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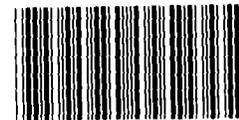
General Accounting Office

Establishing New Federal Food-Buying Procedures Would Help Eliminate Unnecessary Special Examinations

The Departments of Agriculture and Defense and the Veterans Administration spend at least \$2.5 billion a year on food purchases. Special examinations (called certifications) made at the food suppliers' facilities to verify compliance with federal contract specifications account for part of this cost. During fiscal year 1982, the direct cost for certification services was \$18 million. However, the overall cost to the government was higher because the certification procedures disrupt suppliers' production processes, thereby increasing production costs.

Federal policy on food purchases states that buying agencies should weigh the costs and risks of receiving unsatisfactory products before they require certification. The buying agencies generally have not been following this policy. Moreover, certification examinations of meat and poultry products often duplicate existing federal food safety inspections or do not consider the suppliers' quality control programs.

GAO recommends that buying agencies weigh the costs and benefits of certification before routinely incurring certification costs and that the certifying agency eliminate redundant procedures used to certify meat and poultry products.



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

RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-216056

The Honorable John R. Block
The Secretary of Agriculture

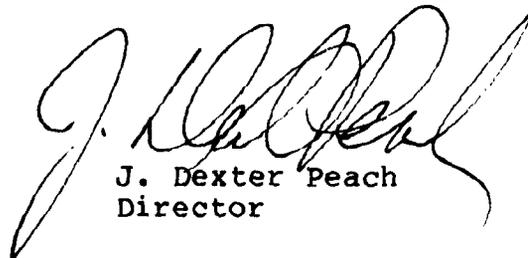
The Honorable Caspar W. Weinberger
The Secretary of Defense

The Honorable Harry N. Walters
Administrator of Veterans Affairs

This report summarizes the results of our review of the federal government's practices for accepting food purchases. We made this review to determine whether federal government costs could be reduced by following commercial buyers' food-purchasing practices.

The report contains recommendations to the Secretary of Agriculture on pages 16, 17, and 32, and to the Secretary of Defense and the Administrator of Veterans Affairs on pages 16 and 17. As you know, 31 U.S.C. §720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

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



J. Dexter Peach
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE SECRETARIES
OF AGRICULTURE AND DEFENSE
AND THE ADMINISTRATOR OF
VETERANS AFFAIRS

ESTABLISHING NEW FEDERAL
FOOD-BUYING PROCEDURES
WOULD HELP ELIMINATE
UNNECESSARY SPECIAL
EXAMINATIONS

D I G E S T

Nearly all federal food purchases are made by the Department of Agriculture, the Department of Defense, and the Veterans Administration, and these agencies spend at least \$2.5 billion annually to buy food for their feeding programs. They routinely require that their food purchases undergo special examinations (certification) at the suppliers' plants to assure that the food conforms to contract specifications. (See pp. 1 and 2.)

The direct cost of certification services in fiscal year 1982 was \$18 million, the latest year for which data were available at the time of GAO's review. GAO made this review to determine if federal government costs could be reduced by waiving or reducing these special examinations. (See pp. 4, 11, 25, and 28.)

Although federal food purchase policy states that certification should be waived where it is not cost effective, federal buying agencies routinely require certification. Certification examinations sometimes duplicate or do not consider existing safety inspections or voluntary quality control systems, as a result, increasing the government's food costs. Most food purchased by the federal government undergoes a certification review in addition to mandatory inspection by the Food and Drug Administration (Dept. of Health and Human Services), Food Safety and Inspection Service (Dept. of Agriculture), and Agricultural Marketing Service (Dept. of Agriculture). (See pp. 1, 2, 6, 7, 11, 24, and 25.)

FEDERAL POLICY ON CERTIFYING FOOD PURCHASES

The policy of the Department of Agriculture, which has governmentwide responsibility for determining the level of needed quality assurance for food, states that:

--Federal agencies are to fully consider the assurance or protection provided by the mandatory food inspection systems when establishing certification procedures.

--Inspection and certifying agencies are to encourage suppliers to develop and maintain their own quality control programs in order to reduce the degree of federal inspection.

--Purchasing agencies are to waive certification where it is not cost effective and the risks of receiving unsatisfactory products are minimal.

The Department did not specify the procedures to be used by the buying agencies to implement these policies.

The Department further instructed the buying agencies to avoid, to the extent feasible, testing or quality control requirements which are inconsistent with or exceed the practices followed by commercial buyers. Commercial buyers generally do not require that food purchases be certified at suppliers' plants. (See pp. 3, 6, and 15.)

FEDERAL FOOD BUYERS ROUTINELY REQUIRE
CERTIFICATION FOR MOST FOOD PURCHASED

Federal buying agencies do not have procedures for weighing the costs and benefits of certification. As a result, they routinely specify that food purchases be certified. The three major buying agencies told GAO that they generally do not know the amount the suppliers include in their prices to cover the cost of certification. (See p. 7.)

The federal buyers have been requiring certification examinations even for purchases where the chances of receiving an unsatisfactory product are, in GAO's opinion, very low. Many purchases are for standard commercial products from reputable major suppliers that have their own internal quality control systems in addition to those requirements imposed by law. For example, canned fruits and vegetables are typically bought from the country's major canners. Such canners usually have sophisticated quality control systems to prevent the sale of unsatisfactory products. (See p. 8.)

GAO disagrees with federal buyers' reasons for routinely requiring certification

Agriculture and Defense officials said that certification is necessary because they must buy from the low bidder and cannot exclude suppliers whose products have not been satisfactory in the past. Agriculture officials also said that procurement regulations forbid discrimination against any qualified bidder and that they cannot vary certification requirements to differentiate between reputable and marginal suppliers.

GAO disagrees with the position that suppliers cannot be excluded because of dissatisfaction with their products. Federal procurement regulations require that contracting officers determine prior to a contract award that the prospective supplier is responsible, giving consideration to recent unsatisfactory performance in either quality or timeliness of delivery. The regulations also require prospective suppliers to meet special agency standards and procedures which may be desirable where a history of unsatisfactory performance has demonstrated the need for ensuring adequate contract performance. While GAO agrees that no qualified bidder should be discriminated against, it believes that federal buying agencies have the option of not awarding contracts to bidders which have delivered unsatisfactory products and that certification requirements can be waived among suppliers. (See p. 9.)

The Food and Drug Administration and the Food Safety and Inspection Service can furnish the buying agencies with information on prospective suppliers' performance under the safety inspection programs. This information would help the buying agencies in making decisions on the need for certification. (See p. 8.)

CERTIFICATION EXAMINATIONS SOMETIMES DUPLICATE OR DO NOT CONSIDER EXISTING SAFETY INSPECTIONS

Some certification procedures duplicate those already covered by safety or voluntary quality control program inspections. An example of

this is the certification examination of meat for "excellent condition" and the Food Safety and Inspection Service's inspection of meat for "wholesomeness." Agricultural Marketing Service officials said that meat must be in excellent condition--a major requirement in the certification process--to provide the needed shelf life. Officials of the Food Safety and Inspection Service, who are primarily responsible for ensuring that meat products are wholesome, unadulterated, and properly identified and packaged, said that their examination for wholesomeness considers the same factors included in the Marketing Service's criteria for excellent condition and that there are no significant differences between wholesomeness and excellent condition which would affect shelf life. (See p. 24.)

In September 1980, the Food Safety and Inspection Service started a voluntary quality control program to take advantage of systems already developed by meat and poultry processors. As of September 1983, 216 of about 7,000 meat- and poultry-processing plants had their entire operations under the Inspection Service's quality control program while another 1,529 had parts of their operations under the program. Although inspectors in plants with approved systems monitor the reliability of the plants' quality control systems, certification procedures generally require 100-percent examination of all processing operations regardless of whether or not the supplier's quality control system has been approved. (See pp. 23 and 25.)

CERTIFICATION IS COSTLY

Certification requirements for many meat items cause suppliers to deviate from their normal commercial operations because the requirements are more specific and less flexible than commercial practices. For example, a supplier said that the certification requirements for 100-percent examination of diced pork slowed his production by 50 percent or more, thus increasing his cost and resulting in higher meat prices. (See p. 25.)

GAO believes the price effect of certification was greater than the \$18 million directly billed to suppliers for certification services and passed on to the federal government. (See p. 11.)

To illustrate the effect of certification on prices charged the government, GAO analyzed information obtained from three suppliers which furnished \$52.8 million worth (44.8 percent) of the ground beef Agriculture purchased for the 1981-82 school year. On the basis of that information, GAO estimates that certification accounted for \$4.9 million, or 9.3 percent, of the \$52.8 million Agriculture paid to the three suppliers for ground beef. (See p. 29.)

RECOMMENDATIONS TO THE BUYING AND CERTIFYING AGENCIES

GAO recommends that the Secretaries of Agriculture and Defense and the Administrator of Veterans Affairs direct their buying agencies to establish procedures requiring that the costs and benefits of certification be weighed before requiring that a food purchase from a specific supplier be certified.

GAO also recommends that, to assist the buyers in weighing these benefits, the Secretaries of Agriculture and Defense and the Administrator of Veterans Affairs direct their buying agencies to obtain available information on suppliers' qualifications and past records of performance under the mandatory safety inspection systems from the Food and Drug Administration and the Food Safety and Inspection Service. (See p. 16.)

GAO recommends that the Secretary of Agriculture direct the Agricultural Marketing Service to review and revise its certification procedures for meat and poultry products to consider existing safety and quality control systems. (See p. 32.)

AGENCIES' COMMENTS AND GAO'S EVALUATION

Department of Agriculture's comments

In commenting on a draft of this report, the Department of Agriculture agreed with many of

GAO's recommendations, but it did not individually address them. Instead, it has appointed a working group to consider them in more detail. (See pp. 18 and 34.)

Veterans Administration's comments

The Veterans Administration, in commenting on GAO's draft report, said that it agreed with GAO's recommendations and that directives formally establishing the recommended procedures will be issued by the end of fiscal year 1984. (See p. 18.)

Department of Defense's comments

In oral comments on a draft of this report, the Department of Defense agreed with the concept of GAO's recommendation to establish procedures to weigh the costs and benefits of certification. The Department said that it already had a system requiring certification only after considering costs and benefits. GAO notes that this system is generally based on categorical exclusion, from certification requirements, such as contracts under \$10,000, and that purchases which do not fit one of the excluded categories are routinely certified without regard to costs and benefits. (See p. 18.)

The Department did not agree with GAO's suggestion to award food contracts on the basis of bids without certification and to certify at the buyer's expense when certification is deemed necessary and suggested, instead, an alternative procedure to reduce unnecessary certifications. GAO agrees in substance with the Department's comments and has modified its recommendation accordingly. (See p. 19.)

The Department did not agree with GAO's recommendation to establish procedures for obtaining available information on suppliers' qualifications and past performance records from the Food and Drug Administration and the Food Safety and Inspection Service. The Department said that these two agencies were not capable of providing information on the qualification of suppliers to meet the Department's specification requirements. The Department also said that it already had a system in place to obtain information on food wholesomeness. Although the Food and Drug

Administration and the Food Safety and Inspection Service might not be able to provide information on suppliers' ability to meet specifications, GAO believes that these agencies could provide information on a supplier's past performance which would be useful in making certification decisions. GAO also notes that the system referred to by the Department only deals with recalls of food products and does not provide for obtaining information before accepting delivery of food purchases to aid in making certification decisions. (See p. 19.)

