~~24444~~

123706

REPORT BY THE

# Comptroller General

OF THE UNITED STATES

# Improved Administration Of Special Surplus Dairy Product Distribution Program Needed


To help reduce inventories of surplus dairy products, the Department of Agriculture began providing states with products for distribution to the needy in December 1981; through September 1983, 510 million pounds of cheese and 174 million pounds of butter were distributed nationwide.

Because national guidelines were not provided, some states lacked adequate procedures to ensure that only the needy participated in the program. As a result, program administration varied widely, abuses occurred, and displacement of commercial sales was greater than necessary. Displaced sales add to the surpluses the Department must buy and store. Lacking empirical data, GAO estimated the amount of cheese sales that would have been displaced in eight states under stipulated conditions. If the assumed conditions had existed, GAO estimated that about 30 percent of the cheese distributed displaced sales.

The Department issued interim regulations implementing program changes required by recent legislation. GAO recommends that the final regulations be more specific to deal with the major issues discussed in its report.


UNITED STATES GENERAL ACCOUNTING OFFICE

123706


GAO/RCED-84-58
MARCH 14, 1984


028340

Request for copies of GAO reports should be sent to:

U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are $3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are $1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-207223

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

The Honorable Leon E. Panetta
Chairman, Subcommittee on Domestic
Marketing, Consumer Relations, and
Nutrition
Committee on Agriculture
House of Representatives

The Honorable Cooper Evans
House of Representatives

At your request, we have reviewed the Department of Agriculture's program to distribute surplus dairy products to the needy. This report summarizes the results of our review.

- - - -

As arranged with your offices, unless you announce its contents earlier, we plan no further distribution of this report until 2 days from its issue date. At that time, we will send copies to interested parties and make copies available to others upon request.

Charles A. Bowsher
Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT

# IMPROVED ADMINISTRATION OF SPECIAL SURPLUS DAIRY PRODUCT DISTRIBUTION PROGRAM NEEDED

## D I G E S T

The U.S. Department of Agriculture (USDA), through its Dairy Price-Support Program, has purchased large quantities of butter, cheese, and nonfat dry milk in recent years. As a result, USDA-owned inventories of dairy products increased from about $569 million at the end of fiscal year 1979 to $3.7 billion at the end of fiscal year 1983.

In response to the Congress' directive to reduce the dairy inventories, USDA, in December 1981, began making cheese available to states for distribution to the needy. This effort evolved into a temporary special distribution program under which butter, cheese, and other USDA-owned products were provided to the needy. This program, which is administered by USDA's Food and Nutrition Service (FNS), is in addition to other existing commodity donation programs, such as the School Lunch Program. In carrying out commodity donation programs, the Secretary generally has to balance three objectives: reduce surplus inventories, feed the needy, and minimize disruption (displacement) of commercial sales. Legislation enacted in September 1983 reemphasized these objectives and extended the program through fiscal year 1985.

The Chairman, Senate Committee on Agriculture, Nutrition, and Forestry; the Chairman, House Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, Committee on Agriculture; and Representative Cooper Evans asked GAO to determine whether program administration adequately ensured that products were provided only to the needy and to develop estimates on the extent to which donated products displaced commercial sales.

GAO believes that the absence of national program guidelines on such key issues as target population to be served and controls to assure that participants are eligible contributed to widely varying programs among the states and, in some states, among localities. As a result,



GAO/PCED-84-58
MARCH 14, 1984

Tear Sheet

abuses occurred and displacement of commercial sales was greater than necessary.

In making its review, GAO visited eight states (California, Iowa, Massachusetts, Minnesota, New Jersey, Texas, Utah, and West Virginia) to (1) obtain information on the eligibility criteria used and the controls in effect to assure that program participants met the established eligibility criteria and (2) develop estimates of commercial sales displacement resulting from the program. The eight states accounted for about 30 percent of all the cheese distributed nationwide in 1982.

The states were judgmentally selected by GAO on the basis of (1) geographic dispersion (two states from each of four geographic areas in the United States used for USDA's household food consumption surveys), (2) quantities of cheese donated (some low and some high), and (3) using FNS information, the relative restrictiveness of the states' program eligibility criteria (some strict and some not strict). Because the states were judgmentally selected, the results of GAO's review are not projectable to the nation.

GAO focused its review on cheese donations because cheese was the major product distributed under the program; however, it did make a limited analysis of butter donations. From December 1981 through September 1983, about 510 million pounds of cheese valued at about $755 million and 174 million pounds of butter valued at about $261 million were distributed nationwide.

## PROGRAM ELIGIBILITY CRITERIA AND CONTROLS

FNS delegated much of the responsibility of administering the special distribution program to the states, including establishing eligibility criteria and procedures used to verify eligibility and determining frequency of distributions and quantities to be distributed. Some states, in turn, further delegated these responsibilities to local distributing agencies, which include local governments and private charitable organizations.

FNS did not provide national program guidelines to the states because it believed that large-scale federal involvement was contrary to the

temporary and volunteer nature of the distribution and because it considered the states to be in a better position than FNS to decide who needs assistance. As a result, program administration varied widely among the states and, in some cases, by locality.

In the eight states GAO reviewed, program eligibility guidelines and controls varied from a simple requirement that participants state that they were needy to requiring documented evidence that participants met established eligibility criteria, such as an income standard. At the time of GAO's visits to the states in June and July 1983:

--Three of the eight states had not established any needs test but generally relied on "self-declaration of need" by program participants. The remaining five states used an income standard as one basis for determining eligibility, with the maximum qualifying income ranging from 135 to 185 percent of poverty-income guidelines. Two of the eight states specified that anyone over 60 years of age could participate in the program regardless of need, and one state used unemployment as eligibility criteria.

--Distribution frequencies and quantities of products made available to participants also varied. In some states and localities distributions were made monthly while in others they were as long as 6 months apart. Also, some states and localities provided all participants the same quantity of product; others varied the quantity based on household size. (See pp. 6 to 8.)

Controls over the distribution of products were generally inadequate to prevent program abuse. Only two states required participants to show both identification and proof of eligibility. One state required participants to show identification only. In the remaining five states, local distributing agencies did not generally require participants to show either identification or proof of eligibility. Identification helps deter individuals from using fictitious names and provides a basis for checking on whether individuals received multiple issuances of products. (See pp. 8 to 10.)

Through March 1983, FNS encouraged the states to expand their programs by using more liberal eligibility criteria and by increasing the quantity of products given participants. GAO noted instances where regional officials successfully encouraged the states to use more liberal eligibility criteria.

Until April 1983, when FNS cut back on the quantities of products made available, the states were able to order virtually unlimited amounts with little or no concern about the quantities of products given individuals. In one state, a seven-person household was entitled to 15 pounds of cheese each month; however, based on USDA's household food survey,[1] the average seven-person household normally consumes less than 7 pounds of cheese a month. (See pp. 10 to 13.)

Legislation enacted on September 2, 1983, extending the program through fiscal year 1985 requires several program changes which should result in more uniformly administered state programs. Among other things, the law requires each state, with the Secretary of Agriculture's approval, to establish program eligibility criteria. Also, the Secretary is required to (1) provide commodities in such quantities as can be used without waste, (2) assure that the commodities provided do not displace commercial sales, and (3) minimize, to the extent practicable, the regulatory, recordkeeping, and paperwork requirements imposed on distributing agencies.

Regarding commercial sales displacement, the act requires that the Secretary must not make commodities available in any quantity or manner that he determines, in his discretion, may substitute for the same or any other agricultural product that would otherwise be purchased. As discussed below, this requirement will be difficult to implement.

FNS issued interim regulations implementing provisions of the September 1983 act on December 16, 1983. Although the interim regulations do not provide specific guidelines to the states on

---

[1]USDA makes periodic surveys to determine the types and quantities of food eaten by various income-level households throughout the country.

eligibility criteria and program controls, the Director of FNS' Food Distribution Division told GAO that the final regulations, scheduled to be issued in March 1984, would provide more specific guidelines. (See pp. 15 to 17.)

DISPLACEMENT OF COMMERCIAL SALES

The effectiveness of the special distribution program in reducing USDA-owned dairy products is diminished to the extent that the products given away displace commercial sales. Displaced sales increase market surpluses which USDA is obligated to purchase under the Dairy Price-Support Program. Such purchases offset, in part, the inventory reductions resulting from the distribution program.

USDA's inventories of cheese and butter products have continued to increase because the production of dairy products has exceeded sales. At the end of fiscal year 1981, just before the program began, USDA's inventories of butter and cheese totaled about 1.1 billion pounds compared with 1.5 billion pounds at the end of fiscal year 1983. (See p. 22.)

A June 1983 USDA study and most dairy and retail industry officials GAO met with attributed recent declines in commercial sales of cheese, in part, to the special distribution program. The USDA study, which analyzed estimated decreased national sales of American-type cheese of 5.1 percent in the fourth quarter of 1982 and 15.2 percent in the first quarter of 1983, from year earlier periods, stated that it is difficult to assign any cause for the decline other than the surplus cheese donations. The USDA study noted that monthly distributions of cheese averaged about 20 million pounds in the last quarter of 1982, or about 11 percent of national sales, compared with 43.2 million pounds in the first quarter of 1983, or about 28 percent of sales.

Both the USDA study and industry officials said that there had been a long-term upward trend in sales of American-type cheese until USDA began distributing large quantities of cheese under the program. The upward trend in sales of other types of cheese continued.

Based on USDA estimates, national cheese sales increased by 2.3 percent in the second quarter of 1983 and decreased by 16.4 percent in the

third quarter of 1983, from 1982 quarters. USDA provided the states with about 151 million pounds of cheese during the second quarter of 1983 and with about 98 million pounds of cheese during the third quarter of 1983. (See pp. 19 to 22.)

There was a general consensus among government and industry officials GAO talked with that products distributed under the program displace some commercial sales. No one had information showing the extent of such displacement by state. GAO believes that no one can calculate actual displacement without detailed information on, among other things, the extent to which the initial recipients give some or all of the cheese they receive to others. Even though a survey of program participants might, in theory, yield such information, GAO did not survey program participants because (1) it was impractical to survey enough participants within the time frame of the study to provide the necessary confidence level for a statistically projectable sample, (2) most states did not keep records on the number or identity of program participants, and (3) there were concerns about the ability of recipients to accurately recall how much cheese they had purchased and consumed.

Because of the lack of empirical data, GAO chose to estimate, with the help of a consultant, the amount of cheese that would have been displaced in eight states under certain stipulated conditions or assumptions. These assumed conditions include, among others, that:

--Participants did not give the cheese they received to others.

--Participating households would forego normal purchases of cheese when equal or greater quantities of the same or similar type cheese were given to them.

--Only individuals meeting income eligibility standards received cheese.[2] This last assumption is important because higher income households generally consume more cheese than do lower income households and, therefore, greater displacement would occur when cheese is given to households with incomes above the income-eligibility standard.

GAO estimated that if the assumed conditions had existed, about 32 million pounds, or 31 percent, of the 103 million pounds of cheese distributed from December 1981 to April 1983 in the eight states would have displaced commercial sales of cheese. GAO cautions that these assumed conditions may vary from what actually happened. For example, because there was no way to control what people did with their cheese after receiving it, some people likely gave some of their cheese to others. On the whole, GAO anticipates that under actual conditions, actual displacement exceeded its estimate. However, since there is no data to suggest by how much actual conditions deviated from the conditions GAO used in its estimate, there is no way to know by how much actual displacement might have exceeded 31 percent. (See pp. 22 to 27.)

Because of limited time and data, GAO's analysis of the program's effect on commercial butter sales was limited to one state, Iowa. During the first 4 months of 1983, program recipients in Iowa received an average of 2.74 pounds of butter per month. Based on data from USDA's household food survey, eligible households in the North Central Region, which includes Iowa, normally consume an average of 0.43 pounds of butter and 2.23 pounds of margarine. If households would forego purchases of both butter and margarine when given butter, USDA's data indicates that butter distributions would have a much greater effect on sales of margarine than on butter. (See p. 28.)

---

[2]Five states had established income eligibility standards ranging from 135 to 185 percent of the poverty income level and three had not. For the three states without such standards, GAO used a standard of 185 percent of the poverty income level.

## CONCLUSIONS

The special distribution program could be made more effective in terms of reducing the amount of retail sales displacement and feeding the needy by providing better guidance on the population to be served and the controls needed to ensure that only the needy participate. The Secretary will have to decide the appropriate balance between a viable food distribution program and an acceptable level of risk of commercial sales displacement. Once the Secretary decides what level of risk is acceptable, compatible decisions will have to be made as to the quantities of products that can be made available and, since household consumption of products varies by income, the income groups to be served by the program. (See p. 30.)

## RECOMMENDATIONS

GAO recommends that FNS' final regulations be designed to overcome the major problems addressed in this report by:

--Establishing some parameters on the eligibility criteria established by states. In establishing such parameters, FNS should consider the amount of commercial sales displacement likely to occur at various household income levels on the basis of data compiled through USDA's household food surveys.

--Requiring states to develop reasonable program controls to minimize program abuse. (See pp. 30 and 31.)

