responding to our nationwide survey generally did not consider the special requirements of states and school districts to be a major problem. However, some processors indicated that special requirements of individual states add to processing costs and can adversely affect their operations.

ACDA and USDA have initiatives under way to provide additional guidance on commodity processing and to promote standardization of processor contracting forms and processor reporting requirements.

FNS Requirements

FNS requires that all commodity processing be done under a contractual agreement. The agreement can be between a processor and either a state or a local school district. FNS requires that processing contracts include provisions covering, among other things, the following:

- End-product data schedules, which are reports to states or school districts completed by the processor providing information about the donated commodities to be processed and the end products to be produced, such as the amount of end products that can be produced from given quantities of donated commodities.

- The extent, if any, that commercial commodities procured by the processor can be substituted for donated commodities in preparing end products.
- Monthly performance reports that specify beginning and ending processor commodity inventory levels and the quantity of end products distributed during the month.
- Inspection and certification requirements, such as those applicable to meat and poultry processing.
- Specifications covering end product labeling.

FNS requirements are the minimum requirements. States have the prerogative of including additional terms and conditions for their individual processing contracts.

Number of Processing Agreements

According to FNS data, states and local school districts entered into 1,861 processing contracts in school year 1990. Table 3.1 shows that 881, or 47 percent, of these contracts were between states and processors, while 980, or 53 percent, were between local school districts and processors. While school districts in 10 states contracted individually with processors, nearly three-fourths of the 980 local school district contracts were entered into by school districts in three states—Indiana, Michigan, and Ohio. Table 3.1 also shows that 47 of the 50 states and the District of Columbia had at least one processing contract. Hawaii, Mississippi, and Kansas had no processing contracts.

Chapter 3
State Requirements Vary but Are Not a Major
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Table 3.1: Number and Types of Processing Agreements by State in School Year 1990

State	State contracts	Local contracts	Total contracts
Alabama	10	0	10
Alaska	1	0	1
Arizona	26	0	26
Arkansas	10	0	10
California	85	0	85
Colorado	25	0	25
Connecticut	42	0	42
Delaware	6	0	6
District of Columbia	4	0	4
Florida	24	0	24
Georgia	14	0	14
Hawaii	0	0	0
Idaho	12	0	12
Illinois	0	44	44
Indiana	3	239	242
Iowa	34	1	35
Kansas	0	0	0
Kentucky	9	0	9
Louisiana	4	0	4
Maine	6	0	6
Maryland	43	0	43
Massachusetts	47	0	47
Michigan	9	206	215
Minnesota	2	65	67
Mississippi	0	0	0
Missouri	10	0	10
Montana	0	1	1
Nebraska	17	0	17
Nevada	11	0	11
New Hampshire	8	0	8
New Jersey	37	0	37
New Mexico	2	0	2
New York	81	0	81
North Carolina	17	0	17
North Dakota	11	9	20
Ohio	11	334	345
Oklahoma	12	0	12
Oregon	12	0	12
Pennsylvania	92	0	92

(continued)

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State Requirements Vary but Are Not a Major
Problem to Processors

State	State contracts	Local contracts	Total contracts
Rhode Island	8	0	8
South Carolina	7	0	7
South Dakota	4	0	4
Tennessee	11	0	11
Texas	23	0	23
Utah	21	0	21
Vermont	1	0	1
Virginia	42	0	42
Washington	11	0	11
West Virginia	1	3	4
Wisconsin	1	78	79
Wyoming	14	0	14
Total	881	980	1,861

Variations in State Processing Contract Requirements

The District of Columbia and 47 states had processing contracts in school year 1990. Our analysis showed that 43 states and the District of Columbia added a total of 589 special provisions, or requirements, to their contracts. Four states had no special provisions in their contract forms. Furthermore, our analysis showed that the special requirements generally fell into 23 different categories. These categories generally followed the headings, or titles, of the clauses in a prototype processing contract developed by the ACDA that is used by a number of states in processor contracting.

Table 3.2 shows the 12 categories in which special requirements were most frequently cited. In each of these categories, 12 or more states added special provisions to their contracts. Seven states in FNS' Southeast region had adopted a similar set of 33 special provisions for their contracts. Otherwise, there was little consistency between states as to an identical set of special requirements. On the other hand, we found a degree of commonality in state requirements within these 12 categories.

Table 3.2: Twelve Most Frequently Cited Categories of Special Provisions in State Processing Contracts in School Year 1990

Special provision topic	Number of states with special provisions	Total number of special provisions
End-product data schedules	23	119
Food substitution/commingling	26	75
Byproducts	28	69
Grading	24	38
Quality control	21	32
Payment arrangements	27	33
Inventory protection	27	28
Donated food containers	21	23
Labeling	23	25
Processor subcontracting	17	17
Reporting	12	13
Audits	13	14

Following is a brief discussion of the more common requirements requested by the states in each of the above categories.

End-Product Data Schedules

FNS requires an end-product data schedule, which lists various information about the donated food to be processed and the end product to be produced. For example, the schedule includes information on product serving sizes, the quantities of donated food and other ingredients used to make the end product, the amount of end products that can be produced from given quantities of donated food, and the pricing structure of the end product.

Twenty-three states had a total of 119 special provisions relating to end-product data schedules of which 84, about 71 percent, fell into the following four principal categories.

- Provisions related to child nutrition (CN) labeling program requirements, for example, requiring the processor to include the CN label number of the finished product on the end-product data schedule. The CN label discloses the contribution the processed food serving makes to meeting daily child nutritional requirements and is used by schools to determine whether the meals served to students meet USDA meal-pattern requirements. Schools must comply with USDA meal-pattern requirements to be eligible to receive USDA food assistance.
- Provisions related to processing procedures, for example, requiring the processor to describe how the product will be made.

- Provisions related to naming each ingredient and the quantity of each ingredient in the end product.
- Provisions related to processors indicating the guaranteed minimum return of end products from the donated food commodities.

The 23 states averaged about five special provisions related to end-product data schedules. One state had 14 special provisions, 7 other states (the 7 Southeast states with identical requirements) had 9 each, and the remaining 15 states had from 1 to 7 special provisions.

