BY THE U.S. GENERAL ACCOUNTING OFFICE

# Report To The Secretaries Of Agriculture And Defense

# Government Could Save Millions By Revising Its Purchase Specification For Ground Beef


The government's purchase specification for ground beef is more restrictive than specifications used by commercial buyers and results in higher prices, without increasing quality. Most government ground beef purchases are for the school lunch program and for feeding military personnel.

Ground beef suppliers and meat experts told GAO that the commercial product, which accounts for more than 95 percent of U.S. ground beef production, is adequate for the government's use. The government could have saved about $20 million of the $181 million it spent for ground beef in fiscal year 1982 if it had purchased commercial ground beef.



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WASHINGTON, D.C. 20548

RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-204947

The Honorable John R. Block
The Secretary of Agriculture

The Honorable Caspar W. Weinberger
The Secretary of Defense

This report summarizes the results of our review of the federal government's procurement of ground beef. We made this review to determine if the federal government could buy its ground beef at less cost.

The report contains a recommendation to the Secretary of Agriculture on page 20. As you know, 31 U.S.C. §720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; to the appropriate congressional committees and subcommittees; and to the cognizant agencies within your departments.

J. Dexter Peach
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE SECRETARIES
OF AGRICULTURE AND DEFENSE

# GOVERNMENT COULD SAVE MILLIONS BY REVISING ITS PURCHASE SPECIFICATION FOR GROUND BEEF

## D I G E S T

Federal agencies bought about 129 million pounds of ground beef in fiscal year 1981, or about 4 percent of the total 3 billion pounds produced commercially, at a cost of about $149 million. Their purchases in fiscal year 1982 totaled about 166 million pounds at a cost of about $181 million. GAO made this review to determine if the federal government could buy ground beef at less cost. (See pp. 1 and 3.)

The major federal agencies that buy ground beef--the Department of Agriculture, for the school lunch program, and the Department of Defense, for military personnel--require that the product meet certain formulation and certification specifications. Some of these specifications increase material costs and restrict the flexibility of suppliers without increasing quality, flavor, or nutritional value. GAO estimates that the government could have saved up to $20.4 million on its fiscal year 1982 purchases if it had bought ground beef which met commercial standards. (See pp. 1 to 3 and 5 and 13.)

## FEDERAL AND NONFEDERAL REQUIREMENTS DIFFER

The government's ground beef requirements differ in two basic ways from the requirements for ground beef that is produced for and consumed by the general public.

The first, relating to product formulation, concerns the specific beef cuts that must be used. Until December 1983, the government specified that at least 50 percent of the beef used be from the standard primal cuts (chuck, rib, loin, or round), which are the higher valued beef cuts. In December 1983, the specification was changed to require use of recognizable cuts. This requirement has the same effect as the primal formulation requirement in that it will continue to restrict the type of raw material used. Commercially prepared ground beef can be taken from any part of the carcass. According to meat experts, using high-value beef parts does

not affect the quality, flavor, or nutritional value of the ground beef. (See pp. 5, 9, and 15.)

Secondly, the government buyers require that their purchases be examined and certified by a commodity grader from the Department of Agriculture's Agricultural Marketing Service to assure conformance with the purchase specification's requirements for condition, proper trimming, and packaging. This certification requirement, which generally does not apply to commercially prepared ground beef, increases production costs and limits competition. (See pp. 10 and 12.)

Also, the certification process duplicates some inspection practices of the Department's Food Safety and Inspection Service, whose primary responsibility is ensuring that meat products are wholesome; unadulterated; and properly marked, labeled, and packaged. All plants producing ground beef for the government are required to be under inspection. (See pp. 16 to 18.)

## SPECIFICATION INCREASES PRICE WITHOUT IMPROVING THE PRODUCT

The government's formulation and certification requirements do not make its ground beef better than the commercial product. The nutritional value of the lean portion of the ground beef is the same regardless of which part of the carcass it comes from. Commercial customers, who buy about 96 percent of the ground beef produced in the federally inspected plants, rely on the Inspection Service to ensure the quality of their meat products. (See pp. 9 and 18.)

In many cases, schools and other users of government ground beef also buy the commercial product without certification. Suppliers, wholesalers, and school officials reported little dissatisfaction with the commercial product. The buyer for one large school district which does not use government certification commented that the only difference between a certified product and one not certified was that the certified product costs more. (See pp. 14, 15, 18, and 19.)

## COMPUTATION OF SAVINGS

The federal government could have saved up to $20.4 million during fiscal year 1982 by

eliminating the restrictive requirements. GAO estimates savings of 6.4 cents to 11 cents a pound if the specification allowed use of lower cost commercially accepted raw material formulas. If the responsibility for product quality assurance was transferred to the Inspection Service, at least another 2 cents a pound could be saved by eliminating some duplication. (See p. 13.)

## AGENCY OFFICIALS' VIEWS ON FEDERAL REQUIREMENTS

GAO met with officials from the Agricultural Marketing Service, the Food Safety and Inspection Service, and the Department of Defense's Defense Logistics Agency to obtain their views on the two requirements. Following is a summary of their comments.

Need for specific cuts. Marketing Service officials generally agreed that the 50-percent primal cut requirement was not necessary. The Department of Agriculture subsequently issued a revised specification eliminating the primal requirement in December 1983. However, as stated earlier, the revised specification still requires that Marketing Service graders examine recognizable cuts of beef for condition and will continue to restrict the type of raw material used. (See p. 15.)

Certification functions. Marketing Service officials said that the primary reason for certification is to determine that the meat is in excellent condition so that it will have an adequate "shelf life." They added that certification is necessary to (1) examine meat for condition in the fresh-chilled state to determine when the animal was slaughtered and whether the meat had been frozen or chemically treated and (2) determine that the meat originated in a federally inspected plant and was not imported. (See p. 16.)

However, Inspection Service officials said that (1) no significant differences exist between the Marketing Service's criteria for "excellent condition" and the Inspection Service's criteria for "wholesomeness" that would affect shelf life, (2) it is not necessary to examine recognizable cuts to assure wholesomeness, and (3) little risk exists of getting imported beef because it is inspected at the port of entry and stays in identifiable boxes until used for processing. Furthermore, the Inspection

Service said that it could incorporate the quality assurance for government ground beef purchases into its existing inspection programs without a major impact on its workload. (See p. 17.)

## RECOMMENDATION TO THE SECRETARY OF AGRICULTURE

GAO recommends that the Secretary modify the federal purchase specification for ground beef to enable the government to purchase its ground beef more economically. This will require revising the quality assurance requirements to place the responsibility for in-process inspection with the Food Safety and Inspection Service and requiring that government buyers request additional testing beyond the Inspection Service's existing programs only when the buyers have determined such testing to be necessary and cost effective.

Relying on the Inspection Service's existing inspection program will eliminate the need for the Marketing Service's condition examination of recognizable cuts, thereby minimizing duplication and inspection costs, and potentially attract more bidders on government ground beef contracts. (See p. 20.)

## AGENCIES' COMMENTS AND GAO's EVALUATION

In commenting on a draft of this report, the Department of Agriculture said that it would thoroughly consider GAO's recommendation and that it plans to review the underlying issues in consultation with the appropriate departmental agencies and the Department of Defense. (See p. 21.)

In the draft GAO proposed that the Department of Agriculture eliminate the 50-percent primal cut requirement. Subsequent to commenting on GAO's draft report, the Department of Agriculture issued a revised specification in December 1983 which eliminated the primal requirement. In view of this action, there is no longer a need to recommend elimination of the 50-percent primal requirement. However, the specification still requires that Marketing Service graders examine beef in the fresh-chilled state and in the form of recognizable cuts. The revised requirement will have the same effect as the present formulation requirement in that it will

restrict the use of other raw material formulas. Thus, GAO revised its recommendation to call for elimination of unduly restrictive specifications. (See p. 23.)

The Department of Defense agreed with the proposal to eliminate the primal cut requirement. (See p. 22.)

The Department of Defense said that the Department of Agriculture's in-process inspection was necessary but added that the manner in which this in-process inspection is to be performed is best determined by the Department of Agriculture. Defense said that it had no basis for commenting on possible duplication of effort within the Department of Agriculture. GAO agrees that reasonable controls are needed but believes that the Food Safety and Inspection Service's mandatory in-process inspections are being duplicated by the Agricultural Marketing Service's in-process certification procedures. (See pp. 22 and 23.)

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## ABBREVIATIONS

| | |
|---|---|
| AMS | Agricultural Marketing Service |
| DLA | Defense Logistics Agency |
| DOD | Department of Defense |
| FSIS | Food Safety and Inspection Service |
| GAO | General Accounting Office |
| USDA | U.S. Department of Agriculture |
| VA | Veterans Administration |

# CHAPTER 1

## INTRODUCTION

One of the major items on the federal government's grocery shopping list is ground beef. In fiscal year 1982, Federal agencies spent $181 million for 166 million pounds of ground beef. Most of the ground beef was donated to schools for the school lunch program or fed to military personnel. All these purchases had to meet the government's ground beef specification.

### GOVERNMENT BUYERS AND USERS OF GROUND BEEF

The U.S. Department of Agriculture (USDA) and the Department of Defense (DOD) are the principal buyers of ground beef within the federal government. The Veterans Administration (VA) obtains some of its ground beef from DOD but also purchases some from local sources.

Collectively, federal purchases of ground beef averaged 135 million pounds and $155 million annually for fiscal years 1980-82.