## AGENCY COMMENTS AND GAO EVALUATION

In a December 7, 1983, letter, FNS said that, in general, GAO's recommendations mirror its current policies. It said that regulations being developed at the time would, when issued, establish more specific parameters for use by states in developing program eligibility criteria and include reasonable controls designed to minimize program abuse. Although FNS' interim regulations, issued on December 16, 1983, do not prescribe specific parameters on eligibility criteria or on what constitutes reasonable program controls, the Director of FNS' Food Distribution Division told GAO that the final regulations would provide more specific guidance on these matters. (See p. 31.)

FNS also said that GAO did not present an even-handed view of the management of the program because the draft report did not acknowledge that the distribution was conceived as a temporary supplement to other nutrition programs. It believed that large-scale federal involvement was contrary to the temporary and volunteer nature of the distribution. However, because of the enactment of recent legislation in September 1983 extending the program for 2 years and making funding available to states and distributing agencies, FNS said that it was developing regulations that will provide more specific program guidance.

GAO revised its report to better describe the evolution of the program. GAO agrees that a valid case could be made for not developing national guidelines during the early stages of the program because of its temporary nature. The program, however, has been operating since December 1981. GAO believes that USDA should have developed guidelines as the continuing nature of the program became apparent.

FNS said that the results of GAO's analysis of program operations in the eight states was generalized to the nation. In particular, FNS said that since three of the eight states had no needs test, it could be concluded that the lack of a needs test was more pervasive nationally than was the case. GAO did not intend that the information gathered in the eight states be generalized to the nation and has cautioned readers against this. GAO noted, however, that although only 5 states did not have a needs test in July and August 1983, FNS information available at the time GAO selected the 8 states in May 1983 showed that at least 15 states had no such tests. (See pp. 17 and 18.)

FNS said that although GAO's report contains some cautionary statements concerning the limitations of its analysis of cheese sales displacement, the lack of empirical data, particularly on consumer behavior, supporting the key assumptions GAO used in making its analysis is not made clear. GAO noted that the assumptions and methodology used in estimating displaced commercial sales were described in detail in the report and, in its opinion, were reasonable and resulted in conservative estimates. (See pp. 28 and 29.)

# Contents


| | | Page |
|---|---|---|
| DIGEST | | i |
| CHAPTER | | |
| 1 | INTRODUCTION | 1 |
| | Objectives, scope, and methodology | 3 |
| 2 | BETTER PROGRAM GUIDELINES AND CONTROLS NEEDED TO HELP ASSURE PRODUCTS ARE GIVEN ONLY TO THE NEEDY | 6 |
| | More uniform eligibility criteria and program controls needed | 6 |
| | FNS' emphasis on expanding the special distribution program | 10 |
| | FNS' reasons for not establishing national guidelines | 14 |
| | Agency comments and our evaluation | 17 |
| 3 | DISPLACEMENT OF COMMERCIAL SALES RESULTING FROM SPECIAL DISTRIBUTION PROGRAM | 19 |
| | Effect of distribution program on national cheese sales | 19 |
| | USDA inventories of dairy products continue to rise | 22 |
| | Displacement of commercial cheese sales in eight states | 23 |
| | Butter distribution has greater impact on sales of margarine than on butter | 28 |
| | Agency comments and our evaluation | 28 |
| 4 | CONCLUSIONS AND RECOMMENDATIONS | 30 |
| | Conclusions | 30 |
| | Recommendations | 30 |
| | Agency comments and our evaluation | 31 |
| APPENDIX | | |
| I | Letter dated May 10, 1983, from Representative Cooper Evans, U.S. House of Representatives | 32 |
| II | Letter dated June 14, 1983, from the Chairman, Senate Committee on Agriculture, Nutrition, and Forestry | 34 |
| III | Letters dated June 29, 1983, and September 1, 1983, from the Chairman, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture | 36 |

| | | Page |
|---|---|---|
| IV | Letter dated December 7, 1983, from the Administrator, Food and Nutrition Service, Department of Agriculture | 41 |

## ABBREVIATIONS

| | |
|---|---|
| CCC | Commodity Credit Corporation |
| FNS | Food and Nutrition Service |
| GAO | General Accounting Office |
| OMB | Office of Management and Budget |
| USDA | U.S. Department of Agriculture |

# CHAPTER 1

## INTRODUCTION

Federal dairy policies and programs are designed, in part, to assure an adequate milk supply. The U.S. Department of Agriculture's (USDA's) Commodity Credit Corporation (CCC) purchases surplus dairy products under the Dairy Price-Support Program. Under the program, which is administered by USDA's Agricultural Stabilization and Conservation Service, CCC purchases any quantity of butter, cheese, and nonfat dry milk that is offered and meets specifications. Such purchases are made at support-price levels, which are based on the concept of parity. Parity is a standard used to measure the degree to which farm prices are in line with what the Congress has defined as a fair goal. Parity prices, the most commonly used parity standard, are those prices that will give farm commodities the same purchasing power they had in a selected base period when prices received and paid by farmers were considered to be in good balance. By law, the base period (that is, the period with which current prices are compared) is January 1910 through December 1914.[1]

During the past several years, the dairy industry has produced much more milk than can be marketed commercially at established market prices. As a result, government purchases of surplus dairy products have increased from about $1.3 billion in fiscal year 1979 to about $2.8 billion in fiscal year 1983, and the value of dairy surplus inventories increased from about $569 million to an all-time high of about $3.7 billion.

As the dairy-surplus inventories began to mount, the Congress took several steps directed at reducing surpluses and government costs. Public Law 97-6 amended the Agricultural Act of 1949, as amended, by deleting section 201(d), which required the Secretary of Agriculture to make semiannual adjustments to the support price. As a result, the support price was maintained at $13.10 per hundredweight from October 1980 until December 1983, when the Dairy Production Stabilization Act of 1983 (Title I of Public Law 98-180), enacted November 29, 1983, lowered the support price to $12.60 per hundredweight.

In a further effort to reduce production, the Secretary of Agriculture was authorized, by section 101 of Public Law 97-253, enacted September 8, 1982, to collect 50 cents per hundredweight of milk from the proceeds of producers' sales of milk if CCC purchases for the marketing year were expected to equal or exceed

---

[1]For a more detailed discussion on dairy support-price levels, see our report entitled Alternatives To Reduce Dairy Surpluses (CED-80-88, July 21, 1980).

5 billion pounds of milk equivalent.[2] Money collected through this assessment was remitted to CCC to help offset the costs of the Dairy Price-Support Program. An additional 50 cent assessment was authorized if CCC purchases were expected to equal or exceed 7.5 billion pounds. Money collected from producers through the second assessment was refunded to producers who reduced milk marketings by a specified percentage for a designated period. The Secretary acted to impose the assessments, but court rulings delayed implementation of the first assessment until April 16, 1983, and the second assessment until September 1, 1983.

The Dairy Production Stabilization Act eliminated the assessments and established a paid diversion program under which farmers who reduce their milk marketings from 5 to 30 percent of their milk marketings of a base period (1982 or, at the farmer's option, 1981-82 average) would be paid $10 for each hundredweight of milk sales reduction. The cost of the new program, which is to be in effect from January 1984 through March 1985, is to be financed by moneys collected from a 50 cent assessment per hundredweight of all milk sales and, if necessary, by CCC.

In the Agriculture and Food Act of 1981 (Public Law 97-98), the Congress also directed the Secretary of Agriculture to use, to the fullest extent practicable, the authorities under the Commodity Credit Corporation Charter Act, the Agricultural Trade Development and Assistance Act of 1954, and other authorities available to the Secretary to reduce inventories of dairy products. In response to this congressional directive, USDA, in December 1981, began making cheese available to states for distribution to the needy. This effort evolved into the special distribution program under which cheese, butter, and other surplus products are provided to states for distribution to the needy. (A more detailed description of the evolution of the program begins on p. 15.) The new program is in addition to other commodity donation programs USDA administers, such as the School Lunch Program. In carrying out commodity donation programs, USDA generally has to balance three objectives: reduce surplus inventories, feed the needy, and minimize disruption (displacement) of commercial sales.

Although USDA's Food and Nutrition Service (FNS) has overall responsibility for administering the special distribution program, FNS had delegated much of this responsibility to the states, including the establishment of eligibility criteria, procedures used to verify eligibility, frequency of distributions, and quantities to be distributed to individuals. Some states, in turn, further delegated these administrative responsibilities to

---

[2]Milk equivalent refers to the amount of fluid milk required to produce the butter, cheese, and nonfat dry milk products CCC purchases.

local distributing agencies,[3] which include local governments and private charitable organizations. FNS did not provide guidelines to the states because it believed that large-scale federal involvement was contrary to the temporary and volunteer nature of the distribution and because it considered the states to be in a better position than FNS to decide who needs assistance.

USDA contracts and pays for the transportation services necessary for moving products to central distribution centers in each state. The state and local distributing agencies perform the remaining tasks: transporting the products to local distribution centers, unloading the products, organizing and publicizing distribution activities, and staffing the distribution sites. Much of the work at the local sites has been performed by volunteers.

The Temporary Emergency Food Assistance Act of 1983 (Title II of Public Law 98-8), enacted in March 1983, appropriated $50 million for state and local costs of storing and distributing products under the special distribution program. Prior to enactment of the act, state and local agencies, with some financial assistance from the private sector, financed the local distribution programs.

## OBJECTIVES, SCOPE, AND METHODOLOGY

On May 10, 1983, Representative Cooper Evans asked us to examine the special distribution program (see app. I). He was particularly interested in whether the program had caused a reduction in commercial sales of cheese and whether minimum eligibility requirements are needed to ensure that those individuals or families not in need are prevented from receiving surplus dairy products.

On June 14, 1983, the Senate Committee on Agriculture, Nutrition, and Forestry also asked us to examine the program (see app. II). The Committee was also interested in the commercial sales displacement question regarding cheese and butter and the many factors that affect the extent of displacement, including the eligibility criteria for receiving the commodities. In addition, the Committee asked that we obtain available information indicating what effect the program has had on CCC purchases and dairy inventories, as well as the impact on dairy farmers, cooperatives, processors, manufacturers, distributors of comparable products, and retailers.

On June 29, 1983, the Subcommittee on Domestic Marketing, Consumer Relations and Nutrition, House Committee on Agriculture, acknowledged the request of Representative Evans and the Senate

---

[3]The number of distributing agencies varies from state to state.

committee and also expressed interest in determining both positive and negative impacts of the distribution program on recipients as well as farmers, processors, and retailers (see app. III).

In accordance with the agreements reached with the three requestors, our major objectives in this review were to (1) determine whether the administration of the special distribution was adequate to assure that the products were provided only to the needy and (2) develop estimates of commercial sales displacement resulting from the program. Because program administration varied by state, we made a detailed review of the program in eight states: California, Iowa, Massachusetts, Minnesota, New Jersey, Texas, Utah, and West Virginia. The eight states accounted for about 30 percent of total national cheese distributions in calendar year 1982. In each of these states we (1) obtained information on program eligibility criteria and the controls in effect to assure that only eligible residents participated in the program and (2) developed estimates on the extent of commercial cheese sales displacement resulting from the program. Due to time constraints, we concentrated our review on cheese distributions because the quantities of cheese distributed have far exceeded those of butter and other commodities--from December 1981 through September 1983, 510 million pounds of cheese were distributed nationwide compared with only 174 million pounds of butter and minor quantities of other products.

Our work was performed in accordance with generally accepted government auditing standards. We reviewed our previous work; reviewed legislative history; and interviewed headquarters and regional USDA officials responsible for administering the special distribution program, state officials in the eight states we visited, and representatives of local agencies responsible for distributing products to recipients. We also discussed the displacement issue with representatives of the National Cheese Institute, major cheese processors, and several national food retailers. We reviewed program regulations and procedures and program activity records at USDA headquarters, at six FNS regional offices, and the eight state offices we visited.

The eight states were judgmentally selected on the basis of (1) geographic dispersion (two states from each of the four geographic areas in the United States used for household food consumption surveys made by USDA[4]), (2) quantities of cheese donated (some low and some high), and (3) using FNS information, the relative restrictiveness of the eligibility criteria for recipients used in the respective states (some strict and some not strict). Our field work was performed during the period June through August 1983. However, we reviewed records and discussed program

---

[4]These surveys are made periodically to determine the types and quantities of foods eaten by various income-level households throughout the country.

activities pertaining to the program since its beginning in December 1981. Because the eight states were judgmentally selected, the results of our review are not projectable to the nation.

We employed Dr. Ronald D. Knutson, Professor and Extension Economist at Texas A&M University, as a consultant for this review. Dr. Knutson, who has extensive experience with dairy marketing and policy matters, provided us advice on the overall review and performed various quantitative analyses to show the extent and effects of the donation program on commercial sales (i.e., the displacement issue).

Actual displacement of commercial sales cannot be calculated without detailed empirical information on, among other things, the extent to which the initial recipients give some or all of the cheese they receive to others. Even though a survey of program participants might, in theory, yield such information, we did not survey program participants because (1) it was impractical to survey enough participants, within the time frame of the assignment, to provide the necessary confidence level for a statistically projectable sample, (2) most of the states did not keep records on the number or identity of program participants, and (3) of concerns we had about the ability of recipients to accurately recall how much cheese they had purchased and consumed.