Substitution and Commingling of Donated Food

FNS has established specific rules regarding the substitution and/or commingling of donated commodities with similar commodities commercially procured by the processor during the preparation of food products for schools. In some cases FNS allows commercially procured commodities to be substituted for, or mixed with, donated commodities during the production process. Butter, cheese, flour, peanut butter, and vegetable oil are examples of commodities that FNS allows to be intermingled during the production process. These commodities are referred to as substituted foods. Meat and poultry products, however, are not substitutable—commercially procured commodities cannot be substituted for donated meat and poultry in the production of school food products. These commodities are referred to as nonsubstitutable foods.

Twenty-six states had a total of 75 special provisions related to the commingling of donated meat and poultry. Over half of these provisions (40) added additional commingling requirements which took into account the age of the commodity, whether the commodity was shipped direct from USDA or from a state warehouse to the processor, and whether the donated food of different states might be combined during processing.

The 26 states averaged about three special provisions related to donated food categories. However, the number in each state varied. The seven states from FNS' Southeast region had the largest number of special provisions related to donated food categories—each had seven. Fourteen states had one special provision in this category, 4 other states had two, and 1 state had four.

Byproducts

Byproducts are the salvageable materials, not used in the end products, that are produced while processing donated food. Byproduct provisions address how the processor will return the value of the byproduct to the states or local school districts and the procedures for rework (using

donated food leftover from one production run in a subsequent production run) of products. States or school districts can elect to have the byproducts from their donated food returned to them or can require the processor to sell the byproducts and then return the sales proceeds.

Twenty-eight states had a total of 69 special provisions related to byproducts. Over one-third of these provisions (26) contained requirements related to how the processor was to handle rework products, such as specifying that all rework products returned to the contracting agency must be in a frozen wholesome condition for use as an ingredient in recipes. Other special provisions (16) related to the requirement that the processor had to disclose whether byproducts would be processed from the donated food and, in some cases, to also list the type of byproducts and their per pound value. Fourteen of the special provisions related to the state requiring the processor to return the dollar value of the byproducts rather than returning the byproducts themselves.

The 28 states averaged about two special provisions related to byproducts. Eight states had five provisions in this category, 6 states had from two to four special provisions, and the remaining 14 states had one.

Grading

FNS requires that USDA's Agricultural Marketing Service (AMS) meat and poultry "graders" be involved in the processing of meat and poultry commodities—unless the state or school district waives AMS' services. Processors bear the cost of AMS grading services. States may select either Option 1 or Option 2 grading. Under Option 1, the grader checks to see that processed products are made from the same donated food that was delivered to the processor. Under Option 2, which processors told us is more costly, the grader provides the Option 1 service, plus other quality checks, such as verifying the ingredients and amounts used in the product formula; the portion sizes; the amount of breading used in the product; and whether freezing, labeling, and packaging requirements are met.

Twenty-four states had a total of 38 special provisions related to grading services. Twenty-two (about 58 percent) of the provisions related to the state selecting the Option 2 grading services and, in many cases, specifying the specific grading services the state wanted AMS to perform. Four provisions cited the criteria under which the state would waive the AMS grading services.

The 24 states averaged about two special provisions related to grading services. The number in each state varied slightly. Twelve states each had one special provision in this category, 10 states had two each, and 2 states had three each.

Quality Control

FNS requires processors to maintain a quality control system to ensure that donated food and end products are handled in a safe and sanitary manner. Processors are generally required to submit a written description of their quality control systems to the states or local school districts.

Twenty-one states had a total of 32 special provisions related to quality control. Nearly half (14) of the provisions related to the requirement that processors must have metal detection devices capable of detecting metals that may be in end products. Another eight special provisions gave processors the option of certifying that their quality control systems were approved by an appropriate regulatory agency and would be maintained for the duration of the agreement, instead of sending a written description of the system to the contracting state or school district.

The 21 states averaged about two special provisions related to quality control. The number in each state varied slightly. One state had three special provisions in this category, 9 states had two, and the remaining 11 states had one.

Payment Arrangements

Payment arrangements deal with the manner in which the value of the donated food used in the finished product is passed through to the state or school district procuring the commodity and/or the way in which the processor is paid for its services. There are two payment arrangements—the donated food value pass-through system and the fee-for-service processing system.

The value pass-through system provides that the state or school district will receive either a discount or refund on the wholesale price of the end product equal to the value of the donated commodities. For example, if donated flour and cheese are sent to the processor to be used in making pizzas, then the processor deducts the value of those two commodities from the normal sale price of the pizzas, or the processor may provide a refund to the purchaser at a later date.

Under the fee-for-service system, a state or school district pays the processor a specified price, on a per pound or per case basis, for processing the donated commodity. This price represents the costs, other than the value of the donated food, incurred by the processor to convert the donated food into finished products. Fee-for-service systems are usually used in meat and poultry contracts; for example, a fee is charged for processing bulk ground beef into hamburger patties. FNS requires processing contracts to show that the value of the donated food will be passed to the eligible recipient agency through a system approved by FNS.

Twenty-seven states had a total of 33 special provisions related to payment arrangements. Eleven of these, 33 percent, related to the selection of the specific payment arrangement to be used. Another eight were related to requiring the processor to submit the procedures it used for documenting the donated food value pass-through system. Five provisions related to payment forms or reports the processor was required to use.

The 27 states averaged about one special provision related to payment arrangements. The number in each state varied slightly. One state had three special provisions in this category, 4 states had two, and the remaining 22 states had one.

Inventory Protection

FNS holds states and school districts liable for the value of the donated food provided to processors. FNS also requires processors to provide to the states documentation showing that they have obtained inventory protection. The protection can be a performance supply and surety bond, an irrevocable letter of credit, or an escrow account that is sufficient to repay the value of all donated foods. Inventory protection documentation must be obtained before any donated foods are sent to the processor.

Twenty-seven states had a total of 28 special provisions related to inventory protection. Half of these (14) provisions related to the requirement that the processor must have the surety bond, letter of credit, or escrow account countersigned by a local (or state) bonding agent. Ten other special provisions related to the specific dollar amount, generally stated in terms of a minimum, for the surety bond, letter of credit, or escrow account necessary to cover the value of the donated food in the processor's inventory.

Donated Food Containers

FNS requires that processors return to the state or school district all funds received from the sale of containers in which they receive USDA-donated food. This can be, at the option of the state or school district, in the form of either a credit against the processing fee or a cash payment.

Twenty-one states had a total of 23 special provisions related to donated food containers. There was little variety in this special provision category. In fact, 15 states had identical provisions requiring processors to provide information on the sale of containers.