Ground Beef Purchases by Federal Agencies, Fiscal Years 1980-82

| Federal agency | Fiscal year 1980 Lbs. | 1980 Dollars | 1981 Lbs. | 1981 Dollars | 1982 Lbs. | 1982 Dollars |
|---|---|---|---|---|---|---|
| | (millions) | | | | | |
| USDA | 60.3 | $ 80.3 | 71.6 | $ 91.0 | 116.7 | $131.0 |
| DOD[a] | 49.3 | 54.4 | 56.2 | 56.1 | 49.1 | 49.7 |
| VA | N/A | N/A | 1.6 | 2.2 | N/A | N/A |
| Total | 109.6 | $134.7 | 129.4 | $149.3 | 165.8 | $180.7 |

N/A = Not available.

[a]Excluding Army, Air Force, and Navy commissaries' ground beef purchases.

#### Department of Agriculture

USDA purchases ground beef for donation to food assistance programs such as the child nutrition programs and food distribution programs which provide food to schools, nonprofit summer camps, and institutions assisting Indians, the elderly, indigents, and other persons. Ground beef for donation is purchased under section 6 of the National School Lunch Act (42 U.S.C. 1755) and surplus-removal legislation (sec. 32 of the act of August 24,

1935, as amended--7 U.S.C. 612c). The school lunch program is the principal recipient of the ground beef.

USDA's Food and Nutrition Service administers the donation programs aided by two other USDA agencies, the Agricultural Marketing Service (AMS) and the Agricultural Stabilization and Conservation Service.

AMS' Livestock, Meat, Grain, and Seed Division in Washington, D.C., purchases USDA's ground beef. AMS solicits bids from industry and awards contracts according to qualified low bids. This Division also (1) provides grading services on a user fee basis to facilitate market transactions, enable preparation of uniform quality products for market, and inform consumers about the quality of products they buy and (2) examines federally purchased meat and meat products to certify their compliance with government specifications. This certification service is provided to suppliers on a reimbursable basis. In addition, AMS' Market Research and Development Division manages the government-wide purchase specifications for food items, including those for meat and meat products.

Most USDA-purchased ground beef is in frozen bulk form. In fiscal years 1980-82, almost 99 percent of USDA's ground beef was purchased in frozen bulk form, while only 1 percent was in frozen patty form.

## Department of Defense

DOD purchases ground beef for troop feeding and commissaries. The Defense Logistics Agency (DLA) is DOD's purchasing agency for products common to the military services. DLA's Defense Personnel Support Center in Philadelphia, Pennsylvania, is responsible for purchasing ground beef for troop feeding. While the military services tell the Support Center what to buy, it decides how much, when, and from whom to buy. AMS provides certification service for these purchases.

Unlike USDA, DOD purchases considerable amounts of ground beef patties. In fiscal years 1980-82, about half the ground beef DOD purchased was in patty form. Furthermore, DOD ground beef for troop feeding has added textured vegetable protein, while USDA purchases an all-beef item.

## Veterans Administration

VA uses ground beef in its hospitals and canteens. VA does not have a centralized purchasing system for ground beef. Each VA facility determines its own needs and chooses its own source--either the DOD supply system or local purchase. In fiscal year 1981, VA facilities obtained about 800,000 pounds of ground beef from DLA and about 1.6 million pounds from local sources. Compared with USDA and DOD, VA is a small user of ground beef. In fiscal year 1981, VA bought less than 2 percent of the total ground beef purchased by federal agencies.

## GOVERNMENT GROUND BEEF SPECIFICATION

In the past, the federal government has purchased food items through detailed and often complex federal specifications. Recently, federal agencies have been directed by the Office of Management and Budget to purchase commercial-type products wherever possible and to use simplified specifications. With respect to ground beef, steps have been taken to develop one government-wide specification.

Since May 1982, USDA and DOD have been using Interim Federal Specification PP-B-2120 for purchasing ground beef. Prior to that time, each Department had its own specification. The basic difference between the federal specification and specifications used by commercial ground beef buyers is that the former is process oriented (requiring checks at various points in the production process), while the latter are directed at the finished product. The federal specification includes requirements for raw material formulation (the kinds and amounts of meat, fat, and trimmings that make up ground beef), in-process inspection, and end-item certification. Commercial ground beef is made to end-item specifications based primarily on fat content.

## OBJECTIVES, SCOPE, AND METHODOLOGY

We made our review to determine if the federal government could buy ground beef at less cost. This is one in a series of reviews directed toward identifying potential savings in the way federal agencies buy food.

We made this review in accordance with generally accepted government auditing standards. We reviewed legislation, regulations, and program instructions relating to government food procurement and quality assurance programs. We also analyzed the government's ground beef specifications. We interviewed AMS, DLA, and VA program management officials in Washington, D.C., and in the field and reviewed agency studies, memorandums, and documents. We relied on AMS, DLA, and VA data systems to provide information on purchase volumes and to identify major suppliers. We obtained the views of 21 major firms supplying ground beef to federal agencies and/or to commercial markets as to the effect of federal requirements on the price and quality of their products.

We verified the reasonableness of the suppliers' price information through comparison with The National Provisioner's Daily Market and News Service quotations (Yellow Sheet).[1] We confirmed the quality information with an extension meat specialist at Iowa State University in Ames, Iowa, who is a nationally recognized meat expert, and with officials of USDA's Food Safety and Inspection Service (FSIS) in Washington, D.C., and its

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[1]The National Provisioner is a private meat-price reporting service.

regional office in Des Moines, Iowa. We also reviewed research reports by USDA's Meat Animal Research Center in Clay Center, Nebraska. We coordinated our work with USDA's Office of the Inspector General. We did our audit work between August and December 1982 and used the latest data available at that time. In finalizing the report, we obtained updated information to the extent practicable.

The ground beef suppliers we contacted were judgmentally selected from AMS and DLA lists of suppliers that had provided ground beef to USDA and DOD during 1982. We also contacted some suppliers that VA identified as major suppliers to its medical centers. We visited some of the largest commercial ground beef producers in the nation as well as regional producers to obtain their views on the government's ground beef specification and to determine why they did not bid on government ground beef contracts. The suppliers and other industry representatives we contacted are listed in appendix I. We also talked with some schools and wholesale food distributors to determine the practices followed by the schools when purchasing ground beef with their own funds.

Because the ground beef suppliers we contacted were not selected on a random basis, their views cannot be projected to all suppliers. However, because our findings involve a uniform, governmentwide purchase specification, the effects of the specification's requirements are likely to apply to most suppliers producing ground beef for the government.

## CHAPTER 2

## GOVERNMENT SPECIFICATION INCREASES THE PRICE WITHOUT IMPROVING THE PRODUCT

The government specification for ground beef results in higher prices because it:

--Establishes a formulation requirement that calls for using high-value parts of the beef carcass. This restricts the flexibility of suppliers to use the least costly of several available formulation methods. Using high-value beef parts does not affect the quality, flavor, or nutritional value of the ground beef.

--Requires certification by AMS graders that the product meets the specification. This requirement increases suppliers' costs and limits competition.

As discussed in this chapter and in chapter 3, we estimate that the government could save from 8.4 cents to 13 cents a pound by buying a commercial product.

### FORMULATION REQUIREMENT INCREASES MATERIAL COSTS

Until December 1983, the federal specification for ground beef required that at least 50 percent of the beef used for each production lot shall be from the chuck, rib, loin, or round. These are known as the standard primal cuts and represent 80 percent of the value of the carcass. (See figs. 1 and 2 on p. 6.)

Commercial producers of ground beef may use any of several available raw material formulas, depending on the market for beef and the nature of their operations. The two basic types of animals that provide the "raw material" for beef processing are fat cattle (i.e., those raised specifically for beef production) and cows.

The fat cattle average 1,100 pounds live weight and 700 pounds dressed weight. Their average age is 2 years or less. Most are graded "USDA Choice",[1] and the high-value primal cuts

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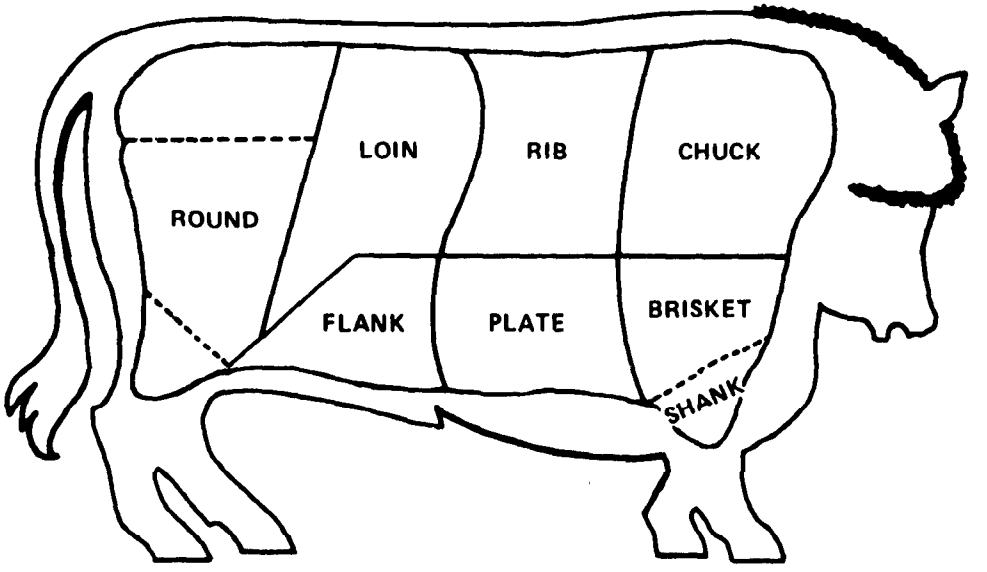
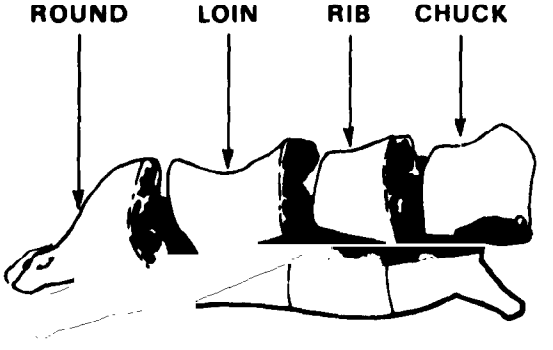
[1]Official quality grade designations such as Choice are based on those characteristics which predict the palatability of the meat. There are eight such designations for beef: Prime, Choice, Good, Standard, Commercial, Utility, Cutter, and Canner.