Because of the lack of empirical data, we chose to estimate, with the help of our consultant, the amount of commercial cheese sales that would have been displaced in eight states under certain stipulated conditions or assumptions. The assumed conditions and the methodology we used in arriving at estimates of the amounts of cheese distributed in the eight states that displaced commercial cheese sales are discussed in detail beginning on p. 23.

## CHAPTER 2

## BETTER PROGRAM GUIDELINES AND CONTROLS NEEDED TO HELP ASSURE PRODUCTS ARE GIVEN ONLY TO THE NEEDY

Not wishing to burden the states with a costly and elaborate administrative system, FNS delegated much of the responsibility for administering the special distribution program to the states. For example, FNS did not issue national guidelines covering program eligibility criteria or on the procedures needed to assure that only households meeting eligibility criteria established by the states and local distributing agencies participated in the program. As a result, the program did not provide adequate assurance that only the needy received surplus food. Further, FNS, in trying to increase the quantities of products distributed, encouraged the states and distributing agencies to use more liberal eligibility criteria.

In April 1983, in an effort to reduce displacement of commercial sales, the Secretary of Agriculture announced substantial reductions in the quantities of cheese and butter that would be made available to states, and as a result, some states and local distributing agencies took actions to better target their programs to the needy. Also, the Temporary Emergency Food Assistance Act, as amended by Public Law 98-92 which was enacted on September 2, 1983, requires that states, with USDA's approval, determine those persons in the state that qualify as needy persons eligible for commodities. On December 16, 1983, interim regulations implementing provisions of the act were published in the Federal Register.

### MORE UNIFORM ELIGIBILITY CRITERIA AND PROGRAM CONTROLS NEEDED

The states are responsible for establishing eligibility criteria for participation in the special distribution program. Some states, however, delegated this responsibility to local distributing agencies. The states and local distributing agencies are also responsible for establishing controls to ensure that only eligible individuals participate in the program. As a result, program eligibility guidelines and controls varied from a simple requirement in some states and localities that participants state that they were needy to a requirement that participants provide documented evidence that they met established eligibility criteria such as an income standard. Also, some states made the elderly and unemployed categorically eligible while others did not.

#### Eligibility criteria for program participation

At the time of our visits, three of the eight states--California, Texas, and Utah--had not established any needs test but generally relied on self-declaration of need by program participants. For example, the eligibility guidelines established by Utah required that participants sign a sheet stating that they were needy. California and Texas delegated the responsibility of

establishing program eligibility guidelines and controls to the local distributing agencies. According to state and local officials we talked with in these two states, many of the states' local agencies also relied on self-declaration of need by participants.

Officials of two distributing agencies we visited in California told us that, in their opinion, their agencies should not be placed in the position of defining needy when FNS and the state would not. They said that their agencies gave dairy products to anyone who came to the distribution site and signed a form stating that they were needy. This procedure is in line with the California program operating manual which directs that "at the very least, before receiving cheese or butter, individuals must be asked if they are needy."

The remaining five states used an income standard as one basis for determining eligibility. The maximum qualifying income in the five states ranged from 135 to 185 percent of Office of Management and Budget (OMB) poverty-income guidelines. Massachusetts also permitted participants in one of several welfare programs, such as food stamps and fuel assistance, to be eligible to participate in the special distribution program. California and West Virginia made the elderly categorically eligible regardless of income, and West Virginia made the unemployed categorically eligible.

Five states used an income standard which was higher than the poverty income level. For example, both Iowa and New Jersey adopted the school lunch, reduced-price meal assistance standard of 185 percent of the poverty level as their eligibility criteria. Under the OMB guidelines in effect at the time of our review, the poverty level income for a four-person household was $9,900 annually. Setting the rate at 185 percent of the OMB guidelines raises the maximum income level to $18,315 annually for the same size household. Iowa officials told us that the state used the 185 percent standard so that a large number of residents would be eligible to participate in the program. Using this standard, 26 percent of Iowa's population was eligible for the program on the basis of 1980 census data.

Because of the differences in the eligibility criteria used by the states and local entities, place of residence can affect whether a family is eligible to receive products. For example, New Jersey's income standard allowed a four-person household having an income of $18,315 to be eligible. On the other hand, Massachusetts' income standard allowed a four-person household having an income of $13,365 to be eligible--a difference of nearly $5,000.

Another difference among the state and local programs was that some provided the same quantity of product to all recipients while others varied the quantity provided on the basis of household size. For example, in Minnesota all recipients received a maximum of one 5-pound block of cheese regardless of household

size, while in West Virginia a recipient belonging to a household of four or more persons received up to four 5-pound blocks of cheese. The differences in the quantities distributed to households, in some cases, were attributable to the fact that some states distributed products monthly whereas others had less frequent distributions. Both California and West Virginia allowed anyone over age 60 to receive dairy products. On the basis of 1980 census data, 14 percent of California's population and 18 percent of West Virginia's population were over 60 years old.

Furthermore, some FNS regional offices encouraged states within their jurisdictions to make the elderly categorically eligible for the special distribution program. For example, the FNS Mountain Plains and Northeast Regional Offices encouraged the states to include the elderly as eligible to receive cheese and butter. All elderly are not necessarily needy. According to Bureau of Census data, about 14.6 percent of persons 65 years of age or older had incomes below the poverty level in 1982 compared with about 15 percent of the general population.

## Actions taken to tighten state programs

After USDA cut back on the quantity of dairy products made available to states in April 1983, some states tightened their programs to better target products to the needy. For example, data gathered by FNS in July and August 1983 on 48 states showed that California and Texas have established income eligibility criteria. Also, California no longer made the elderly categorically eligible but did make the unemployed categorically eligible.

The data FNS gathered in July and August 1983 showed that 43 of 48 states required the local distributing agencies to follow specific eligibility criteria and 5 did not. Of the 43 states using statewide eligibility criteria, 16 based eligibility on an income standard, 8 based eligibility on participation in one or more welfare programs, and 19 based eligibility on both an income standard and welfare program participation. Thirteen states made the unemployed categorically eligible, and 3 made the elderly categorically eligible.

## Program controls

Controls over the distribution of the dairy products generally did not provide adequate assurance that only the needy were recipients. In most of the states we visited, the recipients usually did not have to produce any identification or furnish evidence of need. The table on the next page summarizes the distribution controls in the eight states.

| State | Signature | Identification | Verification/ documentation |
|---|---|---|---|
| California | Yes | No[a] | No[a] |
| Iowa | Yes | No[a] | No |
| Massachusetts | Yes | Yes | Yes |
| Minnesota | Yes | No[a] | No |
| New Jersey | Yes | Yes | Yes |
| Texas | Yes | No[a] | No[a] |
| Utah | Yes | No | No |
| West Virginia | Yes | Yes | No[a] |

[a]Generally no, but left to the discretion of the distributing agency.

Although participants in all eight states had to sign their names to receive dairy products, a signature by itself neither demonstrates need nor proves a person's identity. Requiring a signature and identification, while not demonstrating need, does offer some control in that it helps deter individuals from using fictitious names and provides a basis for later followup to determine whether individuals received multiple issuances of products. States and agencies requiring recipients to provide documentation of need based on some established income eligibility criteria and to furnish identification with their signatures have the best assurance of preventing ineligible individuals from participating. As shown above, only Massachusetts and New Jersey required documentation that participants met eligibility standards. According to state officials, some local distributing agencies in California, Texas, and West Virginia required documentation but many did not.

Without adequate controls to help assure that individuals meet eligibility standards and are not obtaining duplicate issuances of dairy products, program abuses can result. Although available records did not enable us to quantify the extent of abuse, our review of records in the states visited disclosed the following documented examples of problems linked to inadequate controls.

--State officials in Iowa identified about 693 individuals who received duplicate issuances of cheese and/or butter through April 1983. A state official told us, however, that this number is understated because not all distributing agencies reported statistics on duplicate issuances.

--West Virginia investigators documented 157 cases in a two county area where recipients supplied false information to

obtain duplicate issuances of cheese and/or butter. In many of these cases, individuals claimed different size households. For example, in one case a woman claimed three in her household and received 6 pounds of butter and no cheese and a few days later she claimed four in her household and received 7 pounds of butter and 20 pounds of cheese.

--One individual in Minnesota, who obtained about 50 pounds of cheese and 40 pounds of butter by using fictitious names at various distribution sites, was arrested and sentenced after pleading guilty to misdemeanor theft.

Because FNS did not provide any funds to the states and local agencies to administer the program, it was reluctant to impose administrative requirements on the states and local agencies. Nevertheless, some states and agencies did institute controls.

One distributing agency we visited in New Jersey, for example, required recipients to preregister to receive dairy products. This agency's system provided steps for verifying and documenting participants' need based on income standards before the actual distribution and minimized delays and long lines during the distribution process. Individuals were required to register about 2 weeks before the scheduled distribution date and to provide evidence that they met the eligibility criteria. This evidence consisted of food stamp cards, income tax returns, or other documentation. Registration cards were gathered and alphabetized to identify individuals who had registered at more than one site. At the first preregistration, about 380 individuals were found to have registered at multiple sites. At the last preregistration held before our visit, only 33 duplicate registrations were found. About 6,000 people participated in both preregistrations.

According to the New Jersey distributing agency's program planner, the potential for fraud by individuals receiving products from several distribution sites is high. The program planner said that when individuals are required to preregister, eligibility is verified and multiple issuances are minimized. Also, the planner said that preregistration helps the agency determine the amount of product that should be ordered. Two West Virginia distributing agencies we visited also used a preregistration system. Officials of these agencies described benefits of preregistration similar to those noted by the New Jersey planner.

## FNS' EMPHASIS ON EXPANDING THE SPECIAL DISTRIBUTION PROGRAM

The Secretary of Agriculture, in May 1982, announced that because of the program's success, USDA would increase the quantities of surplus dairy products distributed under the program. In line with the Secretary's announcement, FNS made concerted efforts to increase the distribution level. As a result, the

amount of cheese USDA made available to the states increased from about 15 million pounds in May 1982 to about 60 million pounds in March 1983.

To underscore its commitment to increased distribution of dairy products under this and other donation programs, FNS incorporated this objective into the job performance rating criteria for top regional officials responsible for commodity donation programs. Progress reports and memorandums the FNS regional offices sent to FNS headquarters contained a wide variety of suggestions to increase distributions. Some of these were

--placing cheese in holiday food baskets;

--lifting restrictions on serving only needy persons;

--making all elderly categorically eligible;

--doubling allotments on Indian reservations;

--distributing cheese to colleges and universities as snack food;

--making all military personnel, regardless of rank, eligible;

--sponsoring recipe contests and awarding prizes; and

--permitting more flexible delivery arrangements with increased delivery points.

States that were slow to implement the program were targeted for special attention by FNS. FNS requested its regional offices to identify states ordering less than 5 pounds of cheese per individual living in households with incomes below the poverty level and to encourage such states to order increased quantities. FNS' Northeast Regional Office developed an action plan to be implemented if Massachusetts was unresponsive to efforts to gain increased participation in the program. Because Massachusetts increased its participation, the plan was not implemented. The regional office's plan outlined the following possible actions:

--Send letters to the publishers or editors of major city newspapers detailing the state's poor response to the program.

--Circulate press releases to food banks, unions, social service, and religious organizations to request their assistance in gaining increased state participation.

--Contact radio and television stations to provide information for editorials.

--Inform the state legislature of the program's potential benefits.

--Contact the mayors of major cities to offer information on ordering schedules, storage locations, and methods of receiving the food.

Some FNS regional offices encouraged states to use more liberal eligibility criteria, thus expanding the universe of eligible recipients and increasing the volume of cheese and butter distributed. For example, in reviewing regional office files, we noted that Arkansas and Montana revised their criteria to increase the numbers of eligible participants as a result of FNS efforts. Arkansas raised its criteria from 150 to 185 percent of poverty income guidelines, and Montana went from 130 to 150 percent.

FNS regional office staff contacted distributing agencies directly to enlist support for the program. For example, California state officials told us that FNS regional staff encouraged the distributing agencies to order increasingly greater quantities of cheese and butter.

In late 1982 and early 1983, as state distribution programs became established and FNS continued its emphasis on the program, distribution levels rose markedly. Beginning in August 1982, the total quantities of cheese and butter distributed nationally increased in most months until April 1983, when USDA announced distribution cutbacks and that dairy products would be allocated based on unemployment and poverty levels in the states. The following schedule shows the monthly quantities USDA made available to all states from August 1982 to July 1983.

Monthly Quantities of Butter and Cheese
USDA Made Available to the States

| | Butter | Cheese |
|---|---|---|
| | -----(millions of pounds)----- | |
| 1982: | | |
| August | 3.2 | 9.0 |
| September | 2.5 | 13.2 |
| October | 5.7 | 12.2 |
| November | 7.3 | 22.9 |
| December | 6.4 | 26.9 |
| 1983: | | |
| January | 12.6 | 25.9 |
| February | 20.7 | 43.3 |
| March | 26.6 | 59.6 |
| April | 23.2 | 55.1 |
| May | 24.8 | 37.2 |
| June | 12.8 | 26.5 |
| July | 10.0 | 30.0 |

In commenting on a draft of this report by letter dated December 7, 1983 (see app. IV), FNS said that while it is true that senior regional officials were given performance standards regarding increased use of dairy products, these standards applied to all FNS programs under which dairy products are made available. It suggested that we make this clarification in the final report. We did.