Labeling

FNS requires processors to label end-product containers in accordance with applicable federal laws governing the processing of food for resale. In addition, FNS requires that processors

- clearly label the exterior shipping container of the end product containing nonsubstitutable donated food to show that it contains commodities donated by USDA and that the product shall be sold only to eligible recipient agencies and
- obtain approval from governing federal agencies for all labels making claims regarding the end product's contribution toward meal requirements of any child nutrition program.

As indicated in the end-product data schedule section of this chapter, CN labeling refers to an optional USDA labeling program whereby the contribution the product makes toward USDA meal-pattern requirements is made known and guaranteed to the customer.

Twenty-three states had a total of 25 special provisions related to end-product labeling. Twenty-three of the 25 special provisions involved CN labeling requirements for meat, poultry, fish, or meat alternates such as (1) providing a CN label, (2) showing the CN label identification number assigned by FNS, and (3) explaining what processors should do if FNS was not approving CN labels for a specific end product. The other two special provisions required processors to provide a packer's name on all products and the product analysis/nutritional content for all products.

Twenty-two states had one special provision related to end-product labeling and one state had three.

Processor Subcontracting

FNS requirements prohibit processors from assigning or delegating any responsibilities relating to processing donated food to any party without

the previous written consent of the state or local school district. With consent, the processor may enter a subcontract with another party.

Seventeen states each had one special provision related to processor subcontracting. There was little variety in this special provision category. In fact, 16 of the 17 special provisions required the processor to indicate whether it planned to use a subcontractor and, if it did, to send a copy of the subcontract to the distributing agency for approval. The other special provision required the processor to list the name, address, telephone number, plant location, and description of responsibilities of any subcontracts approved by the processor.

Reporting

FNS requires processors to submit monthly performance reports and an annual reconciliation report to states. The monthly performance reports are required by the last day of the month following the reporting period, and the annual reconciliation report is required within 90 days following the end of the contract period.

Processors are required to submit the following types of information in the monthly performance reports:

- A list of all school districts purchasing end products under the contract.
- Information on the beginning donated food inventory, amount of donated food received during the reporting period, and the amount of approved end products delivered to recipient agencies during the reporting period.

Twelve states had a total of 13 special provisions related to reporting. There was little variety in this special provision category. Eight special requirements related to requiring processors to submit separate performance reports for commodities received as direct shipments from USDA and those received from states or school districts. Other provisions concerned requirements unique to an individual state, such as specifying that (1) reports be printed on both sides of paper and (2) performance reports be submitted by the 15th of the month following the reporting period.

Audits

FNS requires that multistate processors¹ obtain an independent CPA audit (1) each year that the processor receives more than \$250,000 in donated foods, (2) every 2 years if the processor receives between \$75,000 and \$250,000 in donated foods, and (3) every 3 years if the processor receives less than \$75,000 in donated foods annually. The processor is responsible for paying all audit costs.

Thirteen states had a total of 14 special provisions related to audits. Twelve special requirements related to requiring the processor to submit the audit report no later than 180 days after the end of the contract year. The other two special provisions concerned requirements related to determining the dollar amount of donated food received and the frequency of the audits.

Impacts of Differing Requirements on Processors

Information obtained from the processors we contacted indicates that differences in state processing requirements are not viewed as a major problem nor as a major impediment to processor participation in the program.

Processor Survey

We solicited information from processors on the impacts that differing state processing forms and regulations had on their operations and their willingness to process donated foods for states and school districts. This information was obtained through a nationwide survey addressed to 272 processors.

Of the 272 processors who were sent questionnaires, 195 responded to our survey. Nearly 40 percent of the respondents processed donated food for schools in more than one state while about 60 percent operated in only one state. Because multistate processors are more likely to be affected by differing processing requirements of more than one state—our survey showed that on average multiple state processors served seven states—we asked them to comment on

- their problems with differing state processing forms and differing state processing regulations and
- how much of an increase, if any, differing regulations had on paperwork, administrative costs, and bid prices.

¹ A multistate processor is a processor that has processing contracts with agencies in more than one state or in a state other than where its plant or business is located.

We also asked both single state and multistate processors if they

- avoided serving certain locations because of difficulty in complying with processing regulations,
- avoided processing certain products because of difficulty in complying with processing regulations, and
- would be more involved in commodity processing if required paperwork was more standardized?

Impacts on Multistate Processors Do Not Appear Significant

Most multistate processors indicated that differing state forms cause few problems in their ability to process NSLP commodities. Using a five-point rating scale, we asked multistate processors to comment specifically on the level of problems presented by differing state (1) monthly production reports, (2) annual reconciliation reports, (3) contract forms, and (4) end-product data schedules. Seventy-two respondents indicated that they were multistate processors. As shown in table 3.3, the majority of the multistate processors responded that these forms presented “no problem” or a “minor problem.”

Table 3.3: Multistate Processors' Views on the Level of Problems Presented by Differing State Processing Forms

Figures in percent

Form	Degree of problem ^a				
	No	Minor	Some	Moderate	Major
Monthly production reports	50.0	20.8	13.9	9.7	4.2
Annual reconciliation reports	52.8	22.2	4.2	13.9	5.6
Contract forms	43.7	18.3	19.7	8.5	8.5
End-product data schedules	51.4	18.1	11.1	12.5	6.9

^aPercentages may not add to 100 percent because some processors did not respond to the question or indicated that the question was not applicable.

Also, we asked processors to identify any other forms that caused them problems. Although not numerous, processors told us of problems in obtaining licenses to do business in two states, problems with other individual reports requested by the states or school districts, and high clerical costs incurred to complete different state forms.

With regard to differing state processing regulations, we asked multistate processors to comment on the level of problems presented them by

- warehousing and storing commodities,
- commodity protection (bonds, escrow, letters of credit),
- methods of payment,
- distributor liability,

- local school district contacting,
- commingling requirements, and
- Option 2 grading requirements.

Multistate processors' responses were similar to those relating to the questions about state processing forms. Where these requirements were applicable to processors (e.g., bakeries that do not process meat or poultry would not be affected by Option 2 grading requirements), 65 percent or more of the processors responded that these requirements presented "no problems" or "minor problems." Detailed information on how the processors responded is shown in appendix III.