FIGURE 1
STANDARD BEEF CUTS




SOURCE: Meat Buyers Guide, National Association of Meat Purveyors

FIGURE 2
STANDARD PRIMAL BEEF CUTS




SOURCE: Meat Buyers Guide, National Association of Meat Purveyors

are generally processed into steaks and roasts for retail and institutional buyers. The trimmings from the primal cuts and the lower value cuts, such as shanks and plates, are often made into ground beef for commercial distribution. For example, two of the largest meatpackers in the United States produce a total of more than 7.5 million pounds of ground beef a week from trimmings and lower valued cuts from fat cattle. However, this ground beef could not be sold to the government because it did not include 50-percent primal cuts.

The other basic type of animal slaughtered for beef is the cow. Generally, these are older dairy or beef cows that have been culled from the herds for various reasons, often because they are no longer productive. The cows are generally not officially graded but, if they were, they would include Canner, Cutter, Utility, and Commercial grades. Generally, the Canner-type would be the oldest and leanest, while the Commercial- and Utility-type cows would be the youngest and fattest. Cow meat is generally used for ground beef and for other processing applications, such as making sausage and luncheon meats. Some cuts from Commercial- and Utility-type cows are sold at retail or to fast food restaurants as steaks and other portion cuts.

The market value of primal cuts from fat cattle precludes their use in ground beef. One meatpacker who processes only fat cattle said that using primals would increase the price of ground beef by 50 to 75 cents a pound. Consequently, the government's ground beef suppliers use cow primals to meet the government's formulation requirement. The effect of cow primals on the price of ground beef may vary with the supplier's operation, the type of cow used, and geographical location. For example, a supplier who slaughters and bones cows, in addition to grinding the beef, would probably have been affected less by the primal requirement than a supplier who must buy certified boneless raw materials. In addition, because Utility-type cows are younger and fatter than Canner- and Cutter-type cows, primals from Utility-type cows are more valuable. Also, the market for cow primals may vary by location. For example, one supplier told us that the demand for cow primals was less in the Southwest than in some other parts of the country.

Of the 21 ground beef suppliers we contacted, 19 said that the government's primal requirement made the product more expensive. Of the 21, 16 were current or former suppliers to government agencies. Of these 16, 14 said that the primal requirement increased the price. One said it did not, because there was no market for cow primals in that area. The other made no comment on the price effect. All five of the other suppliers said that the primal requirement resulted in higher prices. Of the 21 suppliers, 14 gave us estimates of the price effect of the primal requirement. These estimates ranged from 3 cents to 21 cents a pound.

In addition to requiring the use of more expensive raw materials, the primal requirement restricted the suppliers'

flexibility to use the least costly of available raw material formulas. Several formulas will produce ground beef of acceptable quality from readily available raw materials. However, because of market fluctuations, the formula which results in the least cost may vary on a daily basis.

Market prices for beef are generally quoted daily, Monday through Friday, in The National Provisioner's Daily Market and News Service "Yellow Sheet." The Yellow Sheet quotes prices for a wide range of meat items, from the entire carcass to fabricated cuts and boneless processing beef. The boneless processing beef items that are used to make ground beef, and a brief explanation of their content, are as follows:

--50-percent trimmings:[2] Trimmings from fat cattle; may include navels, flanks, chucks, and trimmings from steaks and fabricated cuts.

--75-percent trimmings: Could include any combination of 50-percent trimmings and meat from fat Utility-type cows.

--85-percent trimmings: Meat from lean Utility-type cows and fatter Canner- and Cutter-type cows.

--90-percent boneless beef: Meat from lean Canner- and Cutter-type cows.

These materials can be used in various combinations to make ground beef. The most common formulations would be made up of 85-percent trimmings or 90-percent boneless beef in combination with 50-percent trimmings.

To estimate the potential savings to the government from revising the specification to eliminate the primal requirement, we compared the raw material costs of ground beef made to the government's specification with the costs of the various other raw material formulas that could have been used if the primal requirement did not exist. The comparison was based on prices quoted in the daily Yellow Sheets. Raw material costs for the government product were based on equal parts of 75-percent trimmings and boneless chucks, which are the lowest priced of the four primals specified. For comparison, we used the raw material costs for the five most common commercial formulations. We made the comparison for each of the 27 dates between July 27, 1981, and January 25, 1982, on which USDA had accepted offers for bulk ground beef purchases. All five commercial formulations were always less expensive than the 50-percent primal formula. The differences ranged from 2.3 cents a pound to 19.7 cents a pound. These differences are similar to the estimates the suppliers gave

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[2]The percentage used to identify each item refers to the lean content, as determined by chemical analysis.

us. (See p. 7.) Each of the five commercial formulations resulted in the lowest raw material costs at different times during the 6-month period.

We then identified a range of potential savings for each USDA purchase during the entire 1981-82 school year by comparing the raw material cost for the government specification with each of the other formulas and identifying the smallest and largest differences. We then applied these differences to the number of pounds purchased to estimate the range of dollar savings on each purchase. Overall, potential savings on the entire quantity of bulk ground beef purchased during the 1981-82 school year ranged from 8.02 cents to 11.09 cents a pound. As a further check on the accuracy of these price estimates, we obtained price quotes from two large commercial ground beef suppliers for all dates on which USDA had accepted offers during the 1981-82 school year. These quotes were based on a 78-percent lean product, produced without regard to the 50-percent primal requirement and shipped FOB (free-on-board) from the suppliers' plants, in truckload quantities. The potential savings from both suppliers were within the 8- to 11-cent range computed above.

## Primal requirement does not affect quality, flavor, or nutritional value

According to suppliers and meat experts, the condition of the raw materials controls product quality. Condition is defined as the physical and bacteriological quality of meat. Meat in good condition is considered wholesome, or sound. Suppliers and experts said that if sound raw materials are used, it would be impossible to taste the difference between ground beef that included primals and ground beef that did not.

Although flavor is a subjective factor, it is not affected by the use of primal cuts. Assuming sound raw materials are used, flavor is controlled by the fat portion of the ground beef formula. Because most government suppliers produced ground beef from cow meat (which is about 85- to 90-percent lean), they would blend in fat cattle trimmings (which have a 50- to 60-percent fat content) to raise the fat content to the specified level of 22 percent. According to major suppliers and the extension meat specialist from Iowa State University, it is the clear white fat from young fat cattle that enhances the flavor and appearance of ground beef. Most suppliers used a formula based on cow meat and fat cattle trimmings.

Industry officials said that the nutritional value of lean (muscle tissue) is the same regardless of its location on the carcass. The extension meat specialist from Iowa State University said that the nutritional value of lean does not vary significantly throughout a beef carcass if fat content is kept constant.

## CERTIFICATION REQUIREMENTS INCREASE COSTS AND LIMIT COMPETITION

The general policies of DOD and USDA are that their meat purchases will be examined by AMS graders to assure that the product to be delivered conforms with the purchase specification. This process is called certification. The ground beef specification used by USDA and DOD includes requirements for raw material condition, boning, trimming, product formulation, packaging and freezing. To certify conformance with these requirements, the AMS graders are present in suppliers' plants to observe the entire process. Certification represents several additional examination steps for government ground beef purchases which are not generally applied to ground beef produced for commercial distribution.

These general policies regarding the certification of ground beef purchases do not conform to the governmentwide quality assurance policy.[3] This policy states that (1) certification procedures are to fully recognize the assurance and protection provided by the mandatory inspection programs, (2) government buyers are to waive the certification requirement when it is not cost effective and risks of receiving unsatisfactory product are minimal, and (3) suppliers are to be encouraged to develop and maintain their own quality control programs which will reduce the need for certification.

The certification requirements increase suppliers' costs in two ways. First, suppliers must pay AMS for the cost of providing the service. Second, production costs are often increased because AMS examination procedures slow processing by disrupting normal production methods. Further, some of the certification requirements limit competition by precluding or discouraging bids by potential suppliers.

### Direct costs of certification

AMS certification is paid for by the supplier, which passes the cost on to the government as part of the price of the ground beef. At the time of our fieldwork, AMS charged $25 an hour for each grader, plus laboratory and other related fees. These charges increase the government's total procurement costs for ground beef. Suppliers' estimates of the certification cost ranged from 1/2 cent to 10 cents a pound. This variance can be expected because of differences in volume of product and type of operation. Specific data furnished by one supplier showed that

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[3]This policy is presented in a Sept. 7, 1979, memorandum to the Office of Management and Budget Director from USDA in its leadership role of an interagency effort to establish a governmentwide quality assurance program for food purchases by federal agencies.

this supplier had paid AMS $28,870 to certify 1.3 million pounds, for an average cost of 2.2 cents a pound. We believe that 2 cents a pound would be a conservative estimate of the average cost for AMS certification.