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ABBREVIATIONS

DOD	Department of Defense
FDA	Food and Drug Administration
GAO	General Accounting Office
USDA	U.S. Department of Agriculture
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

The federal government buys at least \$2.5 billion worth of food annually for its feeding programs. The major federal food buyers are the U.S. Department of Agriculture (USDA), the Department of Defense (DOD), and the Veterans Administration (VA). Collectively, they bought 99.8 percent of the federal food purchased during fiscal year 1982--the latest year for which such data were available at the time of our review. DOD bought most of the food, accounting for 67.9 percent of the total, while USDA and VA accounted for 30.4 percent and 1.5 percent, respectively.

USDA buys food for domestic and overseas food donation programs. The domestic programs, the largest of which is the National School Lunch Program, provide food to schools and institutions assisting the elderly, Indians, and residents of the Trust Territory of the Pacific. The major overseas food donation program is the Food for Peace Program, which provides food to meet famine and other urgent needs and promote development in friendly developing areas. DOD buys food for troop feeding and for resale in its commissaries. VA buys food primarily for feeding its hospitals' patients.

Virtually all of USDA's food purchases are made centrally by two of its agencies--the Agricultural Marketing Service in Washington, D.C., and the Agricultural Stabilization and Conservation Service through its Kansas City, Missouri, commodity office. The bulk of DOD's food purchases is made centrally through its Defense Personnel Support Center in Philadelphia, Pennsylvania. Some items, however, such as fresh milk and bakery products, are purchased locally by individual installations. VA purchases staple items, such as canned goods and flour, centrally through its Marketing Center in Hines, Illinois. Fresh fruits and vegetables, meat, dairy products, and bakery products are purchased locally by the individual VA hospitals.

Federal food buyers maintain lists of suppliers which have bid or expressed interest in bidding on federal food contracts. Invitations for submitting offers on planned purchases are sent to the suppliers on the bidders' list. The invitation identifies the product description, delivery dates, inspection requirements, and other terms and conditions. Invitations generally require that offers be submitted in writing. Federal buyers will then generally accept the offer considered to be most advantageous to the government.

MANDATORY SAFETY INSPECTION SYSTEMS

Federal food purchases, like food purchased by the general public, are subject to mandatory inspection for safety and other purposes by federal agencies which have food inspection responsibilities required by law.

Food processors operating in interstate commerce are subject to regulation by the Department of Health and Human Service's Food and Drug Administration (FDA) under the Federal Food, Drug, and Cosmetic Act (21 U.S.C. 301-392) and the Fair Packaging and Labeling Act (15 U.S.C. 1451-1461). These laws are intended to assure consumers that foods are pure and wholesome, safe to eat, and produced under sanitary conditions; and that all labeling and packaging are truthful, informative, and not deceptive.

The Federal Meat Inspection Act (21 U.S.C. 601 et seq.) and the Poultry Products Inspection Act (21 U.S.C. 451 et seq.) require the Secretary of Agriculture to inspect the slaughter of livestock and poultry and the processing of meat and poultry products shipped interstate or to foreign markets. These laws' primary objective is to ensure that meat and poultry products distributed to consumers are wholesome; not adulterated; and properly marked, labeled, and packaged. USDA's meat and poultry inspection programs are administered by its Food Safety and Inspection Service, and their costs are paid by the federal government, except for costs for overtime and holiday work, which are paid by the firms for which such work is performed.

The Egg Products Inspection Act (21 U.S.C. 1031 et seq.) requires that all plants manufacturing liquid, frozen, or dried egg products be inspected by a USDA inspector or a USDA-licensed state employee to assure that egg products are wholesome, unadulterated, and truthfully labeled. The act also requires USDA to inspect egg packers at least quarterly to control the distribution of restricted (dirty, incubator reject, etc.) eggs so that only eggs fit for human consumption are available to consumers. This program is administered by USDA's Agricultural Marketing Service, and its cost is paid by the federal government, except for costs for overtime and holiday work, which are paid by the firms for which such work is performed.

CERTIFICATION REQUIREMENTS

Contracts for most of the food bought by the federal government are written to require that the food be additionally examined and certified at the suppliers' plants. Buyers deemed that this process was necessary to assure that the federal government gets food which conforms to the agencies' contract specifications. Commercial food buyers generally do not require certification.

Certification is carried out by the National Marine Fisheries Service, National Oceanic and Atmospheric Administration, Department of Commerce, for fish and seafood; USDA's Federal Grain Inspection Service for grain and cereal products; and the Agricultural Marketing Service for all other food products. Certifying agents have been given different titles by different agencies but, to avoid confusion in subsequent sections of this report, we will refer to all certifying agents as "graders."

Certification can be accomplished by either inplant or lot examination. Under inplant examination, graders are assigned to a specific plant under a formal contract. The graders may be stationed in the plant at all times during processing to make checks on the preparation, processing, packing, and warehousing of the product (continuous examination) or they may examine the preparation and processing of the product, but not be present at all times (pack certification). Lot examination, on the other hand, is limited to examining the finished processed product. Generally, it is done on a sample basis, and the samples may be examined onsite at a supplier's plant or warehouse or at the certifying agency's laboratory.

Each certifying agency provides its certification services on a user fee basis. Federal food buyers instruct their suppliers through invitation-to-bid and purchase documents that it is the suppliers' responsibility to arrange and pay for certification and that the cost of this requirement should be considered in their bids. The National Marine Fisheries Service, the Federal Grain Inspection Service, and the Agricultural Marketing Service bill the suppliers for the graders' time, plus laboratory fees and other related fees.

GOVERNMENTWIDE FOOD QUALITY ASSURANCE PROGRAM

The present system of quality assurance for federal food purchases dates back to July 1977, when USDA was made responsible for a governmentwide quality assurance program under an executive branch plan approved by the Office of Management and Budget. Before then, each federal buyer had its own system. The need for a centralized quality assurance program for food procurement was identified in 1972 by the Commission on Government Procurement,¹ which noted

- the complexity of federal food specifications and their tendency to limit competition and increase processing and distribution costs and
- the fragmentation that existed because several agencies were responsible for administering quality assurance requirements.

USDA was given the responsibility for managing federal food specifications and determining the level of quality assurance needed to protect the federal government's interests. These responsibilities were subsequently assigned in 1979 to the Food Quality Assurance Division within USDA's Agricultural Marketing Service. The division's objectives were to reduce the

¹Public Law 91-129 established the Commission in 1969 to study the government's procurement policy and practices.

duplication, complexity, and restrictiveness of federal procurement documents and to lead toward the procurement of more commercial-type food items. Effective October 1, 1983, the Food Quality Assurance Division was disbanded and its functions were transferred to the Agricultural Marketing Service's Market Research and Development Division.

OBJECTIVES, SCOPE, AND METHODOLOGY

We made this review to determine whether federal government costs could be reduced if its food acceptance practices more closely followed the practices used by commercial buyers when they purchase food products. We recently reported² on opportunities for the government to reduce costs when buying ground beef by revising the purchase specification. This report discusses potential savings from eliminating unnecessary certification of foods purchased by federal agencies.

We reviewed whether it would be feasible and beneficial for federal food buyers to adopt acceptance practices similar to those used by commercial food buyers for a wide range of products. In pursuing this issue, we compared the federal government's existing acceptance practices with established federal policies and with practices followed by commercial food buyers. We focused on determining (1) federal buyers' reasons for their quality assurance requirements and (2) the effect of quality assurance requirements on suppliers' costs and prices. The amount of food found not to comply with contract specifications as a result of the certification examinations was not available. This was because certifying agencies do not account for the quantity of food found not acceptable while being processed.

We made this review in accordance with generally accepted government auditing standards and did our audit work between December 1982 and January 1984. We reviewed legislation, regulations, agency program instructions, studies, memorandums, and documents relating to food procurement. We coordinated our work with USDA's Office of Inspector General. We interviewed food procurement officials in USDA, DOD, and VA and certifying officials in the Agricultural Marketing Service, the Federal Grain Inspection Service, and the National Marine Fisheries Service. We also interviewed FDA and Food Safety and Inspection Service program management officials responsible for food safety to determine the extent to which certification policies and practices recognize the quality assurance work already provided by the mandatory food inspection programs. Appendix I lists the 24 federal agencies and departments we contacted.

To identify suppliers of food to the federal government, we obtained purchase data from the Office of Federal Procurement

²The Government Could Save Millions by Revising Its Purchase Specification for Ground Beef, GAO/RCED-84-29, Feb. 21, 1984.

Policy and the major purchasing agencies. We limited our review to food purchases for federal feeding programs. We did not include purchases for price-support programs or for resale in military commissaries, or local purchases by DOD installations and VA hospitals because certification is not generally required for these purchases.

We obtained information from 81 firms on the (1) effects of certification on their operating efficiencies, product prices, and competitiveness for federal food contracts and (2) acceptance requirements of their commercial customers. Of the firms, 72 supplied food to the federal government in fiscal year 1982. The remaining nine firms were identified by suppliers to federal agencies as being subcontractors, suppliers in prior years, or well-known food companies serving a large segment of the commercial sector. The firms and industry representatives we contacted are listed in appendix II.

We judgmentally selected the 72 firms which were suppliers to the federal government from the Office of Federal Procurement Policy's list of suppliers for fiscal year 1982, considering dollar amounts and geographical location. The list provided a breakdown, by supplier, of \$2.5 billion in federal purchases. Five categories of products--meat, poultry, and fish; dairy foods and eggs; fruits and vegetables; bakery and cereal products; and food oils and fats--accounted for over 75 percent of the purchase dollars. We concentrated our selection of suppliers in those five major categories. Overall, the suppliers we contacted provided about 32 percent of the \$2.5 billion of the federal food purchases on the Office of Federal Procurement Policy's list. The dollar value coverage in each category appears in appendix III.

Because the suppliers we contacted were not selected according to a statistically reliable sample, the views obtained and our cost computations cannot be projected to all suppliers.

CHAPTER 2

CERTIFICATION DECISIONS SHOULD

CONSIDER COSTS AND RISKS

Certification of federal food purchases is not required by law or regulation. Rather, federal food buyers said that certification is used to enforce federal food specifications so that suppliers cannot successfully underbid the competition by supplying a nonconforming product. However, federal policy for food purchases stresses recognition by food buyers of existing inspection and quality control systems and states that certification should be waived where it is not cost effective and where the risk of receiving unsatisfactory products is minimal.

Despite this policy, federal food buyers generally do not consider costs or risks and routinely require certification for most purchases. Consequently, federal food buyers are spending money on unnecessary examinations. During fiscal year 1982, the direct cost for certification was about \$18 million, but the overall cost to the federal government was even higher because certification can also increase the suppliers' production costs which in turn increases prices to the government. A limited number of federal buyers have already waived or reduced their certification requirements, with good results, by relying on preaward evaluations of suppliers' ability to perform and the buyers' history of the suppliers' past performance.