FNS also said that listing regional officials' suggestions to help relieve the dairy situation was inappropriate because few of the suggestions listed were adopted and their inclusion in the report does little but discourage internal discussions of various ideas and approaches. Similarly, FNS said that presenting its Northeast Regional Office's unimplemented plan to gain increased program participation in Massachusetts adds little to the report since the plan would have undergone further regional office and headquarters review before implementation.

We believe that the examples cited in the report, including the suggestions and regional office plan, illustrate the impact of FNS' emphasis on expanding the distribution program. Although such emphasis was effective in increasing distributions, in our opinion, it also contributed to the liberal eligibility criteria and inadequate program controls used by some states and distributing agencies.

## States could order unlimited quantities of dairy products

Until FNS began to allocate the quantities of dairy products in April 1983, states could order as much cheese and butter as they wanted without any limitations. The states we visited based their orders on information supplied by distributing agencies. Usually this information consisted of estimates of anticipated demand for the products rather than on a predetermined number of eligible recipients.

Most state and distributing agency officials we interviewed told us that the initial orders for cheese were usually "guesstimates." As the program became more widely publicized, the agencies increased their orders based on past experience. FNS regional officials, who forwarded the state requests to the Agricultural Stabilization and Conservation Service, relied on the states to determine the quantities needed and did not question the quantities ordered.

Providing unlimited quantities of dairy products to the states appears to have created situations where the non-needy received dairy products and the needy were provided with extraordinarily large quantities of products. For example, in Iowa, recipients who declared a household size of seven were entitled to receive 15 pounds of cheese each month, yet based on data in USDA's Household Food Consumption Survey for 1977-78, an average seven-person household consumes less than 7 pounds of cheese a month.

## FNS' REASONS FOR NOT ESTABLISHING NATIONAL GUIDELINES

In an April 29, 1983, letter to the FNS Administrator, we stated that the preliminary results of our review of the special distribution program[1] suggested that the program could be improved if FNS provided guidelines to the states on the administration of the program. We noted that program eligibility requirements and the amount of cheese and butter given recipients varied by state and, in some states, by locality. We also noted that some states had been able to distribute substantially more products than others. Considering the likelihood that USDA would be continuing the special distribution program for some time to come, we requested the Administrator's views on the need for national eligibility guidelines to help assure that (1) dairy products are distributed in an equitable and efficient manner and (2) displacement of commercial sales of dairy products is minimized.

In a June 2, 1983, response, the Administrator said that FNS had provided general guidelines to states for the overall distribution activity covering transportation, storage, and disposition of the commodities by state and local personnel. He said, however, that FNS' position is that state agencies are and should be responsible for setting specific criteria for participant eligibility because the states are in a better position than FNS to decide which of their citizens need assistance and to establish eligibility criteria that can be easily and efficiently administered by local volunteer agencies. FNS' goal, he said, was to have proper distribution to the needy without designing a costly or elaborate system for determining participant eligibility.

Regarding data we presented in our letter showing large differences in the quantities of products distributed among the states, the Administrator said that FNS regulations implementing provisions of the Temporary Emergency Food Assistance Act call for allocation of commodities to states based on the number of unemployed persons and the number of persons below the poverty level. This change, he said, should overcome concerns regarding significant variations in states' performances in distributing commodities. Regarding displacement of commercial sales, the Administrator said that as the level of commodities increased, USDA began to find evidence of displaced commercial sales, and as a result, in April 1983, announced that the quantity of cheese distributed would be stabilized at 25 to 35 million pounds per month to avoid significant impact on commercial sales while guaranteeing an adequate supply for the needy.

---

[1]This self-initiated review was suspended when we received Representative Cooper Evans' request in May 1983.

In conclusion the Administrator said that:

> "We believe that our recent actions to allocate available commodities to States based on the number of unemployed and low-income persons, coupled with stabilizing the distribution levels, will give States sufficient incentive to review their own eligibility criteria and amounts given to each participant. Those actions should address your concerns about any inequities among States and commercial displacement. At the same time, our desire to maintain significant State discretion in the operation of these temporary distribution efforts will be maintained."

In its December 7, 1983, comments (see app. IV), FNS elaborated on its reasons for not providing program guidelines to the states. In essence FNS said that, in designing the distribution, it believed that large-scale federal involvement would be contrary to the temporary and volunteer nature of the distribution. Therefore, FNS said that it designed a distribution that would give maximum latitude to the states in identifying organizations willing to assume responsibility for distributing the cheese. The volunteer groups that responded lacked the resources to absorb major administrative requirements or costs. Thus, FNS said that to quickly implement the temporary distribution it was necessary to give the states considerable discretion in establishing eligibility criteria and in deciding on the outlets to be used to distribute the cheese. Also, FNS said that although the program was expanded by increasing the quantities of cheese and subsequently adding other products made available to the states, FNS has consistently viewed the program as a temporary one. (This matter is discussed further on pp. 17 and 18.)

Although the FNS Administrator, in his previous June 2 letter, said that FNS was opposed to providing states with program guidelines, we found that at least two of FNS' seven regional offices provided eligibility guidelines to the states within their jurisdictions. The Southwest Regional Office, in a May 1983 memorandum, strongly encouraged the states within its jurisdiction to adopt eligibility criteria based solely on the income standard of 185 percent of OMB poverty guidelines. The Southeast Regional Office, in a February 1983 memorandum, provided the states within its jurisdiction with a list of acceptable eligibility criteria, including participation in programs such as food stamps and aid to families with dependent children. The memorandum stated that if the states wanted to include any additional criteria they must first receive regional office approval.

## Program changes required by recent legislation

Since the Administrator's letter of June 2, Public Law 98-92, requiring substantial program changes, was enacted on September 2, 1983, and FNS issued interim regulations implementing provisions

of the act on December 16, 1983. Some of the major provisions of the act dealing with matters discussed in this report are summarized below.

Public Law 98-92 amended the Temporary Emergency Food Assistance Act to extend the special distribution program through fiscal year 1985 and to require, among other things, that each state agency receiving commodities distribute them to eligible recipient agencies in the state that serve needy persons and, with the approval of the Secretary, determine those persons in the state that qualify as needy persons eligible for the commodities. The act defines eligible recipient agencies as public or nonprofit organizations that administer (1) activities or projects to relieve situations of emergency and distress through the provision of food to needy persons, including the low income and unemployed, (2) school lunch and other child nutrition programs, (3) programs for the elderly, (4) programs for Indians, (5) activities of charitable institutions, including hospitals and retirement homes, or (6) disaster relief programs; and that have been designated by the state or USDA and approved by the Secretary.

Public Law 98-92 amendments also require the Secretary to (1) provide commodities in such quantities as can be used without waste, (2) take such precautions as the Secretary considers necessary to assure that the commodities made available do not displace commercial sales, and (3) minimize, to the maximum extent practicable, the regulatory, recordkeeping, and paperwork requirements imposed on eligible recipient agencies. Regarding commercial sales displacement, the act requires that the Secretary must not make commodities available for donation in any quantity or manner that he determines, in his discretion, may substitute for the same or any other agricultural produce that would otherwise be purchased. This requirement, as discussed in chapter 3, will be difficult to implement.

FNS interim regulations implementing provisions of the act and soliciting comments about them were published in the Federal Register on December 16, 1983. The interim regulations require, among other things, that the states establish eligibility criteria that will enable the states to ensure that only persons who are in need of food assistance because of inadequate household income receive commodities. The states' criteria must include income-based standards and the methods by which persons may demonstrate eligibility under such standards. The states must submit plans to the appropriate FNS regional office for approval that describe the eligibility criteria and quantities of products to be provided eligible households.

The interim regulations do not provide guidelines to the states on the establishment of the income-based eligibility standards, the methods participants may use to demonstrate eligibility, or the quantities of products to be distributed. According to the Director of FNS' Food Distribution Division, however, the final regulations, scheduled to be issued in March 1984, will provide more specific guidance on these matters. He said that at present

each FNS regional office is to approve only those state plans which base eligibility on either an income standard or participation in an established welfare program. Such standards would preclude states from making certain groups, such as the elderly, categorically eligible to participate in the program.

## AGENCY COMMENTS AND OUR EVALUATION

FNS said that our draft report failed to acknowledge the development of the special distribution program and, therefore, failed to present an even-handed view of its management of the program. FNS said that the distribution began less than 2 years ago with an announcement by the President that 30 million pounds of cheese would be released to needy Americans. FNS said that it was believed that large-scale federal involvement would be contrary to the temporary and volunteer nature of the distribution and, therefore, a distribution was designed that gave maximum latitude to states in identifying organizations willing to assume responsibility for providing cheese to the needy.

Because the organizations that responded were largely volunteer groups lacking the capability and resources to absorb major administrative requirements or costs, FNS said that, to quickly implement a temporary supplemental distribution, the states were provided considerable discretion concerning the definition of need and appropriate distribution outlets. Further, FNS said that as time passed, the amounts of cheese (and later other commodities) were increased and the duration of the distribution extended into 1983. Nevertheless, it said that the distribution had been consistently viewed as a temporary supplemental distribution.

FNS said further that Public Law 98-92, enacted in September 1983, requires that commodities be distributed for the succeeding 2 years and makes funds available to states and distributing agencies to cover the costs of administering the program. Therefore, FNS said that it was promulgating regulations to provide more specific eligibility parameters to the states, better ensure that only eligible households are served, and establish specific monitoring requirements.

We have revised our report to better describe the evolution of the program and recognize the issuance of interim regulations implementing provisions of Public Law 98-92. Although we agree that a valid case can be made for not having national guidelines during the early stages of the program because of its temporary nature, we would point out that FNS told us that it was opposed to national guidelines as recently as June 1983. Also, it should be noted that, at the time FNS told us of its opposition to establishing program guidelines, funding to cover states' and distributing agencies' administrative costs had already been made available by the Temporary Emergency Food Assistance Act of 1983, enacted in March 1983.

FNS said that the results of our analysis of program operations in the eight states were generalized to the nation. In

particular, FNS said that since three of the eight states had no needs test, a reader could conclude that the lack of a needs test was more pervasive nationally than was the case. We did not intend that the information gathered in the eight states be generalized to the nation and have modified the report to stress this. However, although FNS data showed that only 5 of 48 states had no needs test in July and August 1983, FNS information available at the time we selected the eight states in May 1983 showed that at least 15 of the states had no needs test. As stated in the report, many states had acted to tighten their programs after a USDA cutback in the quantity of products made available to the states occurred in April 1983.

# CHAPTER 3

## DISPLACEMENT OF COMMERCIAL SALES RESULTING FROM SPECIAL DISTRIBUTION PROGRAM

The effectiveness of the special distribution program in reducing the inventory of USDA-owned dairy products is diminished to the extent that the products given away displace commercial sales. Displaced sales result in additional market surpluses that USDA is obligated to purchase, if offered, under its Dairy Price-Support Program. Such purchases offset, in part, the inventory reductions resulting from the distributions.

A USDA study and dairy and retail industry officials we talked with attributed recent nationwide declines in sales of cheese, at least in part, to the special distribution program. However, although USDA officials and others we talked with agreed that products donated under the special distribution program displace some commercial sales, they did not have information on the extent to which such displacement occurs in individual states. One cheese processing company official did provide us with a study which estimated that 36 percent of the cheese distributed nationally in 1982 displaced commercial sales.

To help provide information on this matter, we analyzed cheese distributions in eight states. As discussed on page 5, due to the lack of empirical data, we could not determine actual displacement of commercial sales resulting from the program. Therefore, we estimated how much cheese would have been displaced in these states under certain assumed conditions. If the assumed conditions had existed, we estimated that 31 percent of the cheese distributed in the eight states displaced commercial cheese sales. The assumed conditions include, among others, that participating households would forego normal purchases of cheese when equal or greater quantities of the same or similar type cheese was given to them and that only eligible households participated in the program. We recognize that these assumed conditions do not precisely describe what happened in the program and believe that under actual conditions, actual displacement exceeded the estimate we made.

### EFFECT OF DISTRIBUTION PROGRAM ON NATIONAL CHEESE SALES

A USDA study and most dairy and retail industry officials we talked with attributed recent declines in commercial sales of cheese, at least in part, to the special distribution program.

## USDA study on the effect of cheese donations on commercial sales

A June 1983 study by USDA's Economic Research Service[1] concluded that cheese distributions apparently resulted in some displacement of commercial sales of American-type cheese in the fourth quarter of 1982 and first quarter of 1983. The study noted that during these quarters, estimated commercial sales[2] in the nation decreased by 5.1 percent and 15.2 percent, respectively, compared with the same prior-year periods. The study also noted that the quantity of cheese distributed under the program averaged about 20.1 million pounds a month in the last quarter of 1982, or about 11.4 percent of total national sales of American-type cheese, compared with an average of 43.2 million pounds a month in the first quarter of 1983, or about 28.2 percent of national sales.