Effect on production costs

The government specification identifies several types of material defects, including connective tissue, cartilage, and bone, that must be removed from the meat during boning and trimming and be excluded from the ground beef. The boneless meat must be examined by AMS graders before grinding and may be rejected if it contains excessive defective materials. Many suppliers complained that the boning and trimming requirements are too strict because some of the materials that can cause pre-grinding rejections, such as small pieces of cartilage or bone, would be removed during the grinding process. For example, the equipment used for grinding commonly contains a bone removal attachment, which catches bone particles.

In addition, suppliers said that the boning and trimming requirements increase costs by slowing production. Production delays were attributed to additional time spent trimming the meat to avoid rejections and retrimming rejected meat. Nine suppliers said that they overtrim the beef to avoid having it rejected. Four of the nine said that reworking beef that is rejected because of the trim specifications is costly. The other suppliers were unable to estimate the cost of these production delays. However, one supplier said that such delays added 8 or 9 cents a pound to the costs. Another supplier said that three extra persons were needed to trim the meat when ground beef was being produced for the government. Commercial ground beef buyers do not require such detailed examinations for boning and trimming requirements before grinding.

Effect on competition

Two of the certification requirements have the potential effect of discouraging suppliers from bidding on government ground beef contracts. One of these relates to condition. The specification requires that AMS graders examine 100 percent of the beef to assure that it is in excellent condition. According to the specification, beef must be examined in the fresh-chilled state and in the form of recognizable cuts, which include the primal cuts described on page 5, as well as quarters, sides, and whole carcasses.

The specification prohibits the use of boneless beef or trimmings, except for those that have previously been examined and certified in the form of recognizable cuts by AMS graders. Because AMS certification is generally not required by nongovernment purchasers, boneless processing beef and trimmings are generally not certified. Therefore, ground beef suppliers that do not have a boning operation cannot obtain government contracts unless they can buy certified boneless beef or trimmings from a

boning plant. Because the price difference between successful and unsuccessful bids can be as little as 1/10 of a cent per pound, the additional costs for certified raw material can keep such suppliers from bidding competitively on government contracts. Such suppliers would have to absorb two tiers of certification costs, those of the boning plant and those of their own processing operations.

The other certification requirement that may discourage competition is the examination for boning and trimming. Two suppliers said that the difficulty in getting the boneless meat accepted by the AMS graders and the additional costs of overtrimming to avoid rejections and of reworking rejected meat discourage suppliers from bidding on government ground beef contracts.

## CHAPTER 3

## POTENTIAL SAVINGS FROM REVISING GOVERNMENT SPECIFICATION

The government could have saved as much as $20.4 million during fiscal year 1982 by revising its ground beef specification. The following table summarizes the estimated savings per pound from these revisions.

Estimated Savings by Revising Government Specification

| | Savings per pound[a] | | | |
|---|---|---|---|---|
| | USDA | | DOD | |
| Item | Low | High | Low | High |
| Allow the use of lower cost commercially accepted raw material formulas | $0.08 | $0.11 | $0.064 | $0.088 |
| Revise the quality assurance requirement | 0.02 | 0.02 | 0.02 | 0.02 |
| Total | $0.10 | $0.13 | $0.084 | $0.108 |

[a]The difference in the savings estimates between USDA and DOD is due to DOD's practice of purchasing an 80-percent beef and 20-percent textured vegetable protein product. DOD savings per pound were calculated at 80 percent of USDA savings except for certification costs, which would be the same for both Departments.

Applying these per-pound savings figures to the two Departments' fiscal year 1982 purchases, we estimate that the government could have saved between $15.8 million and $20.4 million on the 165.8 million pounds of ground beef purchased in fiscal year 1982. Other potential savings, which were not measurable, could result from removing the disruptions in production imposed by certification requirements and increasing competition by attracting additional bidders.

We believe that an opportunity exists for the government to realize savings on its future purchases without diminishing the quality of its ground beef. As discussed in the following sections, the acceptability of commercial ground beef formulas to the general public suggests that a unique government formulation requirement is unnecessary. In addition, the AMS certification process duplicates some of FSIS' inspection practices and generally is not required for commercial ground beef.

## COMMERCIAL GROUND BEEF FORMULATIONS ARE ACCEPTABLE TO THE GENERAL PUBLIC

In the United States, virtually all income groups, races, age groups, and family sizes buy and use ground beef on a regular basis. Data published by the American Meat Institute show that ground beef accounted for 24 percent of the beef consumed in the United States during 1981.

The vast majority of the ground beef produced in this country is made according to commercial formulas rather than the unique government formula. During 1981, more than 3 billion pounds of ground beef was processed in federally inspected meat plants. Only 129 million pounds, or about 4 percent, was purchased by federal agencies on the basis of the government specification. Just three of the commercial ground beef suppliers we contacted produced an estimated 442 million pounds of ground beef per year, or over 3 times the federal government's average annual purchases for fiscal years 1980-82. The ground beef these suppliers produce for their nongovernment customers is made to end-item requirements based primarily on fat content. Raw materials used vary by supplier. However, their ground beef is marketed successfully to fast food chains, retail outlets, schools, and institutions throughout the country.

USDA research, published from 1976 to 1980, indicates that raw material formulation is not a significant factor in the acceptability of ground beef. Taste tests made by USDA's Meat Animal Research Center at Clay Center, Nebraska, showed that

--while ground beef from fat cattle carcasses was rated higher than that from cow meat, ground beef from cow meat was still rated as acceptable or better;

--consumers rated as acceptable or better a product which did not include primals, and the consumers could not detect significant differences between it and one made from primals; and

--consumers rated ground beef made according to a common commercial formula (40-percent cow meat and 60-percent Choice trimmings) as acceptable or better.

The acceptability of commercial ground beef is further demonstrated by the fact that users of government-purchased ground beef also buy the commercial item. Schools and other users of government ground beef do not specify primals when buying ground beef with their own money. Six of the 21 ground beef producers we visited and two major food wholesalers told us that they sold their commercial ground beef to schools, DOD commissaries, and VA hospitals. The purchasing officials for 80 independent school districts in Minnesota said that they purchase commercial ground beef. Except for one buyer, the buyers were not specifying raw material but instead were specifying fat content of the end item.

Suppliers, wholesalers, and school officials reported little dissatisfaction with the commercial product. In a survey that VA made for us of local ground beef purchases, seven medical centers responded that they buy only a commercial product and have not had any problems with the ground beef provided.

We discussed the government's formulation requirement with AMS' Deputy Administrator for Commodity Services and other AMS officials. They said that AMS had proposed a revision to the government's ground beef specification that would eliminate the requirement that 50 percent be from primal cuts. The revised specification was subsequently issued in December 1983.

We reviewed the revised specification. Although it does not require the inclusion of 50-percent primal cuts in the ground beef, it still requires AMS graders to examine beef in the fresh-chilled state and in the form of recognizable cuts, as defined by the government's Institutional Meat Purchasing Specifications. We believe this requirement will have the same effect as the primal formulation requirement in that it will restrict the use of other raw material formulas. For example, some processors will still have to present to AMS for examination larger cuts of meat (i.e., primals) to avoid the increased trimming costs and production disruptions associated with presenting smaller cuts. The Chief of the Meat Standardization and Review Branch of AMS' Livestock, Meat, Grain, and Seed Division agreed with us. He said that, although the primal requirement is not expressly required by the new specification, suppliers will have to use primals to maintain acceptable production levels.

Further, the new specification will not attract the fat-cattle processors or processors who do not bone. Fat-cattle processors will have to use the higher priced fat cattle primals or accept the production disruptions caused by AMS examination practices. (See pp. 7 and 11.) Processors without boning operations will still have to purchase the higher priced certified boneless meat. (See p. 11.)

We also discussed the 50-percent primal cut requirement with the chief veterinarian of DLA's Contracting Directorate and other DOD officials. These officials stated that a May 1982 amendment to the ground beef specification permitted waiver of the primal requirement. This amendment allowed suppliers to use any combination of USDA-certified cuts and/or trimmings provided they originate (1) from fresh whole cuts which have been certified for condition by AMS and (2) from carcasses which qualify for the U.S. Good grade or higher. Basically, the amendment allowed suppliers to produce government ground beef from the trimmings, miscuts, and unused cuts of carcasses used to produce government steaks, roasts, diced beef, and other beef items. DOD officials agreed with us that the amendment had no effect on the primal requirement because such cuts and trimmings are not available in quantities sufficient to meet the government's ground beef requirements.

## AMS CERTIFICATION DUPLICATES FSIS INSPECTION PRACTICES

FSIS' mandatory inspection program monitors the same critical quality factors for ground beef as those monitored by AMS. According to the Chief of the unit within AMS responsible for meat specifications, there are three important quality tests for ground beef--(1) bacterial activity for freshness, (2) fat content for taste and shrinkage, and (3) evidence of bones. Everything after that is of much less importance.

FSIS is required by law to inspect the slaughter of livestock and poultry and the processing of meat and poultry products shipped interstate or to foreign markets. FSIS' primary objective is to ensure that meat and poultry products distributed to consumers are wholesome; not adulterated; and properly marked, labeled, and packaged. All plants producing ground beef for the government are required to be under FSIS inspection. The additional examinations by AMS graders for condition of raw materials and for boning and trimming requirements duplicate some FSIS inspection practices.