FEDERAL CERTIFICATION POLICIES

USDA developed the Federal In-Plant Food Quality Assurance Manual, dated October 1979, which establishes quality assurance policies and provides guidance for certifying domestically processed foods purchased by federal agencies. It is the official document governing federal quality assurance policies and practices for food. The manual states the following:

- In carrying out the Federal Food Quality Assurance Program, agencies are to recognize mandatory food inspection programs established by laws and regulations. The assurance or protection provided by these mandatory programs is to be fully considered when examination and acceptance procedures are established.
- Inspection and certification agencies are responsible for encouraging suppliers to develop and maintain their own quality control programs which meet agency guidelines in order to reduce the degree of federal inspection required.
- It is the responsibility of purchasing agencies to waive certification where it is not cost effective and the risks of receiving unsatisfactory products are minimal.

USDA also developed a Federal Food Standardization Document Handbook, dated October 1979, to provide further guidance for federal agencies in preparing documents for use in procuring food items. This handbook states that

"Government testing, quality control, special packaging or marking requirements, which are inconsistent with or exceed best commercial practice, shall be avoided to the extent feasible, particularly where compliance would adversely affect normal commercial production and result in increased cost to the government."

CERTIFICATION DECISIONS ARE NOT CONSISTENT WITH FEDERAL POLICY

Federal policy concerning certification has not been consistently followed, and the buying agencies do not have procedures for weighing the costs and benefits of certification. Federal food buyers said that they do not know how much the federal government is paying as a result of certification. The buyers routinely require certification without considering costs or the risk of receiving unsatisfactory products. Moreover, certification is routinely required for brand name and other commercial-type products where the risk of receiving an unsatisfactory product is apparently minimal.

Federal food buyers do not know how much they pay for certification

Suppliers are required to pay for certification services and are instructed to consider this requirement in their bids. Because the cost element for certification services is included in the total food price, federal buyers generally do not know how much the government is paying for certification. The three major buying agencies generally knew how much the certifying agency charged the suppliers per staff hour but said that they did not know the effect on prices.

Certification is a routine requirement

Although federal guidelines for preparing food procurement documents state that federal testing and application of quality control requirements which exceed best commercial practice shall be avoided to the extent feasible, most federal food purchases are certified anyway.

USDA's general practice is to require certification of all food purchases at the suppliers' facilities. DOD requires certification at origin on most purchases over \$10,000. VA requires certification of items purchased by its Marketing Center. Requirements for certification are written into food purchase specifications, technical data sheets, and general contract terms and conditions. For example, USDA's general contract terms and conditions require that food purchases be certified prior to shipment.

The general terms and conditions used for Defense Personnel Support Center Food purchases also require certification.

As a result of these practices, certification is routinely included as a requirement for most federal food purchases without regard to the differences in certification costs and risks of receiving unsatisfactory products associated with different food items and different suppliers. Agency food buyers told us that they do not evaluate the need for certification of individual purchases and that certification requirements are almost never waived.

FDA and Food Safety and Inspection Service officials told us that their agencies have information on suppliers' performance under the safety inspection programs and could provide such information to buying agencies for making decisions on the need for certification.

Many food purchases apparently entail little risk

Certification is being required even for purchases where the chances of receiving an unsatisfactory product seem to us to be very low. Many federal food purchases are for standard commercial products from reputable major suppliers. These suppliers are subject to the safety and quality assurance requirements imposed by law, and many of them have sophisticated internal quality control systems of their own. In many cases, the only difference between the products the federal government purchases and the products sold to commercial buyers is the labeling and/or packaging. Therefore, when previous purchases from a major supplier have been satisfactory, in our opinion the chances of receiving an unsatisfactory product are very low.

The Administrator, VA, said that several factors affect the need for special labeling. For instance, it is required in order to determine nutrient content to satisfy dietary restrictions such as restricted sodium. In addition, he said that labeling is needed to control portions, determine the method of preparation, plan menus, and identify food groups and conversion factors for use in the VA fiscal reporting system.

Federal buyers typically purchase canned fruits and vegetables from the country's major canners. Industry practice is to pack the entire available crop in unlabeled cans called "brights." Cans are subsequently labeled as required by individual buyers or marketed under the canners' own labels. However, at the time a specific lot of a given product is packed, the canner generally does not know who the buyer will be. Because commercial buyers reject unsatisfactory products and quit buying from unsatisfactory suppliers, most canners have adopted sophisticated quality control systems to prevent the sale of unsatisfactory products and thereby avoid the damage to their reputations and the loss of business which might result.

A division manager of a major commercial food distributor told us that USDA certification procedures for canned fruits and vegetables are outdated and are similar to what his company did 35 years ago. He said that quality assurance for canned goods is much less of a problem than in the past. He said that the industry has become sophisticated and that the canners still in business produce quality products. Another commercial food distributor said that when his company selects vendors for its food products, it relies heavily on a canner's reputation and past experience, with limited product checks on receipt. He said that the company does not use USDA certification because it is too expensive and does not add anything to the value of the product.

Federal buyers require certification of commercial items such as canned soup, cheese, peanut butter, tomato catsup, and pickles. For example, VA's Marketing Center required certification of 8,570 cases of Campbell soups purchased during the 12 months ended March 31, 1983. A Campbell Soup Company official said that the soup sold to VA was Campbell's standard commercial product and that certification added about 25 cents per case to the price. Consequently, VA paid about \$2,142 for certification. The VA Marketing Center's Director said that certification was required because the solicitation instructed bidders to include it in their bids. However, he said that if VA had known in advance that the soup contracts would be awarded to Campbell, certification probably would not have been required.

FEDERAL BUYERS' REASONS FOR REQUIRING CERTIFICATION

DOD and USDA officials told us that certification was necessary because they buy from the low bidder and cannot exclude suppliers because of dissatisfaction with their products. They said that without certification, unscrupulous suppliers could underbid the competition with the intent of supplying a nonconforming product. Furthermore, USDA officials said that when purchasing agencies specify certification of their products, the Agricultural Marketing Service must treat all vendors alike. The Service's Deputy Administrator for Commodity Services said that the Federal Procurement Regulations forbid discrimination against any qualified bidder and that USDA's General Counsel had advised him that results of the mandatory safety inspection programs could not be used to require varying degrees of certification for different suppliers. He said that the certification requirements applied to marginal suppliers must therefore also be applied to suppliers with national reputations.

We disagree with DOD's and USDA's position that suppliers cannot be excluded because of dissatisfaction with their products. The regulations governing federal procurements require that contracts shall be awarded to responsible bidders. The regulations also require bidders to have adequate production control procedures and quality assurance measures. In addition, bidders on

federal food contracts are required to meet special agency standards and procedures which may be desirable where a history of unsatisfactory performance has demonstrated the need for ensuring adequate contract performance. The contracting officer must make a determination prior to award that the prospective supplier is responsible. The regulations provide that such determination shall consider recent unsatisfactory performance in either quality or timeliness of delivery. Therefore, we believe that because price is not the sole factor to be considered in awarding a contract, federal buyers do have the option of excluding suppliers which deliver unsatisfactory products.

While we agree that no qualified bidder should be discriminated against, we do not believe that federal procurement regulations prohibit varying certification requirements among suppliers. We believe that discrimination against any qualified bidder could be avoided if buying agencies specify, when soliciting bids, that prices offered should identify the cost of certification and inform prospective suppliers that certification may be waived for qualifying suppliers. The buyer could then make the contract award on the basis of the prices offered.

Defense Personnel Support Center officials agreed with us. The Assistant Chief of the Contracting and Production Division, Subsistence Directorate, said that the Defense Acquisition Regulations provide enough authority to control awarding contracts to less than reliable suppliers. The Assistant Chief of the Technical and Quality Assurance Division, Subsistence Directorate, said that some added assurance is necessary to verify the acceptability of the product supplied by the low bidder. However, he said that it is not necessary that a federal agent physically examine the commodity under contract prior to shipment. He said that the reliability of a supplier's quality control system should be established through a system of federal verification by agents trained and knowledgeable in the commodity being produced and in quality assurance. The products, he said, should then be subject to receipt and surveillance inspection at destination, and the results should be used in determining the reliability of a supplier's quality controls.

Federal food buyers also have remedies available for dealing with unsatisfactory products. For example, contract provisions specify that the supplier is responsible for delivering a product that meets all of the contract requirements, and the provisions generally include a warranty period. The length of the warranty period may vary. For example, the Defense Personnel Support Center's standard warranty period is 120 days, while frozen meat items purchased by the Agricultural Marketing Service are warranted for 4 to 6 months, and canned meat items the Service purchases are warranted for 9 months. If, during the warranty period, the buying agency finds that the product does not meet contract specifications, the agency may negotiate a price adjustment or return the product for replacement or a refund of the contract price. DOD has a system of inspection and instorage

surveillance which monitors food quality from receipt until consumption. According to DOD officials, DOD tries to use its food stocks before the warranty period expires. Therefore, any defects in food items discovered before consumption would generally be covered by the warranty. In addition, suppliers with records of recent unsatisfactory performance may be excluded from contract awards.

DOD identified additional reasons why it believes that certification is necessary. These included the following:

- Food purchases destined for overseas delivery or for use on Navy ships and submarines must be certified. Receipt of unsatisfactory products by these users could degrade their ability to carry out assigned missions because of difficulty in replacing the products.
- In any military dining facility, aesthetics and palatable food are important to morale and personnel welfare. Certification is necessary for some items to assure that the product meets the quality and other specification requirements.
- Small business firms, which receive 55 percent of DOD food purchase dollars, may be more likely to cut corners because of financial reasons.
- Because of difficulties in defining and dealing with poor quality products, it is more effective, more efficient, and less costly to avoid unsatisfactory products than to detect poor quality later.
- Canned fruits and vegetables represent all variations of quality. Fruits and vegetables of the lowest quality, often sold as "generic" items, could be used by food suppliers to fill DOD orders.

CERTIFICATION IS COSTLY

As stated earlier, suppliers pay for certification services and pass this cost on to the federal government through increased prices bid for food contracts. The supplier is billed by the certifying agency for the graders' time, plus laboratory and other related fees. Transportation and per-diem costs are incurred when graders are temporarily assigned to suppliers' plants away from the graders' normal duty stations. Laboratory fees are incurred for analysis of food samples for various attributes such as fat and moisture content.

Certification is costly. Billings to suppliers for certification of federal food purchases during fiscal year 1982 totaled about \$18 million, as shown in the following table.

<u>Food type</u>	<u>Amount billed</u> (thousands)	<u>Certifying agency</u>
Meat	\$ 6,056	Agricultural Marketing Service, USDA
Fruits and vegetables	3,400 ^a	Agricultural Marketing Service, USDA
Poultry	1,472 ^a	Agricultural Marketing Service, USDA
Dairy	73 ^a	Agricultural Marketing Service, USDA
Bakery and cereals	3,733	Federal Grain Inspection Service, USDA
Fish and seafoods	<u>3,188</u>	National Marine Fisheries Service, Dept. of Commerce
Total	<u>\$17,922</u>	

^aAgency estimate; actual amount not available.

Source: Certifying agencies named.

This \$18-million figure represents only the minimum effect of certification on food prices. The total impact of certification on food prices is also affected by such variables as the type of item purchased, how the suppliers' production systems are disrupted, and differing techniques or ways in which different graders perform certification. For meat products, we found that the price effect of certification could be greater than the amounts billed to suppliers for certification. These indirect variables and the resulting price impacts are discussed in chapter 3.