The USDA study concluded that "it is difficult to assign any cause for the drop in American-type [cheese] sales except the free cheese distribution." In summary, this conclusion was based on the following major factors.

--The decline in commercial cheese sales coincided with large increases in the amounts of cheese distributed. During the first quarters of calendar year 1982, as the distribution systems in the states were being formed, monthly distributions of cheese averaged 12 million pounds. However, by late 1982, with the distribution systems in place and volunteers experienced with the program, increased amounts of cheese were distributed, reaching 60 million pounds in March 1983.

--The sales declines came at a time when consumer demand for American-type cheese should have been strong and, therefore, cannot be attributed to reduced consumption. Consumption of American-type cheese has risen substantially over the past 20 years, increasing by over 84 percent from 1963 to 1982. Stable cheese prices over the past 2 years made cheese a better buy relative to other protein foods and helped account for the relative strength in cheese sales during calendar year 1981 and the first 6 months of 1982. Further, while sales of American-type cheeses declined, sales of other-type cheeses continued to increase.

--Displacement of commercial cheese sales appears to have led to increased USDA purchases. USDA's purchases of cheese in

---

[1]The study, published in USDA's June 1983 Outlook and Situation dairy report is entitled "Cheese Donations and Their Effect on Commercial Disappearance".

[2]The estimates of commercial sales, referred to as "commercial disappearance," are prepared by the Economic Research Service.

the fourth quarter of 1982 and the first quarter of 1983 were up 60 and 64 percent, respectively, from prior year levels. Although part of the increase in purchases can be explained by a higher level of milk production, a part was attributed to the displacement of commercial sales.

During the second and third quarters of 1983, estimated national sales of American-type cheese increased by 2.3 percent and decreased by 16.4 percent, respectively, compared with the same prior-year periods. USDA provided the states with about 151 million pounds of cheese during the second quarter of 1983 and about 98 million pounds during the third quarter.

## Information obtained from private organizations regarding displacement of commercial cheese sales

The Executive Director of the National Cheese Institute told us that, in his opinion, the special distribution program has had a negative impact on the sales of American processed cheese. He provided us with information that showed that the sales of such cheese have been increasing but that in calendar year 1982, the first full year of the program's operation, a 1.6 percent decline occurred in national sales. He also said that sales in January 1983 were 10 percent less than in January 1982.

The Executive Director said that he recognized the social worth of the program and that the dairy industry "could live with the program." He added, however, that in determining the quantity of cheese to be distributed, the needs of the poor and of the industry should be balanced.

According to the Executive Director, the special distribution program is not the answer to reducing USDA inventories of dairy products. This, he said, has to be done by reducing production of dairy products and/or increasing sales.

We also contacted officials of two major cheese processors and three major food retailers. These officials were generally concerned about the effect any comments or data they might provide would have on their companies' relations with the dairy industry and the public.

Officials of the two major processors said that the special distribution program has caused a displacement of cheese sales in the commercial market. One official provided us with a company study which estimated that 36 percent of the product distributed nationally in 1982 displaced commercial retail sales. This estimate was made by extrapolating the growth which would have occurred in 1982 retail cheese sales had cheese not been distributed by USDA. Another official told us that he was "positive" that the special distribution program has had a negative impact on retail sales of cheese. He said that recent retail sales have

been flat and/or declining "in what has always been a growing market" and that he could think of no other reason for this situation other than the special distribution program.

An official of one major food chain said that the "cheese giveaway" has definitely caused commercial sales displacement. He said that the program has adversely affected sales of the company's own private label cheese as well as sales of national/regional processors and distributors. He added that displacement will occur when large volumes of cheese are "given away" in a market area.

Officials of another food chain provided us with conflicting information. One official of this company said that the company's retail cheese sales had been "hurt" by the program while another told us that "without precise data" she believed that the company's sales had not been hurt by the special distribution program.

## USDA INVENTORIES OF DAIRY PRODUCTS CONTINUE TO RISE

Over the past several years, the production of dairy products has exceeded demand, resulting in increased USDA purchases of surplus dairy products and inventories. The Congress and USDA have acted to reduce dairy production and surpluses by, among other things, canceling scheduled price support increases and implementing the special distribution program.

The special distribution program was initiated in December 1981, when USDA made available 30 million pounds of processed cheese valued at $43 million to all 50 states and the District of Columbia. The success of its initial effort prompted USDA to make additional quantities of cheese available and to add butter to the distribution. By September 1983, 510 million pounds of cheese valued at about $755 million and 174 million pounds of butter valued at about $260 million had been distributed under the program.

Despite the large amounts of cheese and butter given away, USDA inventories of cheese and butter continued to increase. At the end of fiscal year 1981, just before the special distribution program began, USDA's inventories of cheese and butter totaled about 619 million pounds and about 500 million pounds, respectively, whereas, at the end of fiscal year 1983, inventories of cheese and butter totaled about 1 billion pounds and 525 million pounds, respectively.

The special distribution program, by itself, cannot be expected to stem the growth of dairy inventories. The program's impact on the growth of inventories is diminished because some of the products donated displace commercial sales thereby increasing USDA purchases under the Dairy Price-Support Program.

## DISPLACEMENT OF COMMERCIAL CHEESE SALES IN EIGHT STATES

We estimate, based on certain assumptions we have had to make, that of about 103 million pounds of cheese distributed under the special distribution program during the period December 1981 through April 1983 in the eight states reviewed, at least 31 percent (about 32 million pounds) displaced commercial cheese sales. As shown in the following schedule, displacement of commercial cheese sales ranged from 22 percent of the cheese distributed in West Virginia to 62 percent in Massachusetts. Some reasons for the variations in displacement among the states are differences in the frequency of distribution and in the amounts of products distributed (a discussion of the effects of distribution frequencies and amounts on displacement begins on p. 26) and the relative restrictiveness of the eligibility criteria.

Estimated Levels of Displacement of Commercial Sales Resulting from Special Distribution Program December 1981 to April 1983

| State | Pounds of cheese distributed | Portion of cheese distributed resulting in displacement of commercial sales | |
|---|---|---|---|
| | | Pounds | Percent |
| | --------(000 omitted)-------- | | |
| California | 37,773 | 11,532 | 31 |
| Iowa | 12,271 | 3,267 | 27 |
| Massachusetts | 1,715 | 1,066 | 62 |
| Minnesota | 6,828 | 2,446 | 36 |
| New Jersey | 6,877 | 4,049 | 59 |
| Texas | 27,141 | 6,637 | 24 |
| Utah | 4,586 | 1,400 | 31 |
| West Virginia | 5,862 | 1,264 | 22 |
| Total | 103,053 | 31,661 | 31 |

States using more liberal eligibility criteria would have higher sales displacement because (1) more liberal criteria increases the number of people eligible to participate in the program and (2) higher income households generally consume greater quantities of cheese than do lower income households. For example, as noted on page 7, 26 percent of Iowa's population was eligible for the program based on the income standard of 185 percent of the poverty income level, whereas only about 12 percent would be eligible if the standard were 135 percent. Also, based on data from USDA's Household Food Consumption Survey for 1977-78, households living in the North Central Region of the nation with incomes of 185 percent of the poverty income level or less consume an average of 1.71 pounds of cheese per month, whereas those with incomes of 135 percent or less would consume 1.61 pounds, a difference of 0.1 pound.

In making our displacement estimates, we assumed that only individuals meeting eligibility standards received cheese because the extent to which ineligible individuals received cheese, including those who received cheese from program participants, could not be quantified from available records. On the whole, we believe that under actual conditions, actual displacement exceeded our estimate of 31 percent because, as discussed in chapter 2, we know that program abuses did occur. However, since there is no data to suggest by how much actual conditions deviated from the conditions we used in developing our estimate, there is no way to know by how much actual displacement might have exceeded 31 percent. We did, however, make a sensitivity analysis of the effects various categories of abuses would have on displacement (see p. 27).

## Methodology and assumptions used in developing displacement estimates

Displacement of commercial sales occurs when households forego their normal purchase of an item because the same or similar item is given to them. For example, if a low-income family normally buys and consumes 2 pounds of cheese a month and the family is given 5 pounds of similar cheese under the special distribution program, we assumed that the family would not make its normal purchase of cheese that month. In effect, 2 of the 5 pounds, or 40 percent, of the donated cheese displaced commercial sales.

In developing our estimates of displacement of commercial cheese sales due to the special distribution program, we first estimated the average monthly cheese consumption of recipient households for each of the eight states. In estimating average consumption, we used a family size of two as this was the average size of families with incomes of up to 185 percent of OMB poverty income guidelines. Next, we multiplied the average monthly cheese consumption by the actual or, for those states where data was unavailable, estimated number of households that received cheese in any given month. The result was the estimated amount of commercial cheese sales that was displaced in a state. We then divided the total amount of cheese sales displaced by the total amount of cheese distributed in each state to arrive at the percent of donated products that displaced commercial cheese sales.

The assumptions made and how they were used in developing our estimates of displacement of commercial cheese sales are described below.

### Estimates of average monthly cheese consumption

In developing estimates of the average amount of cheese consumed by recipients in a month, we used data reported in USDA's Household Food Consumption Survey for 1977-1978. According to the data shown in the Household Survey, the amount of cheese consumed by households increases as household income increases. The average monthly consumption of cheese we arrived at was not the same

for all eight states because of differences in eligibility requirements and regional differences in cheese consumption.

The household survey shows consumption by types of cheese, only some of which are similar to the types donated under the program. The consumption rate we used in our calculations includes only those types that are similar to the processed cheese and natural (cheddar) cheese distributed under the program, that is, processed cheese, natural cheese, Swiss cheese, and cheese spreads.

Because consumption varies by income, we also had to weigh the consumption averages shown in the household survey for each income category in arriving at our average consumption figures. In using weighted averages, we assumed that the proportion of participating households in each income category would be the same as the proportion of such households in the household survey up to the maximum income eligibility standard. This is important because, if there were greater participation by lower income households, the average amount of cheese consumed would be lower than the weighted average used and therefore displacement would be less. On the other hand, if there was greater participation by higher income households, the average amount of cheese consumed and displacement would be higher.

Recognizing the increase in the number of households living in poverty since the household survey was made in 1977-78, we also checked our results by adjusting the income categories shown in the household survey to coincide with the higher proportion of low-income households existing in 1983. We found that with such an adjustment, our estimate of commercial sales displacement would decrease from 31 to 30 percent.

In arriving at the average monthly consumption of cheese by recipients in those states not expressing eligibility as a percent of OMB poverty income guidelines and those not prescribing statewide eligibility criteria (see pp. 6 and 7), we assumed that all recipients had incomes of 185 percent or less of poverty income guidelines. This limit was used because it is the most liberal income eligibility criteria used by any of the eight states and, as such, most closely reflected the liberal criteria followed by states not expressing eligibility as a percent of poverty.

### Estimating the number of households that received cheese

Of the eight states reviewed, only Iowa, Minnesota, and West Virginia maintained records on the number of recipients that participated in the cheese distributions. For the five states not having adequate participation data, we developed estimates by dividing the total number of pounds of cheese distributed in a month by an estimate of the average number of pounds provided each recipient. In estimating average pounds provided per recipient in California, New Jersey, Texas, and Utah, we used the average amount distributed in Iowa because Iowa had the most complete

data. For Massachusetts, we used the average provided us for the one county in the state that accumulated and summarized participation data. For example, we estimated that 4 million recipients participated in Texas' cheese distributions by dividing the amount of cheese distributed in Texas, about 27.1 million pounds, by the average amount of cheese that Iowa distributed to participants, about 6.42 pounds.

### Other assumptions made in developing estimates of displacement

We assumed that households would consume all the cheese provided them within 1 month's time when cheese was made available to them on a monthly basis and that they would consume all the cheese provided them within 2 month's time when cheese was made available at intervals of 2 months or longer.[3] These assumptions are very important factors in arriving at displacement estimates for several reasons.

First, households that receive greater quantities of cheese than they would normally consume may provide cheese to other households rather than consume the excess themselves. This would increase displacement of commercial cheese sales, particularly if the cheese were provided to households with higher incomes who normally purchase and consume greater quantities of cheese than do low-income households.

Second, when cheese is made available to households at intervals of longer than 2 months, the households may maintain their normal consumption patterns, thereby spreading the use of the cheese over a longer period of time, and hence, forego purchases of cheese for more than 2 months.

For example, in West Virginia, cheese distributions were made at intervals of up to 6 months, the average distribution was 13.4 pounds per household, and the estimated average normal consumption of recipient households was 1.45 pounds a month. In our calculations, we assumed that the average household consumed all 13.4 pounds of cheese within 2 months, thereby displacing only 2.9 pounds of commercial cheese sales (1.45 pounds times 2); however, if the average household consumed the 13.4 pounds of cheese over a 6-month period, 8.7 pounds of commercial cheese sales would be displaced. Assuming that the cheese would be consumed in 2 months results in an estimate that 22 percent of the 13.4 pounds displaced commercial sales (2.9 pounds divided by 13.4 pounds) whereas if it was assumed that the cheese was consumed over the 6-month period, 65 percent of the 13.4 pounds would displace commercial sales.