We discussed the certification requirement with AMS' Deputy Administrator for Commodity Services and other AMS officials. They said that purchasing from the low bidder sometimes requires them to deal with marginal suppliers who, except for the certification, would be likely to deliver an unsatisfactory product and that certification was necessary to enforce the specification. According to the AMS officials, the most important part of the certification process is to determine that the meat is in excellent condition, to assure the shelf life needed for the ground beef. They said that FSIS inspection for wholesomeness meant only that the meat was safe for consumption at the time of that inspection, but did not assure the degree of freshness needed to assure the extended shelf life. They also said that it is necessary to examine meat for condition in the fresh-chilled state because AMS needs to know the "history" of the meat used in the ground beef. They said that AMS needed to know whether the meat originated in a federally inspected plant, when it was slaughtered, and whether it had been frozen or chemically treated. They also said that it is important to examine recognizable cuts rather than trimmings because the graders can tell so much more about condition by examining large pieces. AMS officials also said that they were required to "buy American" and therefore had to be sure that no imported meat was used in the ground beef.

We also discussed the certification requirement with the chief veterinarian of DLA's Contracting Directorate and other DOD officials. They said that in-plant quality assurance was needed because they are required to buy from the lowest bidder. They shared AMS' opinion that "wholesome" as determined by FSIS is something less than "excellent condition" and that the latter is necessary to provide extended shelf life. They also said that although they did not want any less quality assurance, they did not care which USDA agency provided it.

We further discussed AMS certification and the concerns of the AMS and DOD officials with FSIS' Deputy Administrator, Meat and Poultry Inspection Operations, and his assistant and the Assistant Deputy Administrator, Regional Operations. These FSIS officials reviewed the government ground beef specification's criteria for determining when beef is in excellent condition and the listing of materials to be removed during boning and trimming. The officials said that:

--No significant differences exist between AMS' criteria for "excellent condition" and FSIS' criteria for "wholesomeness" that would affect the shelf life. Shelf life is more related to how the product is handled after grinding. The best materials available will provide only minimal added shelf life because of the rapid increase in bacterial activity once the raw material is processed. As long as there is not an extended period between final grind and freezing, shelf life is not greatly affected by the material used, as long as it is wholesome.

--Examining bone-in recognizable cuts is not necessary to assure wholesomeness; FSIS has a boneless meat reinspection program, whereby boneless meat to be used for further processing is inspected at the boning plant for wholesomeness and excluded materials.

--FSIS inspects for the same excluded materials identified in the government ground beef specification.

--Very little risk exists of unknowingly getting ground beef that includes imported meat. Imported meat is inspected by FSIS at the port of entry or other destination points and generally stays in clearly identifiable boxes until it is used for processing.

--FSIS could incorporate the quality assurance of government ground beef purchases into its existing inspection program without a major impact on its workload.

The National Association of Meat Purveyors tends to support FSIS' position that shelf life is more related to processing time than to the difference between excellent and wholesome condition. In the Association's guide to quality assurance, processors are instructed to reduce processing time as much as possible:

> "As meat is reduced in size by flaking, chopping, grinding, or emulsification the exposed surface area is increased markedly. During this process oxygen is incorporated, moisture is released, and the product warms up. These are ideal conditions for bacterial growth. It is imperative to reduce processing time as much as possible. Steps are to be taken to lower the temperature. Personnel must be on guard against 'over-processing' the meat.

This causes abnormal heat rise, smearing and discoloration, and bacterial growth encouragement. Overchopping tends to toughen the product and/or cause emulsion breakdown, which may result in a mushy texture and increased costs. The causes for prolonged processing are under-rated equipment, dull cutting edges, and improperly matched equipment for in-line processing."

Industry officials also stated that AMS certification duplicated FSIS and supplier quality controls and disrupted production operations, thereby increasing processing times.

In view of the quality assurance provided by FSIS inspectors, we believe that many of the examination and acceptance procedures that AMS graders currently provide for government ground beef purchases are unnecessary. Where quality assurance beyond that provided by FSIS is deemed necessary and cost effective by government ground beef buyers, such additional testing should be done in a manner which will avoid the high cost of disrupting the vendors' operations. The results of these tests should be used to monitor the reliability of the vendors' quality controls and the effectiveness of FSIS' inspection program as they relate to the quality assurance of government ground beef purchases.

## CERTIFICATION GENERALLY NOT REQUIRED FOR COMMERCIAL GROUND BEEF

Except for some state agencies, the federal government is the only buyer that requires AMS certification for its ground beef purchases. As previously stated, the government bought only about 4 percent of the ground beef produced in federally inspected plants during 1981. Commercial buyers rely on the supplier's reputation and on the inspection FSIS provides. In many cases, schools and other users of government ground beef are also buying the commercial product without certification.

For example, one supplier which sold ground beef to 1,400 to 1,600 school districts told us that the districts order commercial ground beef and specify only the fat content. They do not request AMS certification but will occasionally analyze a sample of the final product.

Buyers thought that AMS certification was too expensive and added nothing to the product. A buyer for one large school district commented that the only difference between a product certified by AMS and one not certified was that the certified product costs more. Consequently, the school district does not use AMS certification.

VA officials told us that AMS certification has become too costly and, in their view, duplicates FSIS inspection. They said that certification amounted to USDA (AMS) checking on USDA

(FSIS). Therefore, VA does not require certification for local purchases of ground beef by VA medical centers.

The fact that commercial ground beef buyers, including schools and other users of government ground beef, do not request AMS certification further supports our opinion that such certification is unnecessary for government purchases.

# CHAPTER 4

## CONCLUSIONS, RECOMMENDATION, AND AGENCIES' COMMENTS AND OUR EVALUATION

### CONCLUSIONS

The government pays substantially more for its ground beef because of its restrictive purchase specification. Ground beef suppliers and other meat experts said that the government specification does not result in ground beef that is more acceptable than the commercial product.

The acceptability of the commercial product is demonstrated by the relative sales data. During 1981, government ground beef purchases accounted for only about 4 percent of the 3 billion pounds of ground beef produced in federally inspected plants. Most ground beef was made for commercial distribution, on the basis of various formulations tailored to the supplier's operation and/or market conditions, and sold on the basis of the lean-to-fat ratio.

If the government specification were revised to permit the use of lower cost commercially accepted raw material formulas, government buyers could save from 6.4 cents to 11 cents a pound on the 78-percent lean ground beef currently required by the specification.This would have resulted in savings of $12.5 million to $17.1 million on fiscal year 1982 purchases.

Further savings could be realized if the responsibility for product quality assurance was assumed by FSIS. All suppliers are under mandatory inspection by FSIS, which is responsible for assuring that meat products are wholesome; unadulterated; and properly marked, labeled, and packaged. According to FSIS officials, FSIS could assume the quality assurance responsibility with little impact on its workload. Commercial customers, who buy about 96 percent of the ground beef produced in federally inspected plants, rely on the suppliers' quality control systems and FSIS for the quality of their meat products. These commercial customers include many recipients of government-purchased ground be
saved during fiscal year 1982 by transferring the quality assurance responsibilities to FSIS.

In our opinion, it is not cost effective or necessary to require the additional quality assurance steps for 4 percent of the ground beef produced, when such steps are not considered necessary or worthwhile for the other 96 percent.

### RECOMMENDATION TO THE SECRETARY OF AGRICULTURE

We recommend that the Secretary modify the federal purchase specification for ground beef to enable the government to

purchase its ground beef more economically. We believe this will require revising the quality assurance requirements to place the responsibility for in-process inspection with the Food Safety and Inspection Service and requiring that government buyers request additional testing beyond FSIS' existing inspection programs only when the buyers have determined such testing to be necessary and cost effective. Relying on the FSIS inspection program will eliminate the need for the AMS condition examination of recognizable cuts, thereby minimizing duplication and inspection costs, and potentially attract more bidders on government ground beef contracts.

## BUDGETARY IMPACT OF OUR RECOMMENDATION

Implementing our recommendation to modify the federal purchase specification for ground beef should result in substantial savings to the Departments. The Department of Agriculture would realize savings in the Child Nutrition Programs appropriation account (05-84)12-3539 in the Food and Nutrition Assistance (605) budget subfunction. The Department of Defense would realize savings in the Defense Stock Fund appropriations account (07-40)97-4961 budget subfunction (051) in subsistence costs.

The potential savings for each Department will depend on the quantity of ground beef purchased in the future. If our recommendation had been in effect for fiscal year 1982, the estimated savings of our recommendation for each Department, on the basis of the quantities purchased, is as follows:

| Recommended action | Department | | |
|---|---|---|---|
| | Agriculture | Defense | Total |
| | (millions) | | |
| Allow the use of lower cost commercially accepted raw material formulas | $12.8 | $4.3 | $17.1 |
| Revise the quality assurance requirement | 2.3 | 1.0 | 3.3 |
| Total | $15.1 | $5.3 | $20.4 |

## AGENCIES' COMMENTS AND OUR EVALUATION

In commenting on a draft of this report (see app. II), USDA said that it welcomed suggestions to improve its operations and that it would thoroughly consider our recommendation. USDA said it plans to review the underlying issues in close consultation with the appropriate USDA agencies and the Department of Defense.

USDA cited several examples of the issues that would be addressed in its review. One of the issues raised by USDA, as well as DOD, is whether limiting the product testing for contract purposes to end-product examinations, as we had proposed in our draft report, would be sufficient to assure the shelf life needed for federally purchased ground beef. This is a valid concern; however, we believe that FSIS' in-process controls can reasonably assure the shelf-life requirements. Thus, we proposed that certification be limited to a final end-item check by FSIS. This, in effect, would eliminate the need for AMS graders at the processors' plants. To make this clear, we modified our recommendation to state specifically that FSIS should have responsibility for in-plant quality assurance of ground beef purchases and that government buyers should request additional testing beyond FSIS' existing inspection programs only when the buyers have determined that such testing is necessary and cost effective.