SOME FEDERAL BUYERS HAVE FOUND ALTERNATIVES TO CERTIFICATION

Some federal buyers have been able to eliminate the additional certification cost for food and other items by relying more on the government's already-in-place mandatory safety inspection systems and existing supplier quality control practices.

DOD buys some food items without certification

DOD has two general exceptions to its certification requirement for food purchases. Purchases under contracts whose dollar

value is less than \$10,000 may be based on a certificate of conformance rather than certification. A certificate of conformance is a certificate provided by the contractor, certifying that the supplies being delivered conform to all contractual requirements. In addition, DOD buys some food items without certification under its Acquisition and Distribution of Commercial Products program. The program was established specifically to identify and procure those items which are considered acceptable for use in the military distribution system without benefit of certification other than the supplier's commercial warranty. Purchases under the program totaled about \$29 million during fiscal year 1982, or about 1.7 percent of DOD's total food purchases for feeding troops.

A Defense Personnel Support Center official said that no noticeable problems have been experienced with product quality under the program.

Certification is optional at VA medical centers

In June 1981, VA allowed its medical centers to waive certification on selected food items, and in April 1982 that policy was extended to meat and meat products.

The Assistant Administrator of VA's Supply Services said that the decision to make certification optional was prompted by the cost involved and a move to a decentralized procurement system. He explained that because VA medical centers must operate within a predetermined cost-per-meal allowance, medical centers should require certification only when some benefit can be recognized from the added cost.

The Assistant Administrator said that VA had not noticed any adverse effect from the certification waiver. He said that many medical centers were waiving certification on their food purchases and that VA had not noticed any increase in the number of complaints of unacceptable products.

Certification not routinely required for drugs, medicine, and medical devices

Since, 1975, the federal government has bought drugs, medicine, and medical devices without routinely requiring certification. DOD and VA are the major buyers of drugs, medicine, and medical devices for the government. According to officials of the Technical Operations Division, Directorate of Medical Materiel, Defense Personnel Support Center, the Center purchases about 14,000 such items for military and commissary use; VA's Marketing Center in Hines, Illinois, buys about 775 items for use by VA's medical centers and other federal agencies. Both DOD and VA rely heavily on FDA's mandatory inspection system for quality assurance of the items they purchase.

FDA's approach to providing quality assurance for federally purchased drugs, medicines, and medical devices is different from that used for food items. While certification is routinely required for most food purchases, the degree of certification for drugs, medicines, and medical devices is based on the buyers' and FDA's experience and history with the supplier and the product.

During the bid evaluation process, buyers can ask FDA for a preaward evaluation of a bidder's ability to perform according to FDA's Current Good Manufacturing Practices Regulations and the purchase specifications. A buyer may waive the preaward evaluation if the buyer has enough evidence to determine the bidder's ability to perform. Technical Operations Division officials said that the preaward evaluations are often waived for prospective suppliers of drugs and medicines because the Defense Personnel Support Center and FDA generally have enough experience information. However, they said that the Defense Personnel Support Center requests preaward evaluations on all medical device contracts because procurement of medical devices is relatively new, and neither the Defense Personnel Support Center nor FDA have adequate histories on suppliers or products.

If the preaward evaluation is waived, the buyer notifies FDA of its intent to award a contract to the selected supplier. FDA has 10 working days to communicate to the buyer any problems with or objections to the intended award. If FDA notifies the buyer of problems with or objections to the potential supplier, the buyer may consider the supplier incapable of performing and withhold the award. If the buyer does not hear from FDA within 10 working days, the buyer may award the contract.

Once the contract is awarded, the buyer accepts FDA's quality assurance procedures. The supplier is required to notify FDA at least 10 days before product delivery to the buyer. FDA will then decide the amount of inspection necessary. If the supplier has a good record of prior performance with FDA and federal buyers, FDA will allow the supplier to ship the product without the FDA origin inspection. However, the supplier must send copies of the production records, including the quality control records, and the shipping documents to FDA and a certificate of conformance to the buyer. If FDA does not have an adequate history on a supplier or product, as in the case of medical devices, FDA employees will visit the supplier's plant to inspect the product prior to shipment.

The Defense Personnel Support Center inspects the drugs, medicines, and devices when it receives them. This inspection is limited to count, container condition, and a cursory examination for obvious defects. Once in storage, the items are subject to the Center's quality audit program, which involves periodic testing of inventoried items.

Buyers at the Defense Personnel Support Center are notified of any problems disclosed by FDA or Center inspections. Center

officials said that the information is incorporated into the individual supplier's performance records at the Center. These records are used to determine (1) the supplier's ability to perform satisfactorily and (2) the quality assurance requirements on subsequent contracts.

VA and Defense Personnel Support Center officials said that FDA's quality assurance system works well. According to officials of the Technical Operations Division in the Medical Directorate of the Center, the Center previously had a quality assurance system for drugs and medicines which was very similar to that now used for food items. They said, however, that in the mid-1970's, the Center's quality assurance system came under congressional review, and its function and responsibilities were transferred to FDA. According to these officials, the rationale for the transfer was that, if FDA's mandatory inspection program was good enough for the general public, it should be good enough for the armed forces. The officials said that the present system seems to work well and that FDA provides comparable protection, its preaward evaluations are superior to the old system's, and its services are provided without cost to the Defense Personnel Support Center. The Chief of the Marketing Division for Drugs and Chemicals at VA's Marketing Center in Hines said that the Center has complete confidence in the FDA procedures.

CERTIFICATION NOT REQUIRED BY COMMERCIAL FOOD BUYERS

Certification of food items at suppliers' plants is not generally required by commercial buyers. Except for a few other buyers, the federal government is the only buyer that requires certification of its food purchases. Commercial food buyers tend to rely on their suppliers' reputations and quality control systems and the mandatory federal inspection systems, with limited product checks when the food is received. According to the suppliers and commercial buyers we contacted, commercial food buyers generally select their suppliers on the basis of reputation and previous experience. If the buyers are not satisfied with the products received, they send them back or negotiate a price adjustment. If they have continuing quality problems with a supplier, they will stop buying from it.

CONCLUSIONS

Certification is not required by law or regulation and is generally not used by commercial food buyers. Federal government policy and guidelines for food procurement state that certification decisions should consider costs and the risk of receiving unsatisfactory products and that testing and quality control requirements should generally not exceed the practice used by commercial buyers. Contrary to this guidance, certification has been routinely required for most federal food purchases, without regard to the costs or degree of risk involved.

Federal food buyers that we contacted did not know how much the government was paying as a result of certification. While the buyers generally knew the hourly rates charged to suppliers for certification, they did not know how much the government was paying for certification in terms of increased food prices.

Many of the food items the federal government purchases are commercial products from reputable major suppliers. In many cases, the only difference between the products the government purchases and those the general public purchases is the labeling and/or packaging. Where the government is buying a commercial product, the chances of receiving unsatisfactory products are, in our opinion, very low because the suppliers' reputations for quality are essential to maintaining their sales. Furthermore, the federal government generally has the same remedies available for dealing with suppliers of unsatisfactory products as do commercial buyers. These remedies include price adjustments, refunds, and replacement of products. In addition, evidence of recent unsatisfactory performance by a supplier can be used to disqualify it from contract awards.

Certification is expensive. The latest data available at the time of our review show that suppliers paid about \$18 million for certification services during fiscal year 1982. As discussed in chapter 3, however, the amounts charged the federal government for certification of meat products through increased food prices are greater than the amounts suppliers pay for the certification services.

Federal buyers of drugs, medicines, and medical devices have already adopted a quality assurance system which provides for determining a supplier's qualifications prior to contract award. Certification in these cases is not required for suppliers with a history of satisfactory performance.

Routinely requiring certification of food purchases without regard to costs or risk has resulted in unnecessarily high food prices. We believe that certification decisions should include consideration of the costs involved and the degree of risk of receiving unsatisfactory products. Such decisions should result in reduced food procurement costs.

RECOMMENDATIONS

We recommend that the Secretaries of Agriculture and Defense and the Administrator of Veterans Affairs direct their respective food-buying agencies to establish procedures which would require that the costs and benefits of certification be weighed before deciding to require that specific food purchases be certified. To determine the cost of certification which may be required for a specific food purchase, the buying agency should request suppliers to identify the food price with and without the cost of certification and inform prospective suppliers that certification costs may

be waived for qualifying suppliers. Considering such things as (1) the quality assurance provided by mandatory safety inspection systems, (2) the proposed suppliers' own quality control systems, and (3) the agency's previous experience with the proposed suppliers, the buying agency should then decide whether certification can be waived for a specific supplier, and evaluate the bid prices accordingly.

To assist the buyers in weighing the benefits of certification, we also recommend that the Secretaries of Agriculture and Defense and the Administrator of Veterans Affairs direct their buying agencies to establish procedures for obtaining available information on suppliers' qualifications and past records of performance from FDA and the Food Safety and Inspection Service.

BUDGETARY IMPACT OF
OUR RECOMMENDATION

Implementing our recommendation to require that the costs and benefits of certification be weighed before deciding to require certification for a specific purchase should result in substantial cost reductions for the buying agencies. DOD would realize reductions in the Defense Stock Fund appropriations account (07-40)97-4961 budget subfunction (051) in subsistence costs. VA would realize reductions in the Medical Care appropriations account (29-00)36-0160 in the Hospital and Medical Care for Veterans (703) budget subfunction. USDA would realize reductions in the following accounts:

<u>Appropriations account</u>	<u>Budget subfunction</u>
Child Nutrition Programs (05-84) 12-3539	Food and Nutrition Assistance (605)
Foreign Assistance Programs Expenses, Public Law 480, Foreign Assistance Programs, Agriculture (05-57)12-2274	Foreign Economic and Financial Assistance (151)
Food Donations Program (05-84)12-3503	Food and Nutrition Assistance (605)
Funds for Strengthening Markets, Income, and Supply (section 32) (05-81)12-5209	Food and Nutrition Assistance (605)
Commodity Supplemental Food Program (05-84)12-3510	Food and Nutrition Assistance (605)

The cost reductions for each agency will depend on the number of future food purchases where the agencies will be able to dispense with certification. We do not have enough data to estimate this information at the present time and, therefore, cannot estimate the reductions that would be realized. Implementing our recommendation will require some additional expenditures, but we

believe the additional expenditures would be more than offset by the cost reductions which would be realized.

AGENCIES' COMMENTS AND OUR EVALUATION

USDA comments

In commenting on a draft of this report (see app. IV), USDA said that it agreed with many of our recommendations, but did not individually address them. Instead, it has appointed a working group to go over each suggestion in more detail pending the issuance of this final report.

VA comments

VA, in commenting on our draft report (see app. V), said that it agreed with our recommendations, and that directives formally establishing the recommended procedures will be issued by the end of fiscal year 1984. In our draft report, we concluded that in many cases, the only difference between the products the federal government purchases and those the general public purchases is the labeling and/or packaging. We did not question the need for special labeling of government food purchases. However, in commenting on our draft report, VA identified several factors that affect the need for labeling, and asked that we recognize such needs in our report. We have recognized VA's comments on labeling on page 8.