---

[3]Although, according to USDA, a 5-pound block of processed cheese has a refrigerated shelf-life of at least 6 months, we assumed that the cheese would be consumed in 2 months because this assumption would result in a more conservative estimate of displacement.

Another important assumption made in arriving at our estimates of commercial cheese sales displacement was that only eligible households received and consumed the cheese. However, we know that program abuses did occur. Examples of the types of abuses that would increase displacement of commercial cheese sales include ineligible households participating in the distributions and recipient households providing cheese to others. Displacement would also increase when surplus products are stolen and later sold on the so-called black market. Such abuses increase displacement because there would be increases in the number of households that received and consumed cheese. Also, these households would probably have higher incomes and therefore buy and consume more cheese than would lower income households.

Using nationwide data, we estimated what the impact of the three categories of abuse discussed above would have on displacement of commercial cheese sales at an assumed level of abuse of 10 percent. The assumed level of abuse of 10 percent is hypothetical since, as discussed previously, the extent of abuse could not be quantified. The estimates were developed to show the relative impact each of the three categories of abuse could have on displacement of commercial cheese sales.

Assuming the hypothetical, uniform, nationwide eligibility criteria of 135 percent and consumption and distribution patterns, we estimate that 25 percent of the cheese donated under the program would displace commercial sales. We arrived at this estimate by taking the average consumption level for an eligible recipient and dividing by the average amount distributed. We made the following estimates for the three types of abuse:

--If 10 percent of the households that receive cheese had incomes exceeding the assumed income eligibility level, displacement of commercial cheese sales would increase from 25 percent to about 27 percent.

--If 10 percent of eligible recipients passed on half the cheese they receive to ineligible recipients, displacement of commercial cheese sales would increase from 25 percent to about 29 percent.

--If 10 percent of all the cheese distributed was sold, displacement would increase from 25 percent to 32 percent.

Because the above estimates were derived by using a hypothetical, uniform, nationwide eligibility criteria and consumption and distribution patterns, the estimated increases in displacement should not be added to the estimates of displacement for the eight states. Also, the estimated increases in displacement are not cumulative and therefore should not be added together. If, for example, there was a mixture of the three types of abuses totaling 10 percent, displacement would increase from about 2 percent to about 7 percent.

## BUTTER DISTRIBUTION HAS GREATER IMPACT ON SALES OF MARGARINE THAN ON BUTTER

Assuming that households would forego purchases of both butter and margarine when given sufficient quantities of butter to meet their needs, the butter distributions made under the program would have a much greater impact on commercial sales of margarine than on commercial sales of butter. This is because lower income households consume much greater quantities of margarine than butter. For example, based on data from USDA's Household Food Consumption Survey, households living in the North Central Region of the nation with incomes of less than 185 percent of OMB poverty income guidelines, consumed an average of 2.23 pounds of margarine compared with only 0.43 pounds of butter.

Because of limited time and data, we limited our analysis of the program's effect on commercial butter sales to one state--Iowa. Iowa was selected for our analysis because it had the best data on participation and had distributed more butter than any of the eight states reviewed.

During the first 4 months of 1983,[4] program recipients in Iowa received an average of 2.74 pounds of butter per month. Displacement of commercial butter sales then would be only about 16 percent (0.43 pounds divided by 2.74 pounds) whereas displacement of commercial margarine sales would be about 81 percent (2.23 pounds divided by 2.74 pounds).

## AGENCY COMMENTS AND OUR EVALUATION

FNS said that although USDA acknowledges that some displacement of commercial cheese sales occurs, our draft report did not adequately acknowledge that any estimate of displacement must be built on a series of assumptions and that slightly different assumptions will yield different answers to the displacement question. FNS said that our analysis assumes that any cheese given to consumers displaced cheese purchases on a pound-for-pound basis up to the amount normally consumed by the recipient and that thereafter no displacement is assumed to take place. FNS recognized that any analysis of the extent of displacement of commercial cheese sales is hampered by a lack of data. It said, however, that while our draft report contained some cautionary statements concerning the limitations of our analysis, the lack of empirical data supporting the key assumptions that drive the entire analysis is not made clear.

We believe that our report describes in detail the assumptions we made and the methodology we used in arriving at our estimates of commercial displacement. Also, we explained both in the digest (see p. vi) and in the report (see p. 5) why it was not

[4]This period was chosen because it was the only period during which a consistently large quantity of butter had been distributed at the time of our review.

practicable for us to obtain empirical data on consumer behavior. While we agree that the use of different assumptions would yield different answers, as discussed below, we believe that our estimate of sales displacement is supported by USDA data on declining cheese sales and that our assumptions on consumer behavior are reasonable.

As discussed in the report (see pp. 20 and 21), USDA's study of sales data concluded that it would be difficult to assign any cause for the decline in American cheese sales that took place in the last quarter of 1982 and the first quarter of 1983, 5.1 and 15.2 percent respectively, other than the free cheese distribution. While sales increased by 2.3 percent in the second quarter of 1983 compared with the second quarter of 1982, USDA data showed that sales of American-type cheese decreased by 16.4 percent in the third quarter of 1983.[5] We believe that the declines in national cheese sales support our estimates showing that a substantial portion of the cheese given away has displaced commercial sales.

Further, we believe that the key assumption we made that recipients given 5-pounds or more of cheese a month[6] (which was over 2-1/2 times the average consumption rate of recipients) would forego their normal purchases of cheese when given the same or similar type cheese is not only reasonable but highly plausible. While we recognize that there could be some households that would still purchase some cheese, we believe that the number of such cases would be limited.

Further, we assumed that recipients would consume all the cheese provided them within 2 months when cheese was made available to them at intervals of 2 months or longer. By making this assumption, we limited the estimated amount of cheese purchases that recipients would forego to 2 months rather than over a maximum period of 6 months, which is the estimated shelf life of the cheese. The assumption we used results in a more conservative estimate of displacement. For example, had we assumed that households in West Virginia, when given quantities of cheese exceeding their average normal consumption for 6 months, would forego all purchases for up to 6 months, 65 percent of the cheese distributed would have displaced commercial sales rather than only 22 percent as we estimated.

---

[5]In our draft report, we had stated that, according to a USDA official, preliminary data for the third quarter of 1983 showed that sales were again declining and could decrease by as much as 6 to 8 percent.

[6]The minimum-size unit of cheese distributed was a 5-pound block.

# CHAPTER 4

# CONCLUSIONS AND RECOMMENDATIONS

## CONCLUSIONS

The special distribution program, as administered, did not provide adequate assurance that only the needy received free food. The absence of national guidelines on important matters such as eligibility criteria, quantities of products to be provided program participants, and program controls contributed to widely varying program operations among the states and, in some states, among localities. As a result, there were differences in program eligibility requirements and the amounts of products given recipients, program abuses occurred, and displacement of commercial sales was greater than necessary.

The program could be made more effective in terms of reducing the amount of commercial sales displacement and providing food to the needy by providing better guidance on the population the program is to be targeted to and by ensuring that the states and local distributing agencies have adequate controls to ensure that only the needy participate in the program.

The requirement imposed on the Secretary of Agriculture by the Temporary Emergency Food Assistance Act to take necessary precautions to assure that donated commodities do not displace commercial sales will be difficult to implement. As discussed in chapter 3, it would be extremely difficult, if not impossible to carry out a distribution program of any consequence without having some displacement. Therefore, the Secretary will have to decide the appropriate balance between a viable program and an acceptable level of risk of commercial sales displacement.

Once the Secretary determines what level of risk of commercial sales displacement is acceptable, compatible decisions will have to be made as to the quantities of products that can be made available and, since household consumption of products varies by income, the income groups to be served by the program.

## RECOMMENDATIONS

FNS' interim regulations, issued on December 16, 1983, implementing the provisions of Public Law 98-92, require that the states develop, subject to FNS regional office approval, plans that include income-based eligibility criteria, the methods participants may use to demonstrate eligibility, and the quantities of products to be distributed. The interim regulations do not, however, provide guidelines to the states regarding the establishment of the criteria, acceptable verification procedures, or quantities to be distributed. We believe that FNS' final regulations and state programs should be designed to overcome the major problems addressed in this report. Accordingly, we recommend that

the Secretary of Agriculture direct the FNS Administrator to make sure that the final regulations issued by FNS, as a minimum:

--Establish some parameters on the eligibility criteria established by states to help create more equitable state and local programs and to help minimize the extent of commercial sales displacement resulting from the program. In establishing such parameters, FNS should consider the amount of commercial sales displacement likely to occur at various household income levels on the basis of data compiled through USDA's household food consumption surveys.

--Minimize program abuse by requiring states to develop reasonable program controls. Such controls should, as a minimum, require program participants to provide identification and evidence of eligibility.

## AGENCY COMMENTS AND OUR EVALUATION

In its December 7, 1983, letter, FNS said that, in general, our recommendations mirror its current policies and that it had developed regulations, which were under review by USDA and OMB at the time, to establish more specific parameters for use by states in developing eligibility criteria for participation in the special distribution program and to include reasonable program controls designed to minimize program abuse. Although the interim regulations issued by FNS on December 16, 1983, do not prescribe specific parameters on eligibility criteria or provide guidance on what constitutes reasonable program controls, the Director of FNS' Food Distribution Division told us that the final regulations will provide more specific guidance on these matters. We believe that the actions planned, if adequately implemented, should result in a more effective and efficient program.

APPENDIX I

COOPER EVANS
3RD DISTRICT, IOWA

COMMITTEE ON AGRICULTURE
SUBCOMMITTEES:
DEPARTMENT OPERATIONS, RESEARCH, AND FOREIGN AGRICULTURE
WHEAT, SOYBEANS, AND FEED GRAINS
AD-HOC AGRICULTURE BUDGET

SELECT COMMITTEE ON AGING
TECHNOLOGY ASSESSMENT BOARD

**Congress of the United States**
**House of Representatives**
**Washington, D.C. 20515**

127 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-3301

162 WEST FOURTH STREET
WATERLOO, IOWA 50704
(319) 234-3295

102 SOUTH CLINTON STREET #506
IOWA CITY, IOWA 52240
(319) 351-0062

13 WEST MAIN STREET
MARSHALLTOWN, IOWA 50158
(515) 753-3172

IN IOWA, TOLL FREE NUMBER IS
1-800-772-1745

May 10, 1983

The Honorable Charles A. Bowsher
Comptroller General of the United States
441 G Street, N.W.
Washington, D. C. 20548

Dear General Bowsher:

Recent changes in the program to distribute government owned surplus dairy products cause serious questions.

We have in recent months received 1.3 million pounds of surplus cheese and 228,000 pounds of surplus butter each month in my home state of Iowa for distribution through this program. In March we were told that a reduction in the amount of products available for distribution was about to be imposed because USDA could not find commercial processing capacity to transform the large 55 pound and 500 pound containers of cheese into consumer sized packages of the product. After personal intervention, I was able to have the level continued.

Now, we are told the amount of cheese available to us will be reduced to 360,000 pounds per month. The reason cited for this reduction is not that the available surplus government stocks have been reduced, but that the donation program is resulting in reduced commercial sales of the product.

I respectfully request that your staff examine closely the question of commercial sales displacement resulting from the donation program. Has the donation program caused a reduction in commercial sales of cheese? If so, where, in what states, has this displacement been of major significance? What type of cheese is being purchased at reduced levels as a result of the donation program? What are the donation program criteria in those states in which the displacement program has been the greatest?

We hear of examples of communities where all persons who want to obtain the surplus products, regardless of economic condition, can receive it at a distribution site. Does this suggest that minimum eligibility requirements are needed to prevent those not in need of financial assistance from receiving the surplus dairy products?

Is there any evidence that commercial dairy processors are opposed to the donation program in cases where it might result in their profits being reduced? Have any of those commercial interests registered complaints with USDA to stop the donation program? If so, what are the names of the companies and what is the basis of their call for stopping the program?

Since those of us who serve as Members of the House Committee on Agriculture are attempting to re-write dairy legislation which USDA must administer, it would be most helpful to me if you could elevate this examination of cheese sales displacement to the highest possible priority in your work.

Thanks very much for any assistance you can provide me.

Sincerely,

Cooper Evans
Member of Congress

CE:gc

APPENDIX II

JESSE HELMS, N.C., CHAIRMAN
BOB DOLE, KANS.
RICHARD G. LUGAR, IND.
THAD COCHRAN, MISS.
RUDY BOSCHWITZ, MINN.
ROBERT W. JEPSEN, IOWA
PAULA HAWKINS, FLA.
MARK ANDREWS, N. DAK.
PETE WILSON, CALIF.
ORRIN G. HATCH, UTAH
WALTER D. HUDDLESTON, KY.
PATRICK J. LEAHY, VT.
EDWARD ZORINSKY, NEBR.
JOHN MELCHER, MONT.
DAVID H. PRYOR, ARK.
DAVID L. BOREN, OKLA.
ALAN J. DIXON, ILL.
HOWELL HEFLIN, ALA.