In its comments (see app. III), DOD said that it agreed with our proposal to eliminate the 50-percent primal cut requirement. However, it did not agree that in-process certification procedures should be eliminated. It said that USDA's in-process examination was necessary but added that the manner in which this examination is done is for USDA to determine. DOD said that it had no basis for commenting on possible duplication of effort within USDA.

DOD said that it is required to buy from the lowest bidder and does not have the option of excluding suppliers because of product dissatisfaction. It said that reasonable in-process inspections are necessary, regardless of which USDA agency actually does them, to preclude the unscrupulous supplier from using undesirable and inferior materials and to assure the necessary shelf-life requirements for the military supply system. As noted above, we believe the mandatory in-process inspections by FSIS are duplicated by the certification procedures being done by AMS graders during processing.

In addition, the regulations governing federal procurements require that contracts shall be awarded to responsible bidders. These regulations require bidders to have adequate production control procedures and quality assurance measures. Bidders on government subsistence contracts are also required to meet special agency standards and procedures which may be desirable where a history of unsatisfactory performance has demonstrated the need for ensuring adequate contract performance. The contracting officer must make a determination prior to award that the prospective contractor is a responsible supplier. The regulations require that this determination shall consider recent unsatisfactory performance in either quality or timeliness of delivery. The information needed to make this determination is available from preaward surveys, DOD's voluntary contractor testing program, FSIS inspection results, DOD's in-storage quality control and inspection programs, and DOD's performance records and quality history

records on each vendor. Therefore, because price alone is not the sole factor to be considered in awarding a contract, we believe DOD does have the option of excluding suppliers because of dissatisfaction with their products.

In the draft sent to the agencies for comment, we proposed that USDA eliminate the 50-percent primal cut requirement. Subsequent to commenting on our draft report, USDA issued a revised specification in December 1983 which eliminated the primal requirement. In view of this action, there is no longer a need to recommend elimination of the 50-percent primal requirement. However, the specification still requires that AMS graders examine beef in the fresh-chilled state and in the form of recognizable cuts. The revised requirement will have the same effect as the primal formulation requirement in that it will restrict the use of other raw material formulas. Thus, we revised our recommendation to call for elimination of unduly restrictive specifications.

Our draft report included proposals that the Secretary of Agriculture reassess the decision requiring government-purchased ground beef to be 78-percent lean and that the Secretary of Defense adopt USDA's revisions to the specifications. Our proposal to the Secretary of Agriculture was based on evidence developed during our review that:

--The 78-percent lean requirement was based on a policy decision for which USDA was unable to provide supporting evidence.

--The most commonly produced commercial ground beef is 73-percent lean.

--Government buyers could save about 1.6 cents to 2 cents a pound for each percentage point reduction in their lean requirement of 78 percent.

In commenting on our draft report, the Department of Agriculture expressed concern that reducing the lean percentage of ground beef would lower the yield as counted toward feeding program requirements. USDA said a related issue involves the wide use of vegetable protein products by schools and that the fatter ground beef would result in greater fat absorption by the vegetable protein and higher ingestion of fats by school lunch participants.

The Defense Department, in response to our draft report, said that reducing the lean content of ground beef would defeat its goal of reducing fat in the military diet to improve overall fitness, reduce obesity, and reduce the risk of diet-related coronary disease.

In view of these responses, we have dropped the proposal concerning the 78-percent lean requirement.

## INDUSTRY REPRESENTATIVES WE CONTACTED

| Name | Location |
|---|---|
| Aslesen Company | Minneapolis, Minnesota |
| Campion's Wholesale Meat | St. Paul, Minnesota |
| Denver Meat Company | San Jose, California |
| Durham Meat Company | San Jose, California |
| E. Huttenbauer & Son | Cincinnati, Ohio |
| Harker's Wholesale Meat, Inc. | Le Mars, Iowa |
| Heartland Meat Company | San Diego, California |
| Hygrade Food Product Corporation | Tacoma, Washington |
| Iowa Beef Processors, Inc. | Dakota City, Nebraska |
| Lakeside Packing Company | Plainview, Minnesota |
| Land O'Lakes, Inc. | Albert Lea, Minnesota |
| Loggins Meat Company | Tyler, Texas |
| Long Prairie Packing Company | Long Prairie, Minnesota |
| MBPXL Corporation | Wichita, Kansas |
| Monarch Food Service | Minneapolis, Minnesota |
| National Association of Meat Purveyors | McLean, Virginia |
| Northern States Beef, Inc. | Omaha, Nebraska |
| Pabst Meat Supply | Inver Grove Heights, Minnesota |
| Packerland Packing Company, Inc. | Green Bay, Wisconsin |
| Redtree Packing Company, Inc. | Seattle, Washington |
| Schumacher Wholesale Meats, Inc. | Minneapolis, Minnesota |
| Shane Meat Company | Kennett Square, Pennsylvania |
| Supreme Beef Processors, Inc. | Dallas, Texas |
| The National Provisioner | Chicago, Illinois |
| Wisconsin Beef Industries | Eau Claire, Wisconsin |
| Ziebarth and Stienhauser, Inc. | Buffalo, New York |

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

AUG 1 7 1983

Mr. Brian P. Crowley
Senior Associate Director
Resources, Community, and Economic
Development Division, GAO
Washington, D.C. 20548

Dear Mr. Crowley:

Thank you for the opportunity to review GAO's draft report entitled, "The Government Could Save Millions of Dollars By Revising Its Purchase Specification for Ground Beef." The Department welcomes suggestions on carrying out its functions more economically and efficiently, and supports well considered, deliberate deregulation when accomplished without diminishing the quality and effectiveness of our programs. Implementation of GAO's recommendations would result in less regulation of federally purchased ground beef. Thus, the Department will give thorough consideration to the recommendations and the issues raised.

The report addresses a number of issues which bear on inspection, certification, and Federal purchasing of ground beef. The recommendations directly involve several agencies and require careful consultation among the officials of our feeding programs and marketing and inspection agencies, as well as the Department of Defense. For example, lowering the percentage of lean required in ground beef will lower the yield as counted toward feeding program requirements. This lower yield will partially offset the savings identified by GAO. A related issue involves the wide use of vegetable protein products by schools. Fatter ground beef would result in greater fat absorption by the vegetable protein and higher ingestion of fats by school lunch participants. The Department of Defense also has some concerns about the fat content issue, as the report points out. Another issue is whether certification limited to end-product examinations will be sufficient to assure the shelf life needed for federally purchased ground beef.

[GAO COMMENT: The proposal regarding the fat content of government-purchased ground beef has been deleted from the report. See p. 23.]

We hope to complete our review of these and other questions as GAO completes its work. We look forward to commenting on the final report and its recommendations.

Sincerely,

Karen Darling
for C. W. McMillan
Assistant Secretary
Marketing and Inspection Services

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

MANPOWER, RESERVE AFFAIRS AND LOGISTICS

18 AUG 1983

Mr. Brian P. Crowley
Senior Associate Director
Resources, Community, and Economic
Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Crowley:

This is the Department of Defense (DoD) response to the draft report GAO Code No. 022855, "The Government Could Save Millions of Dollars By Revising Its Purchase Specification for Ground Beef," OSD Case Number 6306, dated 5 July 83. Detailed comments are enclosed.

Your report points out that views of DoD officials were obtained during the study. These views are those of the individuals and should not be considered the official DoD position.

We concur in your recommendation to eliminate the requirement for 50 percent primal cuts in ground beef.

We do not concur in your recommendation to permit additional fat in ground beef or to eliminate inspection during processing currently conducted by AMS. We base these decisions on several factors. First, DoD contracts on a low bid basis and does not have the commercial buyers' option of not purchasing from a supplier because of dissatisfaction with a product. This necessitates the establishment of certain minimum requirements that must be met. With ground beef, only fat content and packaging requirements can be checked on an end item inspection. Other requirements must be checked during processing. Second, military beef requirements must differ from commercial requirements to assure the necessary shelf life needed in the military supply system. Third, increasing fat content would defeat DoD's goal of reducing fat in the military diet as a part of increased readiness through overall fitness, reduced obesity, and reduced risk of diet-related coronary disease. Fourth, we have already adopted a reasonable alternative to increasing fat content as well as a sound economic measure in the addition of 20 percent soy additive in lieu of lean beef. The addition of soy must be carefully controlled, however, and this can only be accomplished during processing.

[GAO COMMENT: The proposal regarding the fat content of government-purchased ground beef has been deleted from the report. See p. 23.]

Mr. Brian P. Crowley

While we are convinced that inspection during processing is essential, we are not in a position to comment on who within the USDA organization should perform the inspection.

Sincerely,

Jerry L. Calhoun
Principal Deputy Assistant Secretary of Defense
(Manpower, Reserve Affairs & Logistics)

1 Encl

[See GAO note, p. 36.]