The two categories containing the highest number of major problems were state commodity protection and local school district contracting. Almost 10 percent of the processors had a "major" problem with bonding requirements and about 9 percent had a major problem with having to contract with local school districts because there were no statewide contracts. Cheese processors appeared to have the most problems with local school district contracting—4 of the 13 cheese processors (31 percent) had a major problem with local contracting. Several processors listed other problems with state processing regulations, including specific grading procedures, a lack of uniformity in contract requirements, letters of credit required in amounts exceeding the value of the commodities, and paperwork costs caused by periodically issuing small refund checks. However, no individual problems were cited by a large number of processors.

Impact of Differing State Requirements on Processing Services

Most multistate processors reported that differing state processing regulations increase paperwork and administrative cost but do not increase product prices. For example, about 70 percent of the multistate processors said that differing state regulations cause "some increase," a "moderate increase," or a "great increase" in both paperwork and in administrative costs. However, they reported that differing state regulations do not necessarily translate into higher contract bid prices. About two-thirds of the processors reported "no increase" or "little increase" in bid prices because of differing state regulations.

Impact of Difficult Processing Regulations on Locations Served

We asked both single state and multistate processors if difficult processing regulations cause them to avoid serving certain areas. About 80 percent said that they do not avoid locations because of difficult processing regulations while the remaining processors said that they do. Single state and multistate processors avoiding certain areas generally

cited the following types of state regulations as the basis for their decisions: CN labeling, commingling prohibitions, bonding and grading requirements, complicated paperwork, and lack of standardization. Single state processors often commented that they did not expand into other areas because of the FNS audit requirement—for which processors have to pay. Multistate processors are required to be periodically audited whereas single state processors are exempt from this requirement.

Impact of Difficult Processing Regulations on Products Processors Offer

We also asked both single state and multistate processors if difficult processing regulations cause them to avoid producing certain items from donated foods. About 80 percent said that they do not avoid products because of difficult processing regulations and about 20 percent said that they do. Single and multistate processors cited similar reasons for their decision to avoid certain commodities. These reasons included meat and poultry grading regulations, inspection costs, CN labeling, and food substitution rules.

Processing Involvement Would Increase With More Standardized Paperwork

Over 87 percent of both single state and multistate processors that responded said that commodity processing for the NSLP accounts for 25 percent or less of their total business. About 58 percent of the processors said that they would be more involved in processing commodities for the school lunch program if required paperwork was more standardized. Single state processors said they would expand processing involvement more often than multistate processors. About 61 percent of the single state processors said they would “definitely” or “probably” expand processing involvement, and 53 percent of the multistate processors also said they would expand.

Interviews With Processors

To obtain more in-depth information on the impact of differences in state processing requirements, we contacted 11 processors representing end products such as hamburger and chicken patties, pizzas, bread, ice cream, and pre-plated meals. Nine were multistate processors and two were single state processors. The processors we interviewed cited similar types of processing problems identified through our nationwide survey. Three problems frequently cited in processor interviews, which were also cited in our nationwide survey, were (1) Option 2 grading requirements, (2) differing processing forms, and (3) differing payment requirements.

One issue raised by three processors was Option 2 grading requirements for beef. We were told that Option 2 beef grading requirements are twice

as expensive as Option 1 grading requirements, the latter being the minimum grading service required by FNS. Furthermore, some states that require Option 2 grading also require CN labeling. Two processors told us that CN labeling requirements make Option 2 grading requirements redundant. One processor said that state or local school districts are charged for both if they require these services in their contracts. One processor said it generally avoids processing products with commodity meat because of the grading requirements. However, this processor markets a line of commercial products containing meat that it sells to schools but, with one exception, not under the NSLP commodities program.

Some processors said that differing state commodity processing forms increase costs. For example, three processors said that unique state forms, or special form requirements, has created unnecessary burdens. Another processor complained about a requirement that required processing reporting forms to be typed. This requirement obliged the processor to hand-type documents that were already available in computer-generated form. Differing state form requirements may have varying impacts. For example, one processor dealing in 5 states said that these requirements have no identifiable effect on his prices while another processor dealing with 19 states said that some costs would be recovered by the processor.

Several processors said that differing state payment systems raise costs and increase paperwork. As indicated earlier in this chapter, FNS allows processors to either (1) give their customers a discount that recognizes the value of the donated commodities in the end product at the time of purchase or (2) bill customers for the full price of the end product and then rebate the value of the donated commodities to the customer at a later date. Three processors said that the rebate system is burdensome to administer, and another processor noted that under the rebate system schools also lose the use of money from the time they pay for the end product until they receive the rebate check. With FNS' approval, states may also use their own payment systems to recoup the value of the donated commodities. Two processors specifically identified unique FNS-approved state payment systems as also causing a burden. In commenting on a draft of this report, FNS officials stated that they are also concerned about the impact of unique payment systems on processors. One state (California) and the New York City school district currently have approved unique payment systems. FNS officials told us that these systems are approved on a year-to-year basis, and FNS is deciding whether to approve the systems of these two entities for 1992. They

said that they expect to make a decision on reapproval in December 1991.

State policies precluding the shipment, or diversion, of commodities directly to processor plants, rather than having them delivered to state warehouses, were also identified as an issue by two processors. They said that restrictive state diversion policies result in unnecessary transportation costs. Since USDA will pay the costs of transporting commodities to either the state or to a processor facility, states have the opportunity to avoid the costs of transporting commodities from their warehouses to the processors. For instance, one processor said that schools in one particular state could save several cents a pound on the total costs of processed products if the state would allow diversion of commodity food. By contrast, one processor said that it knew of one state that facilitated diversion or at least allowed schools to cooperate in order to jointly have commodities shipped direct to processors by USDA.

While processors identified numerous differences in state processing requirements, they said that they were able to manage these inconsistencies. Two processors serving three states said that the effect of differences in state requirements on costs was not identifiable. Another processor serving nine states said that differing state requirements decreased the number of processors working with the NSLP.

Current Efforts to Promote Standardized Processing Requirements

ACDA and USDA officials have developed initiatives to provide program guidance and to promote standardization of processing requirements. For example:

- USDA is developing a processing manual to assist states in processing activities.
- ACDA has developed a prototype end-product data schedule and a monthly performance report and is encouraging states to adopt them. ACDA's survey of 31 states revealed that 23 states plan to use the end-product data schedules, and 18 states indicated they plan to use the monthly performance report.

Although we did not evaluate these initiatives, they indicate that continuing efforts are under way to address commodity processing problems and issues.