DOD comments

In oral comments on our draft report, DOD emphasized the difference between safety inspections and certification. DOD said that it agreed with the concept of our recommendation to establish procedures requiring that the costs and benefits of certification be weighed before requiring that specific food purchases be certified. DOD said that it now has a system which requires certification only after considering the costs and benefits. DOD pointed out that food purchase contracts of less than \$10,000 may be accepted on the basis of a contractor's certificate of conformance without certification. DOD also said that under its Acquisition and Distribution of Commercial Products program, it buys some commercial food products on the basis of the supplier's commercial warranty, without certification. Page 7 of our report recognizes the \$10,000 criterion. We have also added information on pages 12 and 13 to further explain the \$10,000 criterion and recognize the Acquisition and Distribution of Commercial Products program.

While we recognize that DOD does buy some food items without certification, these are generally based on categorical exclusions, such as contracts under \$10,000 or products under the Acquisition and Distribution of Commercial Products program. Purchases which do not fit one of these excluded categories are routinely certified, without regard to the differences in certification costs and risks of receiving unsatisfactory products

associated with different food items and different suppliers. Buyers do not evaluate the need for certification of individual purchases.

DOD identified reasons why it believes that certification is necessary, and we have recognized those reasons on page 11. We agree that these are all factors to be considered in determining whether the risk of receiving an unsatisfactory product justifies the cost of certification. However, we believe that certification decisions should be made for specific purchases, and should recognize that costs and risks may differ among different suppliers of the same product, as well as for different products.

DOD did not agree with meat suppliers' estimates of certification costs included in our report, and said that its price analyses indicate it is paying food prices comparable with the balance of the institutional market trade. DOD did not elaborate on the nature of its price analyses. However, the balance of the institutional market trade may not be a good basis for price comparisons, because DOD generally buys in larger quantities than most institutional buyers. Our cost estimates were based on discussions with many suppliers, and the example on page 29 is based on actual prices. In this instance, DOD paid 38 cents per pound more than the commercial price for the same product.

DOD stated that our recommendation to award food contracts based on bids without certification and to certify at the buyer's expense when certification is deemed necessary would conflict with bid protest decisions of the Comptroller General. After evaluating DOD's comments, we have reconsidered our original position. We agree in substance with DOD's comments and have modified our recommendation accordingly. Concerning the modified recommendation, DOD thought that the development of criteria of satisfactory performance to permit certification waivers presents substantial difficulty. Page 17 of our report discusses factors to be considered in deciding whether to waive certification, and as discussed below, we believe that FDA and the Food Safety and Inspection Service can provide information on a supplier's past performance which could be useful in making certification decisions. Therefore, we do not believe that the development of criteria of satisfactory performance presents an insurmountable hurdle for implementation of our recommendation.

DOD did not agree with our recommendation to establish procedures for obtaining available information on suppliers' qualifications and past records of performance from FDA and the Food Safety and Inspection Service. DOD said that neither FDA nor the Food Safety and Inspection Service has the capability to provide meaningful information concerning suppliers' ultimate qualification to provide products which comply with DOD food specification requirements. DOD also said that the food industry has no quality assurance program that is equivalent to the program established by FDA for the medical industry. In addition, DOD said that procedures are already in place for DOD to receive information from FDA and

the Food Safety and Inspection Service concerning food wholesomeness.

We agree that FDA and the Food Safety and Inspection Service might not be able to provide information concerning the suppliers' ability to conform to DOD food specifications. However, they could provide information concerning a supplier's past performance, which could be useful in making certification decisions.

We also agree that the procedures followed by DOD and VA when buying drugs, medicines, and medical devices may not be entirely adaptable to food purchases. We included a discussion of these procedures in our report to illustrate that the government has, in other situations, considered suppliers' past performance in establishing quality assurance requirements. However, we deleted a sentence in our draft report which suggested that government food buyers consider procedures similar to those followed by DOD and VA when buying drugs, medicines, and medical devices.

The system which DOD now has in place for obtaining food wholesomeness information from FDA and the Food Safety and Inspection Service deals with food recalls, and does not provide for obtaining information before accepting delivery of food purchases to aid in making certification decisions.

CHAPTER 3

CERTIFICATION EXAMINATIONS FOR MEAT AND POULTRY PRODUCTS COULD BE REDUCED

Certification examinations by federal graders often overlap or duplicate (1) food safety inspections for meat and poultry products and (2) suppliers' quality control programs. Under existing federal inspection laws, meat and poultry products receive continuous food safety checks. These products must be wholesome; not adulterated; and properly marked, labeled, and packaged.

Certification procedures often require the grader to make a 100-percent examination of the product, which at times disrupts the supplier's production line and increases labor costs. Consequently, the government pays more for these procedures. For example, we estimated that certification costs accounted for \$4.9 million, or 9.3 percent, of the \$52.8 million USDA paid for ground beef purchases from three suppliers that furnished 44.8 percent of the ground beef bought by USDA for school year 1981-82. These disruptions have also discouraged large meat processors which supply a major portion of the meat consumed by the general public from bidding on federal government contracts which require certification. Revising the buying requirements to recognize existing USDA and supplier safety and quality control procedures and eliminating duplicative checks could reduce costs of future procurements.

SAFETY INSPECTIONS OF MEAT AND POULTRY

All meat and poultry plants which ship products interstate or to foreign markets are required by law to be inspected by the Food Safety and Inspection Service. The Inspection Service defines meat and poultry products as any food product which contains more than 3 percent fresh meat or at least 2 percent cooked poultry. Thus, a wide range of products, including soups, frozen pizzas, and canned products, is covered.

Inspection falls into four general categories: ante-mortem, post-mortem, sanitation, and product processing. Ante-mortem inspection is an examination for health and fitness conducted before slaughter. Inspection of each carcass is required after slaughter and before it enters processing operations. This post-mortem inspection establishes the wholesomeness of carcasses for human consumption. Carcasses or parts not passing inspection are condemned and removed. Carcasses may be reinspected at any time to ensure that they remain unadulterated after the post-mortem inspection. USDA monitors and inspects plant sanitation conditions both at slaughter and processing plants, and the Secretary of Agriculture has established requirements for equipment, facilities, and sanitary operating procedures.

There are five basic types of processing operations--boning, breaking, and cutting; curing and smoking meats; formulating meat products; processing poultry products; and canning products. Processed products include such items as sausages, frozen dinners, canned products, and soups.

Processing plants are inspected daily to ensure that wholesome products are being produced under sanitary plant conditions. Inspectors emphasize

- control over the entry of raw materials,
- plant sanitation,
- product formulation, and
- labeling and net weights.

Control over entry of raw materials

The inspector monitors and controls the meat and poultry products entering a processing plant to determine whether products are wholesome and have been previously inspected and passed. To do this, the inspector reviews the plant's receiving logs and spot checks incoming materials. In cases where products entering a plant are found to be contaminated, the inspector normally requires the products to be condemned.

Plant sanitation

Before processing operations start, the inspector normally makes a daily sanitation inspection. The inspector checks floors, equipment, and overhead tracking and looks for rodent and insect infestation. During processing, the inspector checks employees for suitable clothing and observes their work and hygienic practices. In addition, the plant's overall operation is reviewed for sanitation problems that could lead to product contamination. This is usually done in connection with the other inspection activities.

Product formulation

Product identity and composition are monitored to help ensure that they meet standards. The inspector checks composition by monitoring formulas and by sending samples to laboratories for analysis. When the inspector finds that any of the product's ingredients exceeds an allowable limit, the plant must change its procedures to ensure that the products comply. The inspector may also require plants to rework products that do not comply.

Labeling and net weights

After products are processed, they are packaged and labeled. All labels must be approved by the Food Safety and Inspection

Service to ensure that they accurately state the ingredients in the product formula. The inspector periodically checks whether labels have been approved and are on the right product.

In addition, the inspector samples finished products to ensure that the net weight is consistent with the weight shown on the label. The inspector generally checks a specified number of products each day. The inspector can increase or decrease sample frequency as deemed necessary. If samples do not comply with standards, the inspector may require that the products be re-labeled or reworked.

THE FOOD SAFETY AND INSPECTION SERVICE HAS RECOGNIZED INDUSTRY QUALITY CONTROLS

Many meat and poultry processors have developed their own systems to control product quality. In the 1950's, economic growth, rapidly growing technology, and industry competition caused significant changes in the meat and poultry industry. Consumer interest in product quality and consistency brought about an industry need for process quality control systems. Processors began to modernize their plants and many began to specialize. By the 1960's, processors were designing their own quality control systems which were not only cost effective but which also met the federal government's regulatory requirements.

In September 1980, the Food Safety and Inspection Service implemented a voluntary quality control program to take advantage of processors' quality controls. The program's intent was to provide a basis for effectively controlling and verifying a production process to assure uniformity and predictability of the finished product's characteristics. Therefore, the quality control systems are tailored to a specific processor's operation. Under the quality control program, processors may voluntarily apply to the Food Safety and Inspection Service for approval of their quality controls. If the Service believes a processor's system can assure production of products that meet the inspection laws' requirements, the system is approved. Inspectors in plants with approved systems can direct their efforts toward monitoring the plants' systems to ensure their continuing reliability. According to the Service, inspectors can do a better job under quality control inspection because they have access to a greater amount of information to assist them in evaluating a plant's operations.

Today, many plants have voluntary quality control systems. These vary from plants with total quality control systems with a quality control manager who reports directly to plant management to plants with partial quality control systems over certain processing operations. Plant management benefits greatly from these programs because (1) products not meeting plant standards or regulatory requirements are detected early and corrected before leaving the plant, (2) variation in product quality and composition is reduced, and (3) a plant's competitive advantage is

improved because product shelf life is extended; raw material cost controls are improved; and rework, returns, and plant and line shutdowns are reduced. As of September 1983, 1,745 of the about 7,000 federally inspected meat and poultry processing plants were participating in the Food Safety and Inspection Service's voluntary quality control program, 216 of which had their entire operations under voluntary quality control. The other 1,529 had partial systems.

CERTIFICATION EXAMINATIONS
DUPLICATE SOME SAFETY CHECKS

A major requirement for certifying meat is to determine that it is in excellent condition. The Agricultural Marketing Service's Deputy Administrator, Commodity Services, and other Marketing Service officials said that meat in excellent condition is essential to provide the shelf life needed for federally purchased meat. Examination for condition is based primarily on the color and odor of the meat, and is subjective. For example, the criteria for excellent condition used in the federal purchase specification for ground beef are as follows:

"The meat shall be in excellent condition; i.e., exposed lean and fat surfaces shall be of a color and bloom typical of meat which has been properly stored and handled. Cut surfaces and naturally exposed lean surfaces shall show no more than slight darkening or discoloration due to dehydration, aging, and/or microbial activity. The fat shall show no more than slight discoloration due to oxidation or microbial activity. No odors foreign to fresh meat shall be present. Changes in color and odors characteristically associated with vacuum-packaged meat in excellent condition shall be acceptable. Also, the meat shall show no evidence of freezing, defrosting, or mishandling."