GAO DRAFT REPORT, DATED JULY 5, 1983
(GAO CODE 022855) OSD CASE NO. 6306

"THE GOVERNMENT COULD SAVE MILLIONS OF DOLLARS BY REVISING ITS PURCHASE SPECIFICATION FOR GROUND BEEF"

DOD POSITION
* * * * *

FINDING A: Government Specification Increases the Price Without Improving the Product. GAO found that the Government specification for ground beef results in higher prices because it (1) establishes a formulation requirement that calls for using high-value parts of beef carcass which has no affect on the quality, flavor, or nutritional value (2) requires certification of Agricultural Marketing Service (AMS) grades which increases suppliers costs and limits competition and (3) requires a lean content of 78 percent while the commercial product has 73 percent. GAO estimates that the Government could save 16.4 cents to 23 cents a pound by buying a commercial product. (p. 5)

DoD Position: DoD partially concurs. We agree that government specification requirements increase price. DoD and Department of Agriculture have concurred with removing formulation requirements calling for use of the high value parts of the beef carcass. Specification revision eliminating this requirement has not been accomplished because of nonconcurrence with other changes in this proposed amendment. If these nonconcurrences are not readily resolved, DoD is prepared to implement a change in formulation requirements by an interim amendment to the specification or by inclusion in a Technical Data Sheet. We estimate that this action could be completed within sixty days of the time it is initiated. However, we prefer to expedite the development of a fully coordinated Federal Specification. If this is not accomplished by 1 December 1983, we will proceed with above mentioned approach. Military ground beef requirements must differ from commercial requirements in order to provide longer shelf life and meet dietary requirements. It is unrealistic to believe that ground beef can be moved through the military supply system and consumed in the time frame approximating that of commercial operations. These unique requirements and the fact that DoD buys on a low bid basis make it essential to have the in-process inspection required for AMS certification to assure that requirements are met. Increasing the fat content would increase total fat in the diet and would be contrary to the goal of the Surgeons General to reduce total fat in the diet. We cannot confirm GAO estimates on cost savings if changes were made.

[GAO COMMENT: References to the fat content of government-purchased ground beef have been deleted from the report. See p. 23.]

FINDING B: The Formulation Requirement Increases Material Costs. GAO found that the Federal specification for ground beef requires that at least 50 percent of the beef used for each production lot shall be from the chuck, rib, loin, or round. Commercial producers of ground beef may use any of several available raw material formulas, depending on the market for beef and the nature of their operations. The two basic types of animals that provide the "raw material" for beef processing are fat cattle (i.e., those raised specifically for beef production) and cows. The market value of primal cuts from fat cattle precludes their use in ground beef. One meatpacker who processes only fat cattle said that using Choice primals would increase the price of ground beef by 50 to 75 cents a pound. Consequently, the Government's ground beef suppliers use cow primals to meet the 50-percent primal cut requirement. Further, GAO contacted 21 ground beef suppliers, 19 of which said that the Government's primal requirement made the product more expensive. GAO estimated the potential savings from suppliers to be within 8 to 11 cents per pound. (pp. 5, 7, 8, and 9)

DoD Position: DoD concurs. However, we are of the opinion that the material should consist of a combination of certified trimmings and identifiable cuts, carcasses, sides, and quarters.

FINDING C: The Certification Requirements Increase Costs and Limit Competition. GAO found that the Government's general policy is that meat purchases be examined by AMS graders to assure that the product to be delivered conforms with the purchase specification. The ground beef specification used by USDA and DOD includes requirements for raw material condition, boning, trimming, product formulation, and packaging. To certify conformance with these requirements, the AMS graders must be present in suppliers' plants to observe the entire process, from boning the beef carcass to packaging the finished product. Certification represents several additional examination steps for Government ground beef purchases which are not generally applied to ground beef produced for commercial distribution. The certification requirement increases suppliers' costs in two ways. First, suppliers must pay AMS for the cost of providing the graders. Second, production labor costs are often increased because AMS examination procedures slow production by disrupting normal production methods. Further, some of the certification requirements limit competition by precluding or discouraging bids by potential suppliers. (p. 10)

DoD Position: DoD partially concurs. We agree that certification requirements do increase the immediate cost and could limit competition; however, the in-process inspection, including condition examination of recognizable cuts, is essential. While commercial customers have the option of buying from any producer who is willing to supply the product, DoD is required to buy from the lowest bidder. If reasonable in-process inspections are not performed, the chances are increased that an

unscrupulous producer will be able to incorporate some material excluded by the specification and to use undesirable and inferior materials in ground beef. Because of the nature of ground beef, this could not be proven on end-item specification. Additionally, it is necessary to have special requirements to assure that the product will meet the shelf life requirements of DoD. Meat may be wholesome, but not be in prime condition. Inclusion of such product materially reduces the keeping quality. We do not agree that wholesomeness is the same as condition inspection. Temperature and freezing requirements also affect shelf life. Moreover, as an economy measure, DoD has directed the use of 20 percent added hydrated soy protein. This additive must be mixed with the exact amount of water and the process of adding it to ground beef must be strictly controlled to preclude the release of water during the freezing process. Specification requirements that must be monitored during processing include assurance that meat is free from "required to be excluded" material; formulation requirements to include identity, quality and quantity of soy additive; temperature and freezing requirements; fat content; and special packing and packaging requirement. Only the requirements for fat content and special packing/packaging can be checked at destination. The in-process inspection required for AMS certification cannot be eliminated without assuming a very high risk of receiving poor product that would not meet the Military Services nutritional and shelf life requirements.

FINDING D: Savings Are Available Through Reduction of Lean Requirement. GAO found that ground beef processors generally have the capability to formulate any desired lean-to-fat ratio. The most commonly produced ground beef is 73-percent lean, while the Government specification requires a 78-percent lean product. Because ground beef is priced on the basis of its lean content, the leaner product is more expensive. A study by USDA's Meat Science Research Laboratory, published in 1980, suggests that the 73-percent lean product is a better buy than 78-percent lean. This study concluded that total cooking loss was not significantly affected by fat level. On the basis of commercial prices for 73-percent lean ground beef during fiscal year 1982, GAO estimates that the Government could have saved 8 to 10 cents a pound by buying the 73-percent lean product rather than the 78-percent lean product.

[GAO COMMENT: This matter has been deleted from the report. See p. 23.]

DoD Position: DoD nonconcurs. DoD has an overall goal to increase readiness by improving total fitness, decreasing obesity, and reducing diet-associated coronary heart disease risk. In support of this program, The Surgeon General, US Army, as the DoD Executive Agency for Nutrition, has recommended that the fat content of the military diet be lowered to no more than 35 percent (from 40 percent) of total calories consumed. To meet this goal, recommendations have been made such as increased use of low fat milk in the military diet. Ground beef is also a major component of diet and increasing the fat content of beef would make it

extremely difficult or impossible to reduce overall fat content in the diet. Additionally, it should be noted that while the recommendation calls for a formulation of 27 percent fat and 73 percent lean beef, the formulation currently used by DoD contains 22 percent fat, 20 percent soy, and only 58 percent lean beef.

FINDING E: Savings Potential Fron Revising Government Specification. GAO found that the Government could have saved about $36 million ($9.2 million by DOD) during FY 1982 by revising its ground beef specifications. GAO estimates (see table on page 13) that the USDA could have saved between 20 cents and 23 cents per pound while the DOD could have saved between 16.4 cents and 18.8 cents per pound. (See table on page 15 of Draft Report.) In addition potential savings (not measurable) could result from removing the disruptions in production imposed by certification requirements and increasing competition by attracting additional bidders. GAO believes that an opportunity exists for the Government to realize savings on its future purchases without increasing the possibility of purchasing poor quality beef. (p. 13)

[GAO COMMENT: Estimates of savings have been revised to reflect changes made on basis of agency comments. See p. 23.]

DoD Position: DoD partially concurs. While we are unable to confirm GAO estimates, we do acknowledge that changing the specification would result in savings. We agree that the formulation requirements should be changed; however, due to the unique requirements of the Services, DoD procedures of purchases on low bid, and the fact that DoD is already incorporating soy additive, the certification requirements must be retained. The GAO estimated savings do not appear to take into consideration the use of soy additive which resulted in an estimated saving of approximately 20 cents per pound and reduces the amount of beef by 20 percent. Since 20 percent less beef is purchased, the savings resulting from a change in formulation would probably decrease by approximately 20 percent.

[GAO COMMENT: DOD's purchase of a 20-percent soy-added product has been considered in the computation of savings. (See footnote "a" to the table on p. 13.)]

FINDING F: Commercial Ground Beef Formulations Are Acceptable to the General Public. GAO found that the vast majority of the ground beef produced in this country is made according to commercial formulas rather than the unique Government formula. During 1981 more than 3 billion pounds of ground beef was processed in federally inspected meat plants. Only 129 million pounds, or about 4 percent, was purchased by Federal agencies to the Government specification. USDA research, published from 1976 to 1980, indicates that raw material formulation is not a significant factor in the acceptability of ground beef. Taste tests made by USDA's Meat Animal Research Center at Clay Center, Nebraska, showed that (1) while ground beef from fat cattle carcasses was rated higher than that from cow meat, ground beef from cow meat was still rated as acceptable or better, (2) consumers rated as acceptable or better a product which did not include primals, and the consumers could not detect significant differences between it and one made with primals; and (3) consumers rated as acceptable or better ground beef made according to a common commercial

formula (40-percent cow meat and 60-percent Choice trimmings). Suppliers, wholesalers, and school officials report little dissatisfaction with the commercial product. (pp. 14 and 15)

DoD Position: DoD concurs.

FINDING G: The AMS Certification Duplicates FSIS Inspector Practices. GAO found that the Food Safety and Inspection Service (FSIS) is required by law to inspect the slaughter of livestock and poultry and the processing of meat and poultry products shipped interstate or to foreign markets. FSIS' primary objective is to ensure that meat and poultry products distributed to consumers are wholesome; not adulterated; and properly marked, labeled, and packaged. All plants producing ground beef for the Government are required to be under FSIS inspection. The additional examinations by AMS graders for condition of raw materials and for boning and trimming requirements duplicate some of FSIS' inspection practices. (p. 15)

DoD Position: We feel that we have no basis for commenting on possible duplication of effort within the USDA. Due to the unique requirements of DoD, in-process inspection must be retained. The manner in which this inspection is accomplished must be determined by the US Department of Agriculture.