Local School District Satisfaction

Overall, local school district officials we spoke with were generally satisfied with their access to processors, but there were differing opinions on this issue. Local school district officials with whom we spoke were generally satisfied. However, officials of state-level and national associations representing local school districts differed on their assessment of the level of satisfaction. The level of satisfaction among state-level groups was greater in states where there were a number of state-wide processing contracts.

There was more consensus on the question of whether local school districts were satisfied with the services provided by processors—most officials with whom we spoke were satisfied. A recent USDA study found that 98 percent of school districts were satisfied with products obtained through commodity processing contracts.

Satisfaction With Access to Processing

We were unable to determine with any degree of certainty how satisfied local school districts are with their access to processing. We defined the term “access to processing” to mean the ability to locate and contract with commodity processors under state processing programs. The local school districts we contacted, which all use processed commodities, were generally satisfied with their access to processing. However, school district representatives at the state and national level, who represent a broader set of school districts, gave mixed opinions on their satisfaction with school districts’ access to commodity processing. Some were satisfied; others were unsatisfied, mainly with the reluctance of certain states to contract for processing.

Local School District Officials Generally Satisfied

As indicated in chapter 1, we asked at least one local school district official in each of the states included in our review whether they were satisfied with their access to processors. Officials in five states—California, Maryland, Ohio, Pennsylvania, and Wisconsin—said that they were satisfied and indicated no problems in finding processors willing to process their donated foods into the end items they required. In Illinois we were able to interview officials from two different school districts—one was satisfied with access to processors, although she commented that only one processor ever bid for the contract. The other Illinois school district official was unsatisfied with access to processing. This official said she believed that extensive paperwork requirements deter some processors from entering into commodity processing contracts.

State and National School Food Service Representatives Were Not Always Satisfied

Officials representing local school districts in state and national organizations gave us differing opinions on school district satisfaction with access to processing. We contacted these officials to obtain information about school district satisfaction with processing from a broader perspective than that of the individual districts we contacted. In the six states we visited, we contacted an official of the state school food service association and a school district representative on the state's food distribution advisory council. As noted in chapter 1, state school food service associations are affiliates of the American School Food Service Association (ASFSA), an organization that promotes school food program improvements. State food distribution advisory councils, which were mandated by the National School Lunch Act and Child Nutrition Amendments of 1977, advise state agencies on commodity selection and distribution. We also contacted a representative of ASFSA, who also serves on the national Advisory Council on Commodity Distribution.

There was less consensus among state and national school district representatives on overall school district satisfaction with access to commodity processing. State advisory council members and state school food service association representatives in three states—Maryland, Pennsylvania, and Wisconsin—told us they thought that school districts in their states were satisfied with their access to processing. Maryland and Pennsylvania representatives indicated that their states' willingness to enter into statewide contracts with processors facilitated individual school districts' access to processing services. As noted in chapter 3, Maryland entered into 43 statewide contracts in 1990 and Pennsylvania entered into 92 state contracts during the same year. Although Wisconsin officials had only one statewide contract in 1990 (for salad oil), they indicated that school districts in their state were satisfied with their access to processors. In a separate interview, Wisconsin state NSLP officials told us that they planned on more statewide contracts in future years. However, three states—California, Illinois, and Ohio—had mixed reactions.

State-level representatives of California school districts were divided over their satisfaction with access to processing. A California food distribution advisory council member said he was satisfied with California schools' access to processing and that the contracting options available through the state of California facilitated access to processors. But, the California School Food Services Association representative told us she was not satisfied with access to processing because of the extensive amount of paperwork required in the commodity processing program. She said this has deterred some processors from entering into processing

agreements. As mentioned in chapter 3, our questionnaire results indicate that some processors limit their commodity processing by restricting locations they serve and products they process because of difficult processing requirements. Similarly, USDA's Advisory Council on Commodity Distribution in its 1990 Annual Report to the Congress stated that processing requirements deter companies from commodity processing. However, the Council's comments were directed more at federal requirements than state requirements.

State representatives for Ohio school districts said they were dissatisfied with their access to processing for certain school districts. According to the Ohio School Food Services Association representative, smaller school districts have problems getting processors to handle small quantity orders. We were also told that more direct shipment of food to processors would facilitate processing in Ohio. Because Ohio schools rarely can arrange for direct shipment of commodities to the processors, the costs of transporting food from the school district to the processor make it expensive for schools to take advantage of processing. Ohio state officials said that they planned to increase the number of state-wide contracts in future years.

Illinois state level representatives of local school districts indicated they were not satisfied with access to processing. The Illinois advisory council and School Food Service Association representatives told us that school districts would like more state or federal agency involvement in the commodity processing program. Illinois does not have state-sponsored commodity processing contracts. A state of Illinois official responsible for commodity processing told us the state prefers not to enter into state contracts because (1) it should be the local school districts' responsibility to contract for their own specific needs and (2) some school districts in the state prefer not to use processors.

The national representative from ASFSA, who also serves on the National Food Distribution Advisory Council, said that most school districts would like to see the states involved in commodity processing contracts. She said that states generally have greater contracting expertise than local school districts.

Satisfaction With Processing Services

Local school districts are generally satisfied with services provided by processors. Two local districts we contacted identified problems with processor performance, but officials at one district characterized these problems as exceptions. Furthermore, a recent USDA study found that 98

percent of school districts were satisfied with products obtained through commodity processing contracts. For our review, we considered processing services to be the actual processing of the commodity into the end product, as well as other processor responsibilities such as product delivery, timely reporting, and processing refunds.

Most Local School District Officials Were Satisfied With Processor Services

Illinois, Maryland, Ohio, and Pennsylvania school district officials told us they were generally satisfied with processing services. The Maryland school district official told us there have been quality control problems; however, we were told this is the exception. There were mixed reactions in the other two states—California and Wisconsin.

The local school district official that we spoke to in California said she was satisfied with her processing services. This official did indicate, however, that sometimes there are storage problems when out-of-state processors ship full truck loads to save on transportation costs. When this happens, the school district incurs additional cost for storing the food products until they are used.

The Wisconsin school district official we contacted said she was satisfied with one processor's services but very dissatisfied with another's services. Local school district officials we spoke with in Illinois had mixed views—one was satisfied and one was dissatisfied.