We asked the Food Safety and Inspection Service's Deputy Administrator, Meat and Poultry Inspection Operations, and other Inspection Service officials to review the certification criteria for excellent condition and compare them with the criteria the Inspection Service used to determine wholesomeness. These officials said that their examination for wholesomeness considers the same factors included in the Marketing Service's definition of excellent condition and that there are no significant differences between "wholesome" and "excellent condition" which would affect shelf life.

Another major portion of the certification process for ground beef is examining the meat for boning and trimming defects before it is ground. These defects include material such as bone, cartilage, and tendon. The Inspection Service officials mentioned above reviewed the Marketing Service's list of defects and said that their inspection also examines for such defects.

While certification and inspection procedures overlap in some areas, there is a major difference in their application. The Inspection Service believes that quality control is the company's responsibility. Inspection of processing plants is therefore accomplished through a system of monitoring and test checks. On the other hand, certification procedures generally require 100-percent examination of all processing operations regardless of suppliers' quality controls. Certification procedures for a given product do not differ, regardless of whether the supplier has a total voluntary quality control system or no quality control system at all.

SOME CERTIFICATION PROCEDURES
ARE UNNECESSARY AND VERY COSTLY

The certification requirements for many meat items cause suppliers to deviate from their normal commercial practice in the cutting and trimming of meat because the federal requirements are more specific and less flexible than commercial practices. As mentioned earlier, this increases the prices the federal government pays. Some certification procedures are redundant or unnecessary and could be eliminated.

Comments of suppliers contacted

Thirty of the 31 meat suppliers we talked with said that federal certification requirements make production more costly. The following reasons were most often cited:

- Inprocess inspection procedures often slow production because production-line employees must wait for certifying agents to inspect the meat.
- Suppliers must spend more time trimming meat to satisfy stringent inspection requirements, which increases labor costs. The additional trimming also reduces the quantity of material which can be used in the finished product.

Nineteen of the suppliers said that certification procedures slow production rates because of reduced line speeds or stoppages while waiting for graders to make examinations. For example, one supplier of pork and beef products to DOD said that certification requirements for diced pork slowed his production by 50 percent or more. Certification procedures require 100-percent visual examination for fat content of the pork before dicing. He cited one case where his dicing machine ran only 2-1/2 hours during an 8-1/2 hour shift because the certifying agent took so much time while examining the meat.

We observed this operation during our visit to this facility. We saw a table piled high with boneless pork awaiting inspection by the Marketing Service's grader. We estimated that the pieces of pork weighed an average of 4 to 6 pounds each. The grader was inspecting each piece individually, picking it up and turning it

to examine it from all sides. Meanwhile, the dicing machine, which had a capacity of 5,000 pounds an hour, was idle most of the time, as was the employee tending it. The supplier told us that he had unsuccessfully requested that the inspection be done after the product was diced so that he could maintain production.

Seven suppliers said that trimming requirements for federal meat products are much more stringent than for commercial products. They said that, as a result, they have to overtrim meat for federal contracts to avoid having it rejected. This results in reduced raw material yields and contributes to slower production rates. For example, one supplier said that trimming requirements for boneless meat to be used for ground beef result in yield losses of 4 to 10 percent when compared with commercial trimming requirements. The seven suppliers said that much of the additional trimming is for the removal of such things as small pieces of cartilage or bone, which would be removed or eliminated anyway by subsequent processing. For example, the equipment used for grinding meat commonly contains a bone-removal attachment which catches bone particles and prevents them from entering the final product.

Findings of Agricultural Marketing Service task force review

During January 1983, a task force from the Meat Grading and Certification Branch of the Marketing Service's Livestock, Meat, Grain and Seed Division reviewed and evaluated certification procedures at 20 meat packing and processing plants. The task force reported the results of its review to the Chief, Meat Grading and Certification Branch, and recommended modifications and alternative procedures to reduce the costs of meat certification and its restrictions on industry operations. Two of the task force's recommendations support the comments of suppliers we talked with. On certification of diced products, the report said:

"Our current methods for trimming product prior to dicing result in an overtrim and destruction of the product thus, rendering some cuts of meat unacceptable for use because of the piece size requirements. Under our current procedures one grader is used on line to examine 100 percent of the product prior to dicing for defects and to assure proper seaming of fat. A second grader examines the product following dicing for specification requirements. We believe that the first grader could be eliminated thus reducing costs and increasing the production capacity of the plant."

The report also commented on the examination of boneless meat for ground beef:

"During our reviews, we had the opportunity to observe several different types of bone extruders ranging in price from a few hundred dollars up to approximately

\$3,000. These bone extruders are placed on the head of meat grinders to spin-out bone, cartilage, and other material. At each operation using a bone extruder, we observed the extruded material and were able to identify bone and cartilage, even on product that had been examined 100 percent by meat graders. We believe the potential exists for using bone extruders on all boneless meat prior to grinding. Since a large number of meat graders currently are being used nationwide for 100 percent boneless meat examinations, we believe that this recommendation has the most potential for significantly reducing the industry's cost of certification services and improving our certification efficiency."

The task force also made other recommendations which could reduce the costs of certification, such as

- relaxing requirements for examinations for excellent condition,
- developing preprinted sampling plans to reduce certification time,
- exploring alternative methods for analyzing fat in ground meat products to save the time and costs involved in sending all samples to one Marketing Service laboratory in Chicago, and
- modifying sampling procedures to reduce grader and plant work hours.

In commenting on the potential effects of its recommendations, the task force said:

"Based on our reviews and discussions with supervisors, graders, and plant representatives, we believe that our specific recommendations on control methods and procedures have the potential for facilitating industry production, minimizing the industry's cost of using certification services, and making more effective and efficient use of grader manpower. Although some of our recommendations, if implemented, may increase the risk of noncomplying product being certified, we feel that such risks are minimal and can be compensated for or further reduced through additional specification and procedural changes. Therefore, we do not believe that our recommendations will adversely affect the quality of meat products we currently certify, or be detrimental to the integrity and reliability of our certification service."

We discussed the task force report with the Marketing Service's Deputy Administrator, Commodity Services, in October 1983. The Deputy Administrator said that no action had been taken on the

recommendations. He cited a recent incident of alleged unsanitary conditions at a plant supplying ground beef to the federal government as a reason for reluctance to change certification requirements. This incident, however, does not relate to certification procedures. The allegations concerning conditions at this plant are related to the Food Safety and Inspection Service's inspection responsibilities. The Marketing Service had six graders working at the plant to certify federal purchases, but the Deputy Administrator, Commodity Services, and other Marketing Service officials told us that the graders do not look for the type of problems involved in this incident.

Certification increases meat prices

Certification requirements result in higher prices for federal meat purchases.

The biggest meat item purchased by the federal government is ground beef. Federal buyers bought about 166 million pounds of ground beef in fiscal year 1982. In our February 1984 report (GAO/RCED-84-29), we identified costly requirements in the federal government's specification for ground beef. In that report, we recognized that certification resulted in increased production costs, which we were unable to quantify at that time.

Ground beef is made by suppliers with widely differing operations. Some suppliers simply purchase boneless beef and grind and package it. Others produce ground beef as a major by-product of processing beef carcasses from young cattle. A third type of supplier slaughters older beef and dairy cows primarily for use in ground beef and other processing applications such as making sausage and luncheon meats.

Perhaps because of these widely differing operations, ground beef suppliers had varying opinions about certification's effect on ground beef prices. For example, a supplier which buys its raw material would view the cost of certifying the boneless beef as a raw material cost while a supplier which bones its own beef would view it as a certification cost.

Four ground beef suppliers told us that certification increased ground beef prices by 10 to 15 cents a pound. For example, one of these suppliers was selling ground beef to USDA for the school lunch program. The boneless beef used as raw material was essentially the same as a boneless beef product which was being sold to a major commercial customer. On the day of our visit, the boneless beef used for the federal ground beef was priced 12 cents a pound higher than the commercial boneless beef because of the certification requirements. Another supplier, which sold certified trimmings to federal ground beef suppliers, said that certified trimmings sell for 12 cents a pound above the regular price of uncertified trimmings. A third supplier, which

sold ground beef to DOD and also sold a similar product commercially, said that federal certification requirements added 10 to 15 cents a pound to the price.

Nine suppliers of pork items and beef items other than ground beef furnished information on certification's effect on prices the federal government paid for these items. According to these suppliers, prices of various pork and beef items were increased by amounts ranging from 4 cents to 20 cents a pound.

Specific price comparisons were difficult to obtain because suppliers rarely sell the same products at exactly the same time to both a federal and a commercial buyer. However, we did note that one supplier was awarded a DOD contract for 150,000 pounds of spiced luncheon meat in July 1983 at a price of \$1.49 a pound. The commercial price for the same product at the same time was \$1.11 a pound, or 38 cents less. According to the supplier, packing and packaging requirements accounted for 7 cents, with the balance of 31 cents a pound being for certification and its effect on production costs. At 31 cents a pound, certification cost this federal buyer \$46,500.

Overall, we obtained price information from 24 meat suppliers. According to these suppliers, certification's price effect for various meat products ranged from 0.4 cent a pound to 70 cents a pound. Seventeen of the 24 suppliers said that the price effect was between 5 cents and 20 cents a pound. Thirteen of the 17 said the effect was between 10 cents and 20 cents a pound. These 13 suppliers included major suppliers to the federal government of a wide variety of meat items purchased in large quantities. Suppliers citing price effects below 5 cents a pound tended to consider only the direct costs for graders' time and travel, while effects of more than 20 cents a pound tended to reflect specialty-type products.

The suppliers from whom we obtained price estimates were not selected according to a statistically reliable sample, so we are not able to estimate certification's overall effect on prices for the 357.3 million pounds of meat the federal government purchased during fiscal year 1982. USDA had data on its meat purchases from specific suppliers on a school-year basis. Six of the suppliers which gave us price estimates were major suppliers to USDA, accounting for 44.7 percent of USDA's purchases of ground beef, 87 percent of USDA's purchases of canned pork with natural juices, and 58.8 percent of USDA's purchases of frozen ground pork during the periods covered. The purchases of ground beef and frozen ground pork were for school year 1981-82 while the canned pork purchases were made in fiscal year 1982 for use in school years 1981-82 and 1982-83. The following table shows the estimated effect of certification, including the direct cost of federal certification services (see p. 11), on the amounts USDA paid to these six suppliers.

<u>Product/supplier</u>	<u>Purchases by USDA</u>		<u>Price per pound for certification</u>	<u>Effect of certification</u>	
	<u>Pounds</u>	<u>Dollars</u>		<u>Dollars paid</u>	<u>Percent of purchase dollars</u>
	(000 omitted)			(000 omitted)	
Ground beef:					
A	26,950	\$30,814	\$0.10	\$2,695	8.7
B	10,395	11,687	.11 ^a	1,143	9.8
C	<u>9,125</u>	<u>10,262</u>	.12	<u>1,095</u>	10.7
Total	<u>46,470</u>	<u>52,763</u>	.106	<u>4,933</u>	9.3
Canned pork with natural juices:					
D	8,356	11,172	.10	836	7.5
E	<u>3,032</u>	<u>4,100</u>	.10	<u>303</u>	7.4
Total	<u>11,388</u>	<u>15,272</u>	.10	<u>1,139</u>	7.5
Frozen ground pork:					
F	4,004	4,316	.045 ^b	180	4.2
E	<u>3,465</u>	<u>3,826</u>	.05 ^c	<u>173</u>	4.5
Total	<u>7,469</u>	<u>8,142</u>	.047	<u>353</u>	4.3
Total	<u>65,327</u>	<u>\$76,177</u>	.098	<u>\$6,425</u>	8.4

^aSupplier said that certification increased price by 10 to 12 cents a pound.