# United States Senate

COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, D.C. 20510

June 14, 1983

The Honorable Charles Bowsher
Comptroller General of the
United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Bowsher:

Members of the Senate Committee on Agriculture, Nutrition, and Forestry have followed with interest the initiation of the special distribution program for surplus dairy products.

The Committee considered legislation earlier this year to expand the program by reporting S. 17. The thrust of that legislation was subsequently added as a Senate amendment to the jobs bill and became a part of P.L. 98-8.

Considerable concerns have been expressed about what displacement or substitution of regular market sales may occur as a result of the surplus commodity distribution. Indeed, the Secretary has recently reduced the size of monthly cheese distribution, citing a displacement factor as the basis for his action.

Members of the Committee staff have made preliminary contact with GAO staff at the Agriculture Department audit site of the Resources, Community and Economic Development Division about this issue.

I would request that the General Accounting Office examine displacement and substitution impacts surrounding the special distribution. While I would be interested in available information on all commodities, I would presume that the thrust of available information would be that associated with the cheese and butter distribution inasmuch as these have been established longer.

In establishing the degree of displacement it would be essential to isolate, as much as possible, displacement from other influences--such as overall economic conditions, seasonal variations, and so forth.

Also, it would be helpful to include information on what the effect has been on purchases by the Commodity Credit Corporation as well as the overall effect on CCC dairy stocks. Additionally, it would be helpful to know the impact on the following programs: dairy farmers and their cooperatives; processors, manufacturers, and distributors of comparable products; and retailers of these products.

Again, I recognize that the information comparing dairy products may be more easily ascertainable, but there has been some speculation that if displacement has occured, it may have influenced sales of other high-protein, non-dairy products as well. If information is available on this concern, that, too, would be useful.

If your analysis determines that displacement or substitution has been a characteristic of the special dairy distribution program, it would be useful to know any factors which may influence the degree of displacement and substitution. Most importantly, have the individual eligibility criteria for receipt of commodities (which vary among the States) affected the rate of displacement? Has displacement been influenced by the types of outlets which have handled the distribution?

I would ask that you give expeditious treatment to this request. Legislation requiring the Secretary to make commodities available (established by P.L. 98-8) expires at the end of this fiscal year. There has been some Congressional interest in extending this mandate beyond the present fiscal year. It would be essential to have whatever information that can be obtained on this issue by the end of the August Congressional recess in the event that our Committee does consider any form of extension of the mandatory program.

From my perspective, it is not essential to examine all States in detail. While it would be useful to have a survey of eligibility criteria among the States, it would be satisfactory to have a representative examination of the displacement and substitution impact in selected States--especially in view of time constraints.

Many thanks for your consideration of this request.

Sincerely,

Jesse Helms

JESSE HELMS
Chairman

LEON E. PANETTA, CALIF., CHAIRMAN
JAMES R. OLIN, VA.
JERRY HUCKABY, LA.
DAN GLICKMAN, KANS.
HARLEY O. STAGGERS, Jr., W.VA.
THOMAS S. FOLEY, WASH.
E (KIKA) DE LA GARZA, TEX. EX OFFICIO MEMBER
ROBERT J. PERSH, STAFF DIRECTOR

BILL EMERSON, MO., RANKING MINORITY MEMBER
E. THOMAS COLEMAN, MO.
GEORGE HANSEN, IDAHO
EDWARD R. MADIGAN, ILL., EX OFFICIO MEMBER
LYNN F. GALLAGHER, MINORITY CONSULTANT

U.S. House of Representatives
Committee on Agriculture
Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition
Room 1301, Longworth House Office Building
Washington, D.C. 20515

June 29, 1983

The Honorable Charles Bowsher
Comptroller General of the
United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Bowsher:

Members of the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition of the House Agriculture Committee have received copies of letters requesting the General Accounting Office to examine displacement and substitution impacts surrounding the special cheese distribution. We are also interested in determining both the positive and negative impacts of the temporary commodity distribution program on recipients as well as farmers, processors, and retailers.

We understand that the dairy distribution program is reducing excessive stores of government-owned cheese, butter, and non-fat dry milk by giving them to persons who would otherwise be unable to purchase these products. The distribution appears to meet increased demands for emergency food assistance during the recession, and thereby, benefit millions of Americans who are temporarily unemployed or impoverished. It also appears to be the most effective solution to using available government-owned commodities which may otherwise go out of condition and continue to incur storage costs.

As you know, Title II of the Emergency Jobs Bill, PL 98-8, provided for temporary expansion of the surplus commodity distribution program for agencies providing food to needy persons, including the unemployed. On June 16, 1983, H.R. 1590 the Emergency Food Assistance and Commodity Distribution Act of 1983, passed the House by a vote of 389 - 18. We believe Congress has a broad and genuine interest in continuing surplus commodity distribution to the needy through a period of economic uncertainty.

We are therefore, interested in knowing what the current USDA-owned inventory of Section 416 commodities is? What are the anticipated domestic and foreign commitments for these commodities in the next twelve months? What types and quantities of these commodities will be available for distribution to emergency food assistance agencies and

traditional outlets for surplus commodities? We recognize the time required to compile this type information and would accept a separate report on this matter.

We are also concerned that commodity distribution does not adversely impact the agriculture sector. Evidence does suggest, however, that commodity donations increase food expenditures and, by implication, the demand for agricultural products. Studies indicate that low income individuals consume less cheese than the average person. Furthermore, if commodities are provided at no cost, low income households probably consume more of the commodities.

We recognize that care must be taken to avoid providing donated commodities in quantities that are inexcess of household needs. We are interested in an objective determination of what is a legitimate level to provide temporary assistance to low-income and unemployed needy persons.

The difficulty of measuring displacement and analyzing the potential causes is apparent. Because of the complexity of this issue, we ask that you clearly define what GAO is measuring when it determines displacement and what is the source of data for these determinations. For example, does commercial displacement measure changes in production capacity, estimates of retail or wholesale sales, sales of generic cheese or a specific type, or sales to institutions or individuals? Are comparisons made between same months of different years?

We also request that you consider all factors such as changes in personal incomes, unemployment, consumer preferences, introduction of competitive products, manipulation of inventories, and food prices which could affect displacement.

Lastly, we request that GAO define a specific time frame and geographic area when associating any displacement with a quantity of cheese distributed and the eligibility standards set by each state. To the degree possible, we ask that you characterize both the recipient agencies within the state and individual recipients served by eligible agencies. We are interested in what changes states have made in their distribution operation since USDA has announced a reduction in the quantities of cheese and butter available for distribution.

We appreciate your careful and complete approach to a study of the impact of commodity distribution on commercial sales and individual recipients.

Sincerely,

Leon E. Panetta
Chairman

nca

APPENDIX III

LEON E. PANETTA, CALIF.,
CHAIRMAN

JAMES R. OLIN, VA.
JERRY HUCKABY, LA.
DAN GLICKMAN, KANS.
HARLEY O. STAGGERS, JR., W VA.
THOMAS S. FOLEY, WASH.

E (KIKA) DE LA GARZA, TEX.
EX OFFICIO MEMBER

ROBERT J. FERSH,
STAFF DIRECTOR

**U.S. House of Representatives**
**Committee on Agriculture**
**Subcommittee on Domestic Marketing,**
**Consumer Relations, and Nutrition**
**Room 1301, Longworth House Office Building**
**Washington, D.C. 20515**

BILL EMERSON, MO.,
RANKING MINORITY MEMBER

E. THOMAS COLEMAN, MO.
GEORGE HANSEN, IDAHO

EDWARD R. MADIGAN, ILL.,
EX OFFICIO MEMBER

LYNN F. GALLAGHER,
MINORITY CONSULTANT

September 1, 1983

The Honorable Charles Bowsher
Comptroller General of the United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Bowsher:

I am writing to clarify my request of June 29, 1983, for a General Accounting Office review of certain aspects of the Federal surplus commodity distribution program and to raise some concerns I have about the study of this program currently in progress.

Before doing so, however, I would like to express my appreciation to you for the cooperation and assistance that GAO has provided this Subcommittee in the past few months on this subject. Much helpful information has been provided and GAO representatives have been most generous with their time in meeting with members of our staff.

As my June 29 letter indicated, I am interested in having GAO review the effect that surplus commodity distribution might have on commercial sales of comparable food items, both nationwide and in specific areas. It had been my hope that GAO would examine, to the extent possible, the actual program operations and recipients and investigate the accuracy of displacement allegations. I was (and still am) interested in knowing if those participating in the commodity program have decreased their commercial purchases of items and if so, what the actual displacement effects were in specific areas. Such information would be useful to Congress and USDA in determining what the appropriate levels of cheese and dairy product distribution should be in various areas of the country. This is especially important given the recent extension of the Federal commodity distribution program for the next two years. It was also my hope that your study would shed light on all of the factors that cause commercial displacement, and the relationship between changes in commercial disappearance and displacement.

Reports from my staff about the August 19, 1983 meeting with representatives of GAO leaves me concerned that the GAO study may

not adequately address some of my most fundamental concerns. This is not to say that the study will not provide much useful information. However, it appears to me that the answers to my most basic questions are being assumed away at the outset.

First, I understand that the GAO study is essentially based on the assumption that Federal cheese distributed to program recipients will fully displace such recipients' normal commercial purchase of cheese. While an assumption of some displacement might be reasonable, I am not convinced that there is sufficient evidence to indicate that one-to-one displacement is occurring, particularly since the study approach does not include an analysis of the consumption patterns of actual program recipients. Since this assumption results in automatic findings of significant displacement, I believe that some conclusive testing of it is warranted.

Additionally, rather than measuring whether commercial displacement rates vary according to eligibility limits, I am told that this study will assume this to be the case. The higher a state's eligibility limits, the greater the participation by higher income groups and consequently,, the greater the displacement assumed. I agree that there probably is a higher rate of displacement among higher income persons, but I am not satisfied that a relatively high income cut-off level automatically translates to large numbers of higher income persons actually receiving commodities. I am concerned that such an approach may not reflect the incomes of actual recipients and thus distort displacement findings. I believe this assumption needs to be tested by examining the actual situation. It seems possible that some states with higher eligibility limits may have less displacement than others with tighter eligibility limits, depending upon how stringently these limits are enforced and the number and nature of outlets in a state. I am concerned that the assumption made by GAO may lead to conclusions and recommendations about administering this program that do not reflect the actual conditions in the states.

Similarly, the study assumes that the 1977-78 Nationwide Food Consumption Survey can be utilized as a basis to estimate how much cheese current program participants would have ordinarily bought. While again this is not an unreasonable hypothesis, it needs to be tested. In these current times of high unemployment, extraordinarily high demand for food assistance, and significant reductions in social welfare program benefits, can we assume that the population actually being served by the cheese distribution program would have, in fact, purchased cheese to the same extent as low income people in 1977-78?

These and other limitations of the GAO study approach lead me to believe that additional work must be done to measure the

real effects of the commodity distribution program on commercial sales and the relationship of recipient incomes and eligibility limits to commercial displacement. While I believe that GAO's work would appear to present a useful theoretical model as to the potential effects of the cheese distribution program, I believe it is likely to fall short of providing the hard information we need to determine the proper distribution levels, locations, and target groups for this program.

I would like to assure you that I believe that some displacement of commercial sales has resulted from the current cheese distribution program. However, it is my hope that with your help and that of USDA, we can take your current study plan at least one step further to test whether various assumptions in your study hold true in reality. If this is not possible, I would hope that the limitations of the current study will be explicitly stated so that policymakers will know whether they are making decisions based upon theoretical or actual information.

Thank you.

Sincerely,

Leon E. Panetta
Chairman

United States
Department of
Agriculture

Food and
Nutrition
Service

3101 Park Center Drive
Alexandria, VA 22302

DEC 7 1983

Mr. J. Dexter Peach
Director, Resources, Community, and
Economic Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

This is in response to your draft report titled "Improved Administration of Special Surplus Dairy Product Distribution Program Needed". This draft report was submitted to the Department by your letter of November 9, 1983. Oral comments were provided to members of your staff on November 15 as you requested. However, the lack of time available between our receipt of the draft and that meeting, necessitates these further written comments.

In general, the General Accounting Office recommendations contained in the final report mirror the current policies of the Food and Nutrition Service (FNS). Indeed we have developed regulations which are now being reviewed within the Department and the Office of Management and Budget that will establish more specific parameters for use by States in developing eligibility criteria for participation in this program. Further, the regulations will include reasonable program controls designed to minimize abuse of the program.

The draft report, however, is deficient in three major areas:

(1) The draft fails to acknowledge that the distribution was conceived as a temporary supplement to the Department's permanent nutrition programs. As a result, it fails to provide an evenhanded view of FNS's management of the distribution as it evolved to its current state.

(2) The draft reflects a weakness in your analysis of displacement. As a result, it presents conclusions about impacts on commercial sales without adequate caveats and empirical evidence.

(3) The draft also generalizes to the Nation from your analysis of operations in eight States. By not acknowledging that the sample selection would bias the national estimates, you do not adequately qualify your conclusions.

These deficiencies are discussed generally in the following paragraphs along with some other concerns. In addition, a more detailed set of comments, including specific page references, is enclosed with this letter.

The first major deficiency is the failure to acknowledge the development of this activity. Distribution of cheese to needy households began less than two years ago with an announcement by the President that 30 million pounds of cheese from surplus government stocks would be released for use by needy Americans. It was felt that large-scale Federal involvement would be contrary to the temporary and voluntary nature of the distribution. Thus, the distribution was designed to give maximum latitude to States in identifying organizations willing to assume responsibility for providing cheese to needy people. The organizations that responded were largely volunteer groups that lacked the capability and resources to absorb major administrative requirements or costs. Thus, in order to quickly implement a temporary supplemental distribution, considerable discretion concerning the definition of need and location of appropriate distribution outlets was left to the States. As time passed, the amounts of cheese (and later other commodities) were increased and the duration of the distribution extended into 1983. However, it has consistently been viewed as a temporary supplemental distribution. The enactment of Public Law 98-82, requires that a distribution exist for the next two years and makes administrative funds available to States and to local distribution outlets. Therefore, FNS is now promulgating regulations that will provide more specific eligibility parameters to States, will better ensure that only eligibles are served, and will establish specific monitoring requirements.

The second major weakness in the report concerns the analysis of displacement. While the Department acknowledges that some displacement of commercial cheese sales occurs, the report fails to adequately acknowledge that any estimate of displacement must be built on a series of assumptions. Different assumptions will yield different answers to the displacement question. This analysis assumes that any cheese given to a consumer will displace cheese purchases on a pound-for-pound basis up to the amount normally consumed by the recipient. Thereafter, no displacement is assumed to take place. Also, any analysis of the extent of displacement of commercial cheese sales is hampered by a lack of data. While some cautionary statements concerning the limitations of GAO's displacement analysis are made, the lack of empirical data to support the "key assumptions" that drive the entire analysis is not made clear.

The third major concern centers on the generalizations made from findings in the eight State sample. Three of the States were purposely selected because they had not established any specific needs test and relied on self declaration of need. The three States were selected from among only five States that had no specific needs tests. The fact that these States were specifically chosen, in part because they had no needs test, is not made sufficiently clear in the report. Moreover, the average reader might well conclude that the lack of a needs test was far more pervasive since three of the eight sample States fit this description.

A final point concerns the discussion of FNS Regional Office activities and suggestions regarding the distribution program. It is true that senior

regional officials were given performance standards regarding increased usage of dairy products. These standards applied to all FNS programs to which dairy products are made available. These programs include the School Lunch Program, Elderly Feeding Program, Commodity Supplemental Food Program, and others in addition to distribution for households. This clarification should be made in the draft report. Also, the listing of a number of regional suggestions to help relieve the dairy surplus situation is not appropriate. Few of these suggestions were adopted and their inclusion in the report does little but discourage internal discussions of various ideas and approaches. In a similar vein, the presentation of a Regional Office's plan that was never implemented adds little to report since that plan would have undergone further review in both the Regional Office and FNS Headquarters prior to implementation.

I do hope that you will give these concerns, as well as the specific suggestions contained in the enclosure, serious consideration before you finalize your report. I appreciate the opportunity to comment on the draft report.

Sincerely,

Robert E. Leard

ROBERT E. LEARD
Administrator

Enclosure

## General Overview of Concern[1]

Insert language to reflect that the Agency delegated much of the responsibility for administering the program to the States for the following reasons:

(1) The temporary nature of the program.

(2) A national distribution network to handle distribution of surplus commodities to needy households did not exist.

(3) There had been no demonstrated capability at the State and local level relative to funds and staff to ensure that such a program could be implemented.

(4) The Agency did not wish to burden the States with a costly and elaborate administrative system for a temporary program.

(5) The Agency views the program as one that should be administered by the States, such as AFDC and WIC, in lieu of establishing national standards for administration such as the Food Stamp and National School Lunch Programs.

For the above stated reasons, the Agency provided the States with as much flexibility as possible to ensure the development and implementation of a viable distribution network.

This should be reflected in:

The cover summary - paragraph (2)
The DIGEST - page (ii) - paragraphs (3) and (5)
Chapter 1 - page (2) - paragraph (4)
Chapter 2 - page (6) - paragraph (1)
Chapter 2 - page (9) - paragraph (3)

[1]GAO NOTE: This enclosure was retyped to facilitate showing our comments. The page numbers were changed to reflect those in the final report. Also, many of the comments FNS makes in this enclosure duplicate comments made in its basic letter. Our comments on those matters not previously discussed are enclosed in brackets, immediately under the paragraph or set of paragraphs in which the point is raised.

Comments on GAO Report RCED-84-58

"Improved Administration of Special Surplus Dairy Product Distribution Program Needed"

| Page | Paragraph | Comments |
|---|---|---|
| Cover Summary | 2 | The first sentences imply that State discretion in administration has resulted in lack of program control. It fails to provide the perspective that the administration of an emergency, temporary program requires some trade-offs in the bureaucratic process to accommodate speed of delivery, and the volunteer distribution effort which requires low administrative overhead. The statements concerning displacement imply that a sophisticated analysis of the issue was made. Since there is no empirical data to analyze displacement, this should be mentioned as well as a description of the analysis that indicates it is the best estimate of GAO given an assumption of consumer behavior. |
| DIGEST | | |
| ii | 4 | The amount of food distributed should be presented in relation to the total amount of food purchased in the U.S. so that the share of the total market for a commodity that the food donation program represents can be identified. |

[GAO COMMENT: We have modified our report to show the relationship between the amount of cheese distributed nationally to the total cheese sales in the last quarter of 1982 and the first quarter of 1983 (see pp. v and 20).]

| | | |
|---|---|---|
| ii | 2 | The displacement analysis is presented as a national estimate. Such a generalization is not warranted from a purposive sample of States, where certain selection factors (eligibility criteria used, etc.) tend to bias the potential amount of displacement. A |

| Page | Paragraph | Comments |
|---|---|---|
| | | statement of the weaknesses and potential biases of the analysis should be made. |

[GAO COMMENT: The national estimate referred to was the percent of national cheese distributions made by the eight states which, by coincidence, was the same as our estimate of displaced sales. We modified our report by rounding the figure referred to down to 30 percent.]

| | | |
|---|---|---|
| ii | 5 and 6 | The tone of these paragraphs implies that delegating responsibilities to States and State variation in administration is a weakness in program design. Most federally funded programs have authority delegated to the States and most social welfare programs grant considerable latitude to the States in administration. By the above reference, most federally funded programs would be considered weak. For example, the AFDC program has no uniform eligibility criteria and allows States to set their own benefit levels. Given the temporary nature of the programs, there was a need to allow flexibility in administration and this point is not considered in the discussion. |
| iii | 1 and 2 | |

[GAO COMMENT: We believe the lack of program guidelines on such important matters as eligibility criteria and procedures used to verify eligibility were in fact a program weakness. Therefore, we made no change in the language referred to. We agree that states should have some degree of latitude and our recommendations, in which FNS concurred, provide for such latitude. Although the Aid to Families with Dependent Children Program has no uniform eligibility criteria, USDA's major food assistance programs, such as food stamps and school lunch, do have uniform eligibility criteria.]

| | | |
|---|---|---|
| iii | 3 | Elaborate certification procedures lessen the effectiveness of a temporary distribution program. There are trade-offs in the amount of verification that can be required given the emergency needs of their recipients and the full verification process that provides maximum program control. Even in the Food |

| Page | Paragraph | Comment |
|---|---|---|
| | | Stamp Program, expedited services without verification is available to households who are destitute because it is assumed that such households face emergency circumstances. |

[GAO COMMENT: We are not recommending that elaborate certification procedures be established. Our recommendation, in which FNS concurred, is that states be required to establish reasonable program controls.]

| | | |
|---|---|---|
| iv | 1 | The referenced paragraph should be written as follows:<br><br>As the quantity of products available for distribution increased, the Agency encouraged States to expand their programs. |

[GAO COMMENT: Since USDA was responsible for determining the quantity of products made available and could have adjusted the quantity to meet the target population to be served, the suggested change was not made.]

| | | |
|---|---|---|
| iv | 1 | The sentence concerning rating of regional officials based on the success of the distribution should be deleted. |

[GAO COMMENT: The sentence referred to was deleted from the digest and modified in the body of the report to show that the performance standard applied to increased distribution of dairy products under all FNS' commodity donation programs.]

Chapter 2

| | | |
|---|---|---|
| 6 | 4 | The sample selected was purposive. Sixty percent of the States (3 of 5) with liberal eligibility (no needs test) were selected while only 11 percent of other States (5 of 45) with specified eligibility were selected. However, much of the analysis generalizes to the Nation. No explanation concerning how the purposive sample would bias the national estimates is provided. |

[GAO COMMENT: Our final report was revised to show that of the 48 states FNS had information on, 43 required the local distributing agencies to follow specific eligibility criteria.]

| Page | Paragraph | Comments |
|---|---|---|
| 7 | 6 | Add the following sentences:<br><br>These differences are attributable in part to the frequency of distributions. Some states were distributing monthly while others were distributing less frequently. |

[GAO COMMENT: Our final report was modified to incorporate the point raised by FNS.]

| | | |
|---|---|---|
| 8 | 3 and 4 | The data presented in this section gives a different impression than that presented in the Executive Summary. Forty-five of 50 States (89 percent) had specified eligibility criteria. The Executive Summary implies that in general eligibility criteria were very liberal and unspecified. These data indicate that most States had established criteria largely tied to means tested social welfare programs. |
| 9 | 3 | The amount of problems cited here appears minimal considering the number of households served by the program. Millions of households nationwide received food under the donation. For each State it would seem reasonable to cite the number of problems, duplicate issuances in Iowa, for example, as a percent of total participants. |

[GAO COMMENT: As discussed in the report, we were unable to quantify the extent of abuse because of the general unavailability of records. Comparing the number of problems cited with the number of households served, in our opinion, would grossly understate the problems because the extent of abuses that occurred is unknown.]

| | | |
|---|---|---|
| 10 | 3 and 4 | The example concerning New Jersey indicates that an 8 percent duplicate registration rate (to receive cheese) was later reduced to less than 1 percent and a conclusion is made that the potential for fraud is high. An 8 percent error rate does not seem high compared to other social programs. |

| Page | Paragraph | Comments |
|---|---|---|
| [GAO COMMENT: The example concerning New Jersey was included to show the effectiveness of preregistration in minimizing the problem of duplicate issuances and not to show the extent of abuse occurring.] | | |
| 11 | 2 | Rewrite paragraph to read:<br><br>To underscore its commitment to increase distribution to all eligible outlets, FNS incorporated this objective into the job performance rating criteria for top regional officials responsible for the program. FNS headquarters requested and received suggestions from the FNS Regional Offices as to how this could be accomplished. As a result of these efforts, distribution to traditional outlets, such as schools, as well as needy households, did increase. The success of the increased distribution to needy households is attributable to some degree to FNS Regional Offices encouraging States to use more liberal eligibility criteria, thus expanding the universe of eligible recipients. (Delete specific suggestions at bottom of page 11 and top of page 12.) |
| 11 | 3 | Delete action plan for Massachusetts, further scrutiny prior to implementation of the plan have been made. |
| 12 | 2 and 3 | The so-called "liberalizations" occurred prior to any evidence regarding displacement of commercial sales. Following such evidence, the Department took steps to curtail distribution levels. |
| [GAO COMMENT: We believe that FNS' actions to encourage states to use more liberal criteria contributed to the problem of displaced commercial sales.] | | |
| 13 | 5 | Substitute the following for the last sentence:<br><br>FNS regional officials, who forwarded the State requests to the |

| Page | Paragraph | Comments |
|---|---|---|
| | | Agricultural Stabilization and Conservation Service, relied on the States to determine what amounts would be needed to serve the needy in processing requisitions. |

[GAO COMMENT: Our final report was modified to incorporate the point raised by FNS.]

| | | |
|---|---|---|
| 19 | General | The entire displacement discussion should be revised in line with the points made in the transmittal letter. |
| 25 | 3 | GAO assumes that at all income levels below 185 percent of poverty, recipient participation rates are the same. This fails to address what are known as "transaction costs". That is, it is much more likely that lower income unemployed persons would spend time needed to receive cheese than someone between 130 and 185 percent of poverty who may be employed at least on a part-time basis. |

[GAO COMMENT: As discussed in the report, whether there was greater program participation by lower income households or higher income households, than the average we used, is a matter of speculation.]

| | | |
|---|---|---|
| 27 | 2 | An assumed level of abuse of 10 percent is used in the analysis.<br><br>It is not clear on what basis this number was chosen; the data presented earlier do not document such a level. The assumption seems completely arbitrary. Moreover, the projections on pages 27 and 28 are based on a series of unsupported assumptions (e.g., consumer behavior, and abuse levels). |

[GAO COMMENT: Our final report was modified to clearly state that the assumed level of abuse of 10 percent is hypothetical. The data presented was used to show the impact the three categories of abuse would have on displacement of commercial cheese sales.]

(022877)

27749

**AN EQUAL OPPORTUNITY EMPLOYER**

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

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE,$300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE

**THIRD CLASS**