State and National School Food Service Representatives Satisfied With Processor Services

Organizations representing local school districts at the state and national level were generally satisfied with services provided by processors. But a Pennsylvania state advisory council member, while satisfied with processing services, told us there have been some problems with end products, but these were exceptions. The Wisconsin School Food Service Association representative told us school food authorities were dissatisfied with existing commodity processing services.

USDA Study Results on Satisfaction With Processing

The February 1991 Child Nutrition Program Operations Study, prepared for USDA by Abt Associates Inc., reported that school districts are frequently satisfied with processed products. On the basis of a telephone survey of school food authorities, Abt Associates found that among school districts receiving processed commodities, 98 percent were satisfied with the end products received.

This study also reported on the extent of processing problems noted by states that had entered into commodity processing contracts. Of 24 states that entered into processing contracts and analyzed processed products, 10 said they had no problems. Thirteen states reported problems, including products that did not meet commodity content specifications, incorrect commodity value credits against product prices, products that did not meet minimum yield specifications, or products that were not of acceptable quality. One state's response was missing. Because the study asked states to report only on problems with processor services—it did not ask for the overall level of satisfaction—it is difficult to say whether the findings actually and fairly indicate overall state satisfaction, or dissatisfaction, with processors.

Agency Comments

We discussed a draft of this report with responsible program-level USDA officials who concurred with the information presented, but said they were surprised that processors had not raised more complaints about varying state processing requirements. They indicated that, based on prior complaints from processors, they would have expected more adverse comments on this issue. We explained to USDA officials that processors were given the opportunity to express their dissatisfaction on this topic through our nationwide questionnaire. Furthermore, we brought this issue up in our face-to-face interviews with some of the major processors. Few processors, however, raised this as a severe problem in either responding to our questionnaire or in interviews.

Dollar Values of Entitlement and Bonus Commodities Donated to States and Other Jurisdictions and Total Commodities Given to Processors, School Year 1990

State/ territory	Entitlement dollar value given to schools	Bonus dollar value to schools	Total dollar value given to schools	Total dollar value given to processors	Percent of dollar value given to processors
Alabama	\$12,128,537	\$3,051,757	\$15,180,294	\$713,445	4.70
Alaska	801,263	149,707	950,970	55,457	5.83
American Samoa	232,679	102,758	335,437	124,038	36.98
Arizona	6,733,453	1,142,107	7,875,560	1,022,257	12.96
Arkansas	6,544,702	1,461,663	8,006,365	112,459	1.41
California	47,181,842	11,689,654	58,871,496	25,971,438	44.12
Colorado	5,696,020	1,065,464	6,761,484	691,799	10.23
Marianas	133,839	0	133,839	0	0.00
Connecticut	5,002,106	888,059	5,890,165	1,519,598	25.80
Delaware	1,225,478	180,534	1,406,012	167,826	11.94
Defense Department	1,306,575	329,175	1,635,750	0	0.00
Dist. of Columbia	1,089,487	248,383	1,337,870	251,792	18.82
Florida	23,545,394	4,513,292	28,058,531	2,207,310	7.87
Georgia	19,788,555	4,495,586	24,284,141	322,652	1.33
Guam	355,232	0	355,232	0	0.00
Hawaii	3,062,949	675,249	3,738,198	0	0.00
Idaho	2,442,408	449,345	2,891,753	214,549	7.42
Illinois	19,635,090	4,046,639	23,681,729	939,090	3.97
Indiana	13,515,124	2,384,317	15,899,441	1,815,799	11.42
Iowa	8,123,875	1,935,838	10,059,713	477,038	4.74
Kansas	0	1,066,693	1,066,693	0	0.00
Kentucky	10,625,937	2,379,629	13,005,566	33,768	0.26
Louisiana	14,008,102	3,656,495	17,664,597	90,521	0.51
Maine	2,186,792	497,405	2,684,197	277,614	10.34
Maryland	7,421,707	908,635	8,330,342	2,822,506	33.88
Massachusetts	9,953,807	2,402,973	12,356,780	1,830,213	14.81
Michigan	15,315,875	2,804,683	18,120,558	1,575,812	8.70
Minnesota	10,020,734	2,607,424	12,628,158	639,811	5.07
Mississippi	9,129,116	1,798,557	10,927,673	0	0.00
Missouri	10,994,140	2,404,672	13,398,812	17,639	0.13
Montana	1,781,037	298,430	2,079,467	3,281	0.16
Nebraska	4,016,006	966,310	4,982,316	658,521	13.22
Nevada	1,449,853	264,381	1,714,234	131,671	7.68
New Hampshire	1,983,369	348,376	2,331,745	266,428	11.43
New Jersey	10,845,950	658,265	11,504,215	2,914,330	25.33
New Mexico	3,826,292	533,529	4,359,821	193,386	4.44
New York	33,165,298	6,056,461	39,221,759	9,839,568	25.09
North Carolina	16,545,626	2,629,082	19,174,708	440,122	2.30

(continued)

**Appendix I
Dollar Values of Entitlement and Bonus
Commodities Donated to States and Other
Jurisdictions and Total Commodities Given to
Processors, School Year 1990**

State/ territory	Entitlement dollar value given to schools	Bonus dollar value to schools	Total dollar value given to schools	Total dollar value given to processors	Percent of dollar value given to processors
North Dakota	1,914,982	512,128	2,427,110	159,453	6.57
Ohio	20,863,321	2,922,521	23,785,842	3,972,860	16.70
Oklahoma	7,606,759	1,997,163	9,603,922	130,016	1.35
Oregon	4,899,009	1,432,009	6,331,018	553,262	8.74
Pennsylvania	20,793,448	3,696,942	24,490,390	6,214,801	25.38
Puerto Rico	9,296,340	35,208	9,331,548	2,108,010	22.59
Rhode Island	1,342,388	128,447	1,470,835	407,342	27.70
South Carolina	9,921,147	1,625,442	11,546,589	53,177	0.46
South Dakota	2,198,888	569,520	2,768,408	22,630	0.82
Tennessee	13,151,933	3,092,088	16,244,021	322,633	1.99
Texas	41,175,679	11,046,953	52,222,632	769,069	1.47
Utah	5,399,855	1,593,706	6,993,561	648,677	9.28
Vermont	949,645	257,838	1,207,483	21,637	1.79
Virgin Islands	389,048	36,864	425,912	0	0.00
Virginia	11,824,471	2,513,126	14,337,597	2,545,562	17.75
Washington	7,505,517	1,330,659	8,836,176	792,938	8.97
West Virginia	4,480,500	912,446	5,392,946	29,651	0.55
Wisconsin	9,864,054	2,345,672	12,209,726	363,673	2.98
Wyoming	1,136,576	361,426	1,498,002	85,174	5.69
Total	\$516,527,654	\$107,501,685	\$624,029,339	\$77,542,303	12.43