^bSupplier said that certification increased price by 4 to 5 cents a pound.

^cSupplier said that certification increased price by 4 to 6 cents a pound.

Source: GAO computations and USDA data.

CERTIFICATION REQUIREMENT DISCOURAGES COMPETITION

The certification requirement has discouraged competition for federal meat purchase contracts. Of the 31 meat suppliers we contacted during our review, 20 said that the certification requirement adversely affects competition because suppliers are unwilling to accept the problems involved. Ten of the 20 had refused to bid on contracts for one or more meat items. Two of the 10 said that they would not bid on military meat purchases. Three others said that they would not bid on any federal meat purchases requiring certification.

The reason most often given for refusing to bid was that the certification process created production inefficiencies and increased costs, which made competitive bids impossible. Several large commercial meat suppliers told us that they could not bid competitively on federal contracts because of production delays caused by certification. Generally, these suppliers had large investments in plant and equipment as well as a large number of highly paid employees. The delays and work stoppages frequently encountered during certification are much more costly for this type of supplier than for the small supplier.

For example, one supplier official said that meat processing is a high-volume, low-margin business. He said that his labor costs were \$18 per hour and that even a 5- or 10-minute work stoppage becomes extremely expensive when it involves 300 employees.

A major commercial supplier of pork products had quit bidding on federal contracts requiring certification. A company official told us that the cost of certification made the company's bids noncompetitive. He said that his last calculation showed that the company had to add 20 cents a pound to its prices when certification was required.

Certification can also affect competition by restricting the supply of raw materials. A supplier who bought boneless meat from a subcontractor for further processing said that 7 of 10 suppliers of boneless meat would no longer sell him meat for federal contracts because the strict certification requirements for boning and trimming made it too difficult and costly to get the meat certified. He said that he was awarded a major portion of USDA's fiscal year 1982 purchases of canned pork because his major competitors were unable to buy certified boneless meat from their previous suppliers.

THE NATIONAL MARINE FISHERIES SERVICE RECOGNIZES INDUSTRY QUALITY CONTROLS

During our review, we noted that the certification system for fish and seafood purchases already incorporates procedures for reducing the extent of certification work to reflect suppliers' quality control systems.

The National Marine Fisheries Service is responsible for certifying the federal government's fish and seafood purchases. It also provides a voluntary certification and grading service for commercial buyers. According to Service officials, unlike commercial purchasers of other food items, commercial buyers often use the Service's certification services for their fish and seafood purchases. The officials said that possible reasons for this difference include the following:

- Fish and seafood are caught from the wild, with no controls over habitat or feeding.

--While fish and seafood processors are subject to FDA regulation, there is no continuous mandatory inspection system like that for meat and poultry.

Some fish and seafood suppliers have adopted the National Marine Fisheries Service's integrated quality assurance program, which is similar to the Food Safety and Inspection Service's voluntary quality control program. Under the Fisheries Service's program, the suppliers operate under tailor-made formal quality control systems which the Fisheries Service has approved. The suppliers' quality control personnel sample, test, and examine the products according to the approved system. The results of the suppliers' inspections are verified by a Fisheries Service inspector. When the federal government buys fish or seafood from a supplier with an integrated quality assurance program, Fisheries Service inspectors will issue the official certificate of acceptance on the basis of the supplier's quality control records, provided that the Fisheries Service's verification testing has shown that the supplier's integrated quality assurance system is reliable.

Relying on the integrated quality assurance program for quality assurance can also reduce federal costs through lower hourly rates for certification services. Plants under this program paid \$23.95 an hour for National Marine Fisheries Service certification in fiscal year 1983, while plants not under the program paid \$34.50 an hour.

CONCLUSIONS

Existing federal policy stresses recognition of suppliers' quality control programs and mandatory food safety inspection systems, yet certification examinations for meat and poultry products often overlap or duplicate the existing food safety inspections. Further, certification requirements place restrictions on and cause disruptions of the plant operations of federal meat suppliers and result in increased meat prices. The Agricultural Marketing Service's task force has made a number of recommendations to reduce the cost of meat certification and certification's restrictions on industry operations which, if implemented, could reduce the cost of federal meat procurements.

The certification system now applied is costly. For example, it accounted for 9.3 percent of the prices USDA paid to three major suppliers of ground beef for school year 1981-82. In addition, the certification requirement discourages competition, which may further increase costs. Cost reductions on future purchases could be achieved by revising or eliminating unnecessary certification procedures to recognize food safety inspection processes.

RECOMMENDATION

We recommend that the Secretary of Agriculture direct the Agricultural Marketing Service to recognize existing safety and

quality control systems and to review and revise its certification procedures for meat and poultry products to

- eliminate certification procedures that duplicate existing safety inspection procedures,
- reduce certification effort where the Food Safety and Inspection Service has found that the suppliers' quality control systems provide adequate assurance of product quality, and
- reconsider the recommendations included in the report on the task force review of meat grading and certification control methods and procedures.

BUDGETARY IMPACT OF
OUR RECOMMENDATION

Implementing our recommendation to reduce the certification procedures for meat and poultry products should result in substantial cost reductions for the buying agencies. DOD would realize reductions in the Defense Stock Fund appropriations account (07-40)97-4961 budget subfunction (051) in subsistence costs. VA would realize reductions in the Medical Care appropriations account (29-00)36-0160 in the Hospital and Medical Care for Veterans (703) budget subfunction. USDA would realize reductions in the following accounts:

<u>Appropriations account</u>	<u>Budget subfunction</u>
Child Nutrition Programs (05-84) 12-3539	Food and Nutrition Assistance (605)
Food Donations Program (05-84)12-3503	Food and Nutrition Assistance (605)
Funds for Strengthening Markets, Income, and Supply (section 32) (05-81)12-5209	Food and Nutrition Assistance (605)
Commodity Supplemental Food Program (05-84)12-3510	Food and Nutrition Assistance (605)

We do not have any data that would identify the costs involved in the individual steps of the certification process and so are not able at the present time to estimate the cost reductions that would be realized by eliminating some of these steps. Since the Food Safety and Inspection Service already approves and monitors suppliers' quality control systems, we believe that any additional expenditures required to implement our recommendation would be minimal.

AGENCIES' COMMENTS AND OUR EVALUATION

In commenting on a draft of this report, USDA said it agreed with many of our recommendations, and has appointed a working group to go over each suggestion in more detail, pending the issuance of this final report.

DOD said it agreed with our recommendation to USDA, but did not agree with our findings that certification procedures for meat duplicate Food Safety and Inspection Service inspection procedures or that certification restricts food plant operations. The procedures in question involve the operations of two organizations within USDA--the Agricultural Marketing Service and the Food Safety and Inspection Service. The Marketing Service's task force recognized that certification procedures did affect the efficiency of plant operations, and USDA has appointed a working group to study the matter in more detail. We believe that USDA is the proper agency to address this issue.

DOD said it would conduct a production test to obtain data on the impact of changing ground beef specification requirements for raw material defects, and will change them to those of the Food Safety and Inspection Service if test results are positive.

DOD also noted that it relies on the National Marine Fisheries Service's inspection activity for inspection and certification of seafood quality specified by DOD, but said that it did not know if the Service's integrated quality assurance program saved DOD any money. As discussed on pages 31 and 32, we recognize that federal government agencies are relying on the Service's inspection activity for inspecting and certifying seafood quality. We agree that the extent of the savings passed on to DOD is not readily determinable.

FEDERAL AGENCIES CONTACTED DURING REVIEW

<u>AGENCY/UNIT</u>	<u>LOCATION</u>
<u>Department of Agriculture</u>	
Agricultural Marketing Service:	
Headquarters	Washington, D.C.
Dairy Grading Branch	
Field Office	Minneapolis, Minn.
Food Quality Assurance Division	Bailey's Crossroads, Va.
Livestock, Meat, Grain and	
Seed Division	
Main Station	South St. Paul, Minn.
Agricultural Stabilization and Conservation Service	Washington, D.C.
Federal Grain Inspection Service:	
Headquarters	Washington, D.C.
Field Office	Minneapolis, Minn.
Food and Nutrition Service:	
Headquarters	Alexandria, Va.
Food Safety and Inspection Service:	
Headquarters	Washington, D.C.
Regional Office	Des Moines, Iowa
Circuit Office	Minneapolis, Minn.
Forest Service:	
Headquarters	Rosslyn, Va.
<u>Department of Commerce</u>	
National Marine Fisheries Service:	
Headquarters	Washington, D.C.
Inspection Office	Gloucester, Mass.
<u>Department of Defense</u>	
Defense Logistics Agency:	
Defense Personnel Support Center	Alexandria, Va.
U.S. Army Research and Development Laboratories	Philadelphia, Pa.
	Natick, Mass.
<u>Food and Drug Administration</u>	
Headquarters	Rockville, Md.
District Office	Minneapolis, Minn.

<u>AGENCY/UNIT</u>	<u>LOCATION</u>
<u>Veterans Administration</u>	
Headquarters	Washington, D.C.
Marketing Center	Hines, Ill.
Medical Center	Minneapolis, Minn.
<u>Office of Federal Procurement Policy</u>	Arlington, Va.

INDUSTRY REPRESENTATIVES CONTACTED

<u>NAME</u>	<u>LOCATION</u>
American Meat Institute	Arlington, Va.
Anderson-Clayton and Co.	Dallas, Tex.
Armour Food Co.	Phoenix, Ariz.
Aslesen Co.	Minneapolis, Minn.
Beatrice Foods Co.	Madison, Wis.
Blue Star Foods, Inc.	Council Bluffs, Ia.
Bo Packing Company, Inc.	Chicago, Ill.
Bond Pickle Company, Inc.	Oconto, Wis.
Borden Foods Co.	Plymouth, Wis.
Brakebush Brothers, Inc.	Westfield, Wis.
Cal Western Packaging Corp.	Compton, Calif.
California Cannery & Growers	San Francisco, Calif.
Campbell Soup Co.	Chicago, Ill.
Campion's Wholesale Meat	St. Paul, Minn.
Cargill, Inc.-Poultry Products Div.	Springdale, Ark.
Castle & Cooke, Inc.	San Francisco, Calif.
Coca-Cola Co. (The)	Houston, Tex.
Del Monte Corp.	San Francisco, Calif.
Denver Meat Co.	San Jose, Calif.
Dubuque Packing Co. (FDL)	Dubuque, Ia.
Durham Meat Co.	San Jose, Calif.
E. Huttenbauer & Son	Cincinnati, Oh.
Excel Inc.	Wichita, Kans.
Friday Canning Corp.	New Richmond, Wis.
General Foods Corp.	White Plains, N.Y.
General Mills, Inc.	Minneapolis, Minn.
Geo. A. Hormel and Co.	Austin, Minn.
Gold Kist Poultry	Atlanta, Ga.
Gorton Corp.	Gloucester, Mass.
Great American Basic Commodities, Inc.	Plover, Wis.
Harker's Wholesale Meat, Inc.	Le Mars, Ia.
Have-a-Portion, Inc.	St. Paul, Minn.
Heartland Meat Co.	San Diego, Calif.
Holsum Foods	Waukesha, Wis.
Hubbard Milling Co.	Mankato, Minn.
Hunt-Wesson Foods, Inc.	Fullerton, Calif.
Hygrade Food Products Corp.	Tacoma, Wash.
International Multifoods	Minneapolis, Minn.
Iowa Beef Processors, Inc.	Dakota City, Nebr.
Jennie-O-Foods, Inc.	Willmar, Minn.
John B. Sanfilippo & Son, Inc.	Chicago, Ill.
John Morrell and Co.	Northfield, Ill.
Kraft, Inc.	Glenview, Ill.
Krier Preserving Co.	Belgium, Wis.