FINDING H: Certification is Generally Not Required for Commercial Ground Beef. GAO found that except for some State agencies, the Federal Government is the only buyer that requires AMS certification for its ground beef purchases. As previously stated, the Government bought only about 4-percent of the ground beef produced in federally inspected plants during 1981. Commercial buyers rely on the supplier's reputation and on the inspection FSIS provides. In some cases, schools and other users of Government ground beef are also buying the commercial product without certification. The fact that commercial ground beef buyers, including schools and other users of Government ground beef, do not request AMS certification further supports GAO's opinion that such certification is unnecessary for Government purchases. (p. 17)

DoD Position: DoD partially concurs. However, we do note that some major users do have various formulations tailored to their operation and have some type of quality assurance. Commercial buyers and schools and other agencies using local purchases have the option of buying only from producers who supply a product which they feel is satisfactory. If they are not pleased with the product, they have the option of no longer purchasing from that supplier. Since DoD buys on low bid, this option is not available so that certain requirements must be added. Beef loses its identity during grinding and mixing and the only way to assure that requirements are met is to have inspection at the time of processing.

## CONCLUSIONS

CONCLUSION 1: Ground Beef Costs are Higher Because of Restrictive Specifications. In connection with Finding A, GAO concludes that the Government pays substantially more for its ground beef than buyers pay for commercial ground beef because of a restrictive purchase specification. Suppliers and meat experts agree that the Government specification does not result in ground beef that is more acceptable than the commercial product. (p. 20)

DoD Position: DoD partially concurs. We agree that the specification does add some cost to the purchase of ground beef. We agree that the formulation should be changed. DoD does have special requirements that must be met to assure adequate shelf life and dietary needs. These requirements would not be met without specific requirements in the specification. The current specification results in a more acceptable product for DoD's specific need.

CONCLUSION 2: Commercially Produced Ground Beef is Nationally Accepted. In connection with Findings B and C, GAO concludes that the commercial product has demonstrated acceptability through sales data. During 1981, most ground beef (96 percent) was made for commercial distribution based on various formulation tailored to the suppliers' operation and/or market conditions, and sold on the basis of the lean-to-fat ratio. (p. 20)

DoD Position DoD partially concurs. We agree that commercially produced ground beef is generally accepted; however, the general public has the option of not buying from a specific supplier if they are not satisfied with the product. Since DoD is required to purchase on a low bid, this option is not available to DoD. DoD has a longer shelf life requirement than the commercial market sector because of the long logistics pipeline associated with our world-wide troop feeding responsibilities. We also have unique dietary requirements which differ from the private sector. Additionally, due to the nature of ground beef, only fat content and packaging requirements can be checked on end-item examination. The only way to assure that inferior material is not included in DoD's ground beef is to have in-process inspection. Indeed, unscrupulous suppliers who might attempt to defraud the Government might find it relatively easy to incorporate a certain amount of cheaper, inferior material between the time of wholesomeness examination and end-item inspection. The result of this would be to eliminate the valued, reliable supplier from competition.

CONCLUSION 3: Need to Revise the Government Specification on Ground Beef Procurement. In connection with Findings D and E, GAO concludes that if the Government specification were revised to permit the use of commercially accepted raw material formulas, Government buyers could save

from 6.4 cents to 11 cents a pound on the 78-percent lean ground beef currently required by the specification. This would have resulted in savings of from $12.5 million to $17.1 million on FY 1982 purchases.

[GAO COMMENT: This matter has been deleted from the report. See p. 23.]

DoD Position: DoD partially concurs. We agree that the specification requirement for 50 percent primal cuts should be changed. We do not agree that in-process inspection should be eliminated or that fat content should be increased. We are unable to confirm the GAO cost savings estimates. However, it should be pointed out that the current formulation used by DoD contains only 58 percent lean beef, the remainder being 20 percent soy additive and 22 percent fat.

CONCLUSION 4: Need to Limit Certification to FSIS. In connection with Findings E and G, GAO concludes that further savings could be realized if the certification requirement was revised to limit certification to a final end-item check by FSIS for compliance with product specifications. All suppliers are under mandatory inspection by FSIS, which is responsible for assuring that meat products are wholesome; unadulterated; and properly marked, labeled, and packaged. GAO estimates that an additional $3.3 million could have been saved during FY 1982 by limiting certification on Government ground beef purchases to a final end-item check by FSIS. (p. 19)

DoD Position: DoD does not concur in the elimination of the in-process inspection. To do so would eliminate any assurance that special requirements necessary to assure nutritional and shelf life requirements are met. Only requirements for fat content and special packing and packaging can be checked on end-item examination. Without in-process inspection we would assume a very high risk of receiving a poor product that would not meet the Military Services' needs. The manner in which this inspection is accomplished must be determined by the USDA.

CONCLUSION 5: Current Procurement Ground Beef is Not Cost Effective. In connection with Findings A, D and E, GAO concludes that it is not cost effective or necessary to provide all the additional certification steps for 4 percent of the ground beef produced, when such steps are not considered necessary or worthwhile for the other 96 percent. (p. 19)

DoD Position: DoD does not concur. Unlike the commercial customer, DoD buys on low bid and must be concerned with unique shelf life and dietary requirements that do not apply to the private sector. We must have in-process inspection to assure that these requirements are met. Elimination of this inspection results in an increased possibility of receiving an inferior product. Procurement of an inferior product would actually result in less cost effectiveness. As an economy measure the DoD uses 20 percent soy additive in ground beef. This has resulted in a

savings of approximately 20 cents per pound of ground beef. The mixing and addition of this additive must be carefully controlled if a quality end-product is to be obtained. This control can only be accomplished by inspection during the time of processing.

CONCLUSION 6: Purchase of Less Lean Ground Beef Would Be More Cost Effective. In connection with Findings B and D, GAO concludes that Government buyers could save about 1.6 cents to 2 cents a pound for each percentage point reduction in their lean requirement of 78 percent. Thus, if the Government had bought the 73-percent lean product, DOD could have saved an additional 8 cents and USDA an additional 10 cents a pound, or a total of $15.6 million, on FY 1982 purchases.

[GAO COMMENT: This matter has been deleted from the report. See p. 23.]

DoD Position: DoD partially concurs. Increased fat would result in some reduced cost; however, DoD has initiated a major program to reduce the fat content of the diet to improve fitness, reduce obesity and the risk of coronary heart disease. Since beef is a major item of the diet, raising the fat content would make it difficult or impossible to reduce overall dietary fat and would contribute to reduced personnel fitness and force readiness.

RECOMMENDATIONS

RECOMMENDATION 1: GAO recommends that the Secretary of Agriculture modify the Federal purchase specification for ground beef to enable the Government to purchase its ground beef more economically and efficiently. GAO believes this will require (1) eliminating the requirement that 50-percent of the beef used be from primal cuts and the proposed revision that recognizable cuts of beef be examined for condition and (2) revising the certification requirement to limit certification to a final end-item check by FSIS for compliance with product specifications. (p. 20)

DoD Position: DoD partially concurs. We agree that the requirement for 50 percent primal cuts should be eliminated. We do not agree eliminating examination for condition or limiting certification to a final end-item inspection is reasonable. We base this on several factors:

a. DoD buys on low-bid. The only way to assure a reasonable product is to prescribe minimum standards in a specification. Compliance with these standards can only be assured by inspection during processing. Only fat content and packaging requirements can be checked on end-item inspection.

b. DoD has requirement for a product that will meet the needs for increased shelf life.

c. As an economy measure, DoD incorporates a soy additive to ground beef. To obtain a quality product, the addition and mixing of this product must be closely controlled during processing.

DoD is convinced that some in-process inspection currently conducted by AMS is essential. We defer to the USDA to determine the most efficient way to accomplish that inspection.

RECOMMENDATION 2: GAO recommends that the Secretary of Agriculture reassess the policy decision to require 78-percent lean ground beef to determine if this percentage can be reduced.

[GAO COMMENT: This proposal has been deleted from the report. See p. 23.]

DoD Position: DoD nonconcurs. DoD has an overall goal of increasing readiness through improved total fitness, including decreased obesity and reduced diet-associated coronary disease risk. The DoD Executive Agent for Nutrition (The Surgeon General, US Army) has recommended that the fat content of the military diet be lowered to 35 percent of total calories consumed (from 40 perent) to help achieve this goal. Since ground beef is a major component of the diet, increasing the fat content would only serve to defeat this goal and degrade personnel fitness and force readiness. DoD has already adopted a reasonable alternative in the use of a soy additive. The proposed change would result in a product that would be 27 percent fat and 73 percent lean beef. DoD currently is purchasing a product that is 22 percent fat, 20 percent soy additive, and 58 percent lean beef.

RECOMMENDATION 3: GAO recommends that the Secretary of Defense adopt Agriculture's revision in the ground beef specifications.

[GAO COMMENT: This proposal has been deleted from the report. See p. 23.]

DoD Position: DoD partially concurs. The DoD is committed to using USDA specifications whenever feasible. DoD is agreeable to changing the formulation requirements, but as pointed out above, unique requirements and the system of purchasing on low bid preclude increasing fat content or eliminating in-process inspection.

GAO note: Page references in this appendix which referred to the draft report were changed to reflect their position in this final report.

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