Number of Pounds of Entitlement and Bonus Commodities Donated to States and Other Jurisdictions and Total Commodities Given to Processors, School Year 1990

State/ territory	Entitlement pounds given to schools	Bonus pounds given to schools	Total pounds given to schools	Total pounds given to processors	Percent of total pounds to processors
Alabama	22,592,649	5,859,878	28,452,527	2,625,000	9.23
Alaska	1,339,732	171,748	1,511,480	42,000	2.78
Amer. Samoa	455,466	147,016	602,482	72,964	12.11
Arizona	11,239,432	1,466,868	12,706,300	1,161,000	9.14
Arkansas	12,407,718	1,950,584	14,358,302	280,781	1.96
California	81,128,376	11,847,855	92,976,231	17,160,762	18.46
Colorado	10,513,437	1,195,746	11,709,183	1,062,234	9.07
Marianas	280,760	0	280,760	0	0.00
Connecticut	8,568,324	904,044	9,472,368	5,861,265	61.88
Delaware	2,162,366	155,880	2,318,246	654,253	28.22
Defense Department	3,955,649	291,920	4,247,569	0	0.00
Dist. of Columbia	1,868,377	412,828	2,281,205	614,940	26.96
Florida	44,327,429	4,672,041	48,999,470	4,188,000	8.55
Georgia	36,713,019	6,486,490	43,199,509	1,012,000	2.34
Guam	871,679	0	871,679	0	0.00
Hawaii	5,855,050	997,924	6,852,974	0	0.00
Idaho	4,769,452	482,056	5,251,508	435,420	8.29
Illinois	31,080,430	4,013,244	35,093,674	1,548,213	4.41
Indiana	21,202,250	2,396,913	23,599,163	3,557,535	15.08
Iowa	14,662,329	1,827,510	16,489,839	1,325,629	8.04
Kansas	0	883,476	883,476	0	0.00
Kentucky	18,021,308	3,292,646	21,313,954	120,000	0.56
Louisiana	29,308,579	4,167,028	33,475,607	88,795	0.27
Maine	3,530,266	574,072	4,104,338	1,112,575	27.11
Maryland	13,634,335	823,048	14,457,383	6,289,836	43.51
Massachusetts	17,140,209	2,317,196	19,457,405	5,288,573	27.18
Michigan	26,305,579	2,991,632	29,297,211	3,776,421	12.89
Minnesota	17,523,904	3,270,590	20,794,494	1,139,549	5.48
Mississippi	15,938,143	2,374,934	18,313,077	0	0.00
Missouri	19,204,424	2,373,656	21,578,080	18,446	0.09
Montana	3,262,654	282,282	3,544,936	2,700	0.08
Nebraska	6,883,367	1,713,593	8,596,960	747,632	8.70
Nevada	2,288,546	268,590	2,557,136	217,584	8.51
New Hampshire	3,602,819	351,210	3,954,029	855,468	21.64
New Jersey	21,064,022	745,084	21,809,106	10,308,627	47.27
New Mexico	6,672,504	521,704	7,194,208	223,624	3.11
New York	64,858,913	12,151,610	77,010,523	31,062,009	40.34
North Carolina	30,388,834	2,880,956	33,269,790	993,800	2.99

(continued)

**Appendix II
Number of Pounds of Entitlement and Bonus
Commodities Donated to States and Other
Jurisdictions and Total Commodities Given to
Processors, School Year 1990**

State/ territory	Entitlement pounds given to schools	Bonus pounds given to schools	Total pounds given to schools	Total pounds given to processors	Percent of total pounds to processors
North Dakota	3,591,754	467,028	4,058,782	621,068	15.30
Ohio	36,812,459	4,091,512	40,903,971	13,000,693	31.78
Oklahoma	14,029,757	2,501,532	16,531,289	304,775	1.84
Oregon	6,584,943	1,511,876	8,096,819	740,200	9.14
Pennsylvania	42,601,569	3,701,876	46,303,445	16,749,615	36.17
Puerto Rico	21,496,559	55,500	21,552,059	3,529,123	16.38
Rhode Island	2,330,825	125,202	2,456,027	1,585,940	64.57
South Carolina	17,173,873	2,404,130	19,578,003	151,000	0.77
South Dakota	4,250,108	554,536	4,804,644	80,420	1.67
Tennessee	23,425,682	3,406,290	26,831,972	1,140,800	4.25
Texas	78,253,346	17,245,479	95,498,825	977,593	1.02
Utah	10,627,285	2,677,769	13,305,054	1,091,197	8.20
Vermont	1,525,294	440,284	1,965,578	179,860	9.15
Virgin Islands	683,271	28,800	712,071	0	0.00
Virginia	24,891,292	3,742,876	28,634,168	6,532,577	22.81
Washington	13,448,331	1,641,708	15,130,039	1,171,490	7.74
West Virginia	7,767,593	1,013,594	8,781,187	86,755	0.99
Wisconsin	17,112,491	2,123,708	19,236,199	491,230	2.55
Wyoming	2,264,056	326,040	2,590,096	190,123	7.34
Total	944,532,818	135,323,592	1,079,856,410	152,472,094	14.12

GAO Processor Survey and Responses

United States General Accounting Office

GAO

Survey of Processors of USDA Commodities



INTRODUCTION

The U.S. General Accounting Office (GAO) is an agency which assists Congress in reviewing federal programs. GAO is mandated in the 1990 Farm Bill to review the processing of donated commodities into end products for use in Child Nutrition programs. As part of this review, GAO is sending a short questionnaire to all processors.

The purpose of this questionnaire is to obtain information on processors experiences in contracting for commodity processing. The focus of this questionnaire is the School Lunch Program since it is a major component of the commodity donation program.

Your cooperation in completing this questionnaire is vital to our study. We would appreciate it if you would direct this survey to the appropriate individual within your company and arrange to return the completed questionnaire by July 12, 1991. The information collected through this survey along with other information will be summarized in our report to the Congress.