<u>NAME</u>	<u>LOCATION</u>
Lakeside Packing Co.	Plainview, Minn.
Land O'Lakes, Inc.	Albert Lea, Minn.
Lennon Packing Co.	Seattle, Wash.
Loggins Meat Co.	Tyler, Tex.
Long Prairie Packing Co.	Long Prairie, Minn.
McDermott Meat Co.	Berkeley, Calif.
Monarch Food Service	Minneapolis, Minn.
National Association of Meat Purveyors	McLean, Va.
National Provisioner, Inc. (The)	Chicago, Ill.
Needham, Inc.	Omaha, Nebr.
North Star Foods, Inc.	St. Charles, Minn.
Northern States Beef, Inc.	Omaha, Nebr.
Northwest Packing Co.	Vancouver, Wash.
Oconomowoc Canning Co.	Oconomowoc, Wis.
Oscar Mayer and Company, Inc.	Madison, Wis.
Pabst Meat Supply	Inver Grove Heights, Minn.
Pacific Fruit Co.	Seattle, Wash.
Packerland Packing Company, Inc.	Green Bay, Wis.
Pillsbury Company (The)	Minneapolis, Minn.
Processed Potatoes, Inc.	Minneapolis, Minn.
Quaker Oats Co.	Chicago, Ill.
R.J. Reynolds Tobacco Co.	Winston-Salem, N.C.
Redtree Packing Company, Inc.	Seattle, Wash.
Roche Fruit Company, Inc.	Yakima, Wash.
Schreiber Foods, Inc.	Green Bay, Wis.
Schumacher Wholesale Meats, Inc.	Minneapolis, Minn.
Shane Meat Co.	Kennett Square, Pa.
Snokist Growers	Yakima, Wash.
Stevens Industries, Inc.	Dawson, Ga.
Supreme Beef Processors, Inc.	Dallas, Tex.
Swift and Co.	Chicago, Ill.
Swift Independent Packing Co.	Chicago, Ill.
Tombstone Pizza Corp.	Medford, Wis.
Tony Downs Foods Co.	Madelia, Minn.
Tri/Valley Growers	Modesto, Calif.
Tyson's Foods, Inc.	Springdale, Ark.
Valmac Industries, Inc.	Russellville, Ark.
Western States Meat Association	San Francisco, Calif.
Wilson Foods Corp.	Albert Lea, Minn.
Wisconsin Beef Industries	Eau Claire, Wis.
Wornick Company, Inc. (The)	McAllen, Tex.
Ziebarth and Steinhauser, Inc.	Buffalo, N.Y.

COMPARISON OF FEDERAL SUBSISTENCE PURCHASES
AND SALES TO FEDERAL AGENCIES OF COMPANIES CONTACTED,

FISCAL YEAR 1982

<u>Federal stock code</u>	<u>Total federal subsistence purchases</u>		<u>Number</u>	<u>Company</u>
	<u>Dollars</u>	<u>Percent</u>		<u>Sales to federal agencies</u>
	(000 omitted)			(000 omit)
8900 Perishables (\$10,000-\$25,000)	\$ 2,224	0.1	9	\$ 35
8905 Meat, poultry, and fish	889,701	34.9	46	332,92
8910 Dairy foods and eggs	266,897	10.5	7	72,18
8915 Fruits and vegetables	283,517	11.1	18	86,81
8920 Bakery and cereal products	374,553	14.7	10	89,05
3925 Sugar, confectionary, and nuts	51,488	2.0	6	3,22
8930 Jams, jellies, and preserves	33,916	1.3	5	21,02
8935 Soups and bouillions	15,410	0.6	5	11,33
8940 Special dietary foods	69,753	2.7	16	13,73
8945 Food oil and fats	105,975	4.2	10	48,24
8950 Condiments and related products	52,393	2.1	10	14,16
8955 Coffee, tea, and cocoa	67,920	2.7	4	30,82
8960 Beverages, non-alcoholic	43,666	1.7	8	7,57
8965 Beverages, alcoholic	277	-	0	
8970 Composite food packages	84,354	3.3	5	43,99
8975 Tobacco products	118,405	4.7	1	47,47
8999 Food items for resale	85,826	3.4	0	
Total	\$2,546,275	100.0	81^a	\$822,90

^aColumn will not add because some companies had sales in more than one category.

Source: Office of Federal Procurement Policy.



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

July 6, 1984

Mr. J. Dexter Peach
Director
Resources, Community, and Economic
Development Division
General Accounting Office
Washington, D. C. 20250

Dear Mr. Peach:

This responds to your May 24 letter concerning a draft report on government food buying procedures (RCED-84-150, "New Federal Food Buying Procedures Needed to Reduce Unnecessary Special Examinations.").

I agree with many of the recommendations contained in the draft report. However, rather than address each of them individually at this time, I have appointed a working group, chaired by my office, to go over each suggestion in more detail pending the issuance of the final report from the General Accounting Office.

Sincerely,

A handwritten signature in cursive script that reads "C. W. McMillan".

C. W. McMILLAN
Assistant Secretary for Marketing
and Inspection Services

Office of the
Administrator
of Veterans Affairs

Washington DC 20420



JUNE 26 1984

Mr. Richard L. Fogel
Director, Human Resources Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Fogel:

Your May 24, 1984 draft report "New Federal Food Buying Procedures Needed to Reduce Unnecessary Special Examinations" has been reviewed by my staff. The Veterans Administration (VA) concurs in the recommendations to establish procedures (1) requiring that the costs and benefits of certification be weighed before deciding to require that specific food purchases be certified, and (2) for obtaining available information on suppliers' qualifications and past records of performance from the Food and Drug Administration (FDA) and the Food Safety and Inspection Service. The directives formally establishing these procedures will be issued by the end of Fiscal Year 1984.

The VA will continue requiring certification for items which have a history of quality deficiencies. We will also retain our requirement that suppliers' quality control systems be verified by the FDA or the Department of Agriculture before contracting with them.

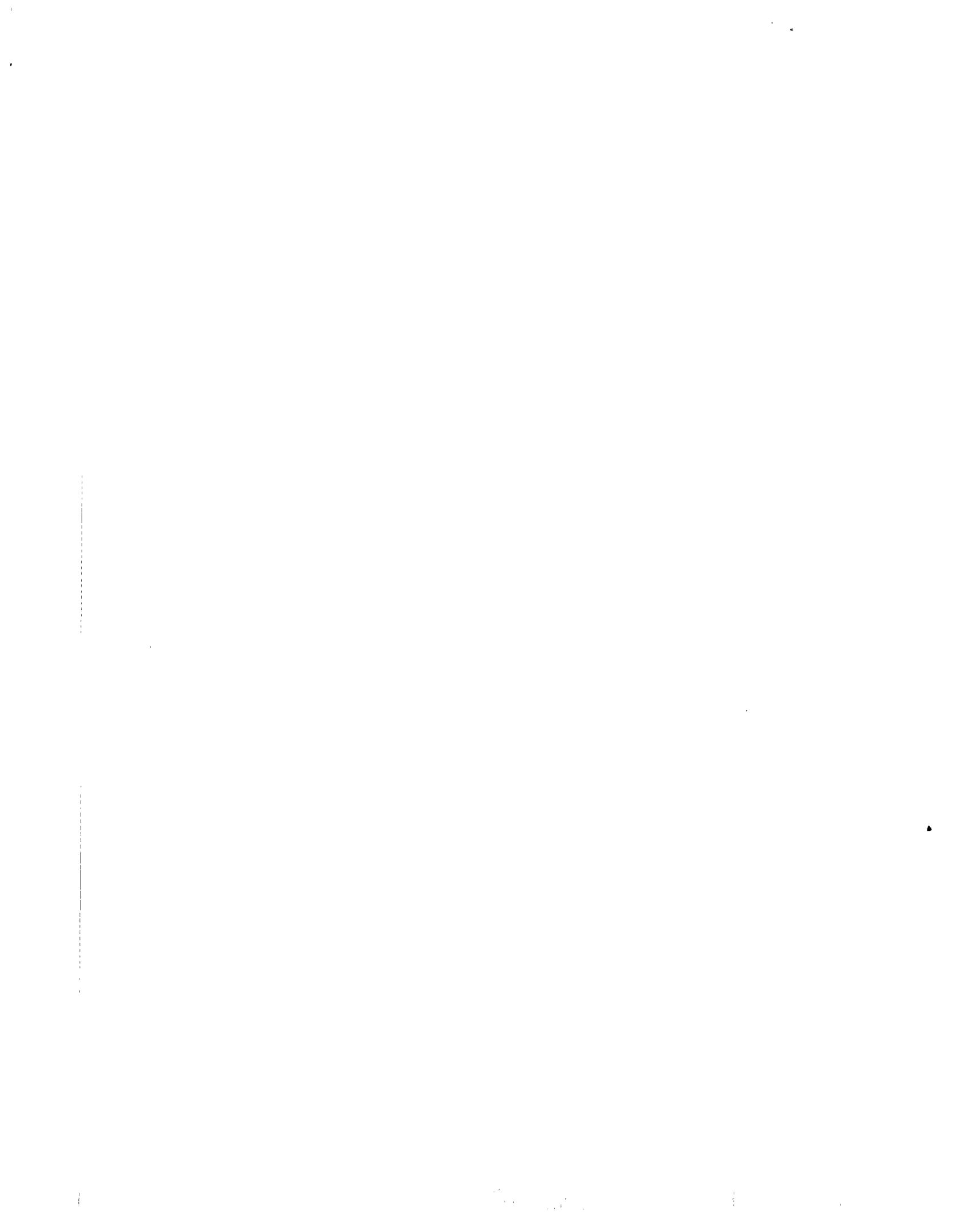
GAO states that, in many cases, the only difference between the products the federal government purchases and the products sold to commercial buyers is the labeling and/or packaging, but the report does not include a recommendation concerning labeling. From the VA standpoint, there are several factors that affect the need for labeling. For instance it is required in order to determine nutrient content to satisfy dietary restrictions such as restricted sodium. Labeling is also needed to control portions, to determine methods of preparation, to plan menus which assure the recommended daily amount of certain nutrients, and to identify food groups and conversion factors for use in the VA fiscal reporting system. Therefore, we request that the third paragraph under Conclusions (page 16) be expanded to recognize such needs.

Sincerely,

HARRY N. WALTERS
Administrator

Deputy Administrator - For

(022859)



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