Thank you for your cooperation and participation. If you have any questions, please feel free to call Mary Roy collect at (202) 475-4886. If the envelope is misplaced, please return your completed questionnaire to:

Ms. Mary Roy
U.S. General Accounting Office
441 G Street, N.W., Room 1826
Washington, DC 20548

THANK YOU FOR YOUR ASSISTANCE!

1. In which contracting year did your company process USDA commodities for the School Lunch Program? *(Check all that apply.)*

178 1989 to 1990 contracting year

180 1990 to 1991 contracting year

Please answer all questions for the 1989 to 1990 contracting year. If your company did not process commodities for the School Lunch Program during 1989 to 1990, but are processing commodities in the 1990 to 1991 contracting year, then complete the following questions to-date for the 1990 to 1991 contracting year.

2. Did your company process commodities for the School Lunch Program for one state or more than one state? *(Check one.)*

119 One state only → Skip to Question 5

72 More than one state → Continue

**Appendix III
GAO Processor Survey and Responses**

3. How much of a problem (if at all) were the following factors in your company's ability to provide processed commodities in the School Lunch Program? *(Check one for each.)*

Factors	Percents based on 72 responses					
	No problem (1)	Minor problem (2)	Some problem (3)	Moderate problem (4)	Major problem (5)	Not applicable (6)
Differing forms used by states or localities; including...						
1. Monthly production reports	50.0	20.8	13.9	9.7	4.2	1.4
2. Annual reconciliation reports	52.8	22.2	4.2	13.9	5.6	1.4
3. Contract forms	43.7	18.3	19.7	8.5	8.5	1.4
4. End product data schedules	51.4	18.1	11.1	12.5	6.9	0.0
5. Other <i>(Specify) 5 responses</i>	11.1	0.0	5.6	16.7	33.3	33.3
Differing state regulations for processing; including...						
6. Regulations for warehousing/storing commodities	73.6	12.5	1.4	2.8	5.6	4.2
7. Commodity protection (bonds, escrow, letters of credit)	54.2	15.3	13.9	6.9	9.7	0.0
8. Methods of payment (direct discount, refund, fee for service, etc.)	62.5	15.3	8.3	8.3	5.6	0.0
9. Liability for distributors	32.4	16.2	10.3	7.4	5.9	27.9
10. Contracting authority is the responsibility of the local level only	61.8	5.9	2.9	4.4	8.8	16.2
11. Additional co-mingling production requirements	52.2	7.2	8.7	10.1	7.2	14.5
12. Additional option 2 grading requirements	40.9	6.1	7.6	7.6	6.1	31.8
13. Other additional production requirements <i>(Specify) 5 responses</i>	39.4	0.0	3.0	3.0	21.2	33.3
14. Other <i>(Specify) 8 responses</i>	18.8	0.0	0.0	12.5	25.0	43.7

**Appendix III
GAO Processor Survey and Responses**

4. How much of an increase (if any) do differing state regulations for contracting and processing for the School Lunch program have on the following aspects of your company operation? *(Check one for each.)*

Company Operations	Percents based on 72 responses				
	No increase (1)	Little increase (2)	Some increase (3)	Moderate increase (4)	Great increase (5)
1. Paperwork	15.3	15.3	26.4	26.4	16.7
2. Administrative costs	19.4	12.5	29.2	29.2	9.7
3. Bid price that can be offered	45.7	20.0	20.0	11.4	2.9
4. Other (Specify)	40.0	0.0	20.0	10.0	30.0

5. Are there any locations your company chooses not to serve for the School Lunch program because of difficult processing regulations? *(Check one.)*

- 151 No
38 Yes → Please describe the situation.

6. Are there any products from donated commodities your company chooses not to produce for the School Lunch program because of difficult processing regulations? *(Check one.)*

- 150 No
37 Yes → Please describe the situation.

7. Would your company become more involved in processing commodities for the School Lunch Program if required paperwork was more standardized? *(Check one.)*

- 25.7% Definitely yes
32.1% Probably yes
38.0% Probably no
4.3% Definitely no

8. In terms of the following factors, how much benefit (if any) has your company gained from processing commodities for the School Lunch Program? *(Check one for each.)*

Factors	Percents based on 190 responses				
	No benefit (1)	Little benefit (2)	Some benefit (3)	Moderate benefit (4)	Great benefit (5)
1. Increased profits from processing commodities	26.8	22.1	30.5	15.8	4.7
2. Allows company to be competitive in the industry	16.8	17.8	28.8	19.9	16.8
3. More effective business operations (such as; stable delivery routes or number of employees)	36.1	20.9	24.1	11.0	7.9
4. Expands business in schools	11.1	16.3	22.1	26.8	23.7
5. Other (Specify)	20.0	20.0	0.0	0.0	60.0

Appendix III
GAO Processor Survey and Responses

GENERAL INFORMATION ON YOUR COMPANY

The questions below concern your company and will help us to interpret the answers different types of companies may have.

9. How many years has your company been processing USDA commodities for the School Lunch Program? (Enter number.)

_____ Years

10. About what percentage of your total business is commodity processing for the School Lunch Program versus commercial sales/processing? (Check one.)

- 69.1% 1% to 10% is commodity processing
18.1% 11% to 25% is commodity processing
7.4% 26% to 50% is commodity processing
2.7% 51% to 75% is commodity processing
2.7% 76% to 100% is commodity processing

11. How important, if at all, is commodity processing for the School Lunch Program versus all other commercial sales/processing by your company? (Check one.)

- 26.6% Commodity processing for the School Lunch Program is much less important
27.7% Commodity processing for the School Lunch Program is somewhat less important
30.9% Commodity processing for the School Lunch Program is about as equally as important as all other commercial sales/processing
8.5% Commodity processing for the School Lunch Program is somewhat more important
6.4% Commodity processing for the School Lunch Program is much more important

12. Which of the following types of commodities does your company process for the School Lunch Program? (Check all that apply.)

- 100 Flour
39 Cheese
37 Oil
57 Meat/Poultry

13. In how many states did your company provide processed commodities for the School Lunch Program? (Enter number.)

7 Average number of states of multistate processors only

14. Please provide the following information about the person who completed this questionnaire. This information will assist us if clarification of answers is necessary.

Name _____

Title _____

Company Name _____

Telephone Number _____

15. What changes would you like to see in the commodity processing program in serving the School Lunch Program? How would the costs of your company's services be effected, if these changes were made to the program?

Thank you for your cooperation